

ENTERPRISE 2006 CONFERENCE SUMMARY



This report is a collaboration of McKinsey & Company and Sand Hill Group LLC

Enterprise 2006 advisory board

Erik Keller

WAPITI LLC

Ken Berryman

McKINSEY & COMPANY

Bruce Richardson

AMR RESEARCH, INC.

The Enterprise 2006 report, and all previous Enterprise reports and conference information are available online at www.sandhill.com

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Introduction

Enterprise 2006 occurred in October 2006; it was the ninth annual conference for a select group of senior executives and other leaders of the enterprise software industry. During the meeting, these leaders exchanged insights on their industry and openly discussed the issues and trends facing their companies and clients.

The heart of the conference – and the source of a great deal of excitement – was the next wave of innovation that will ultimately benefit all players in the software industry. Forty-seven percent of attendees believed this wave would help their companies achieve more than 20 percent growth in revenues this year – and 51 percent believed the industry as a whole will grow revenues at 6 percent or more! As a result, discussions focused on the sources and impacts of innovation, Enterprise 2.0, open source, and software ecosystems.

This summary, a collaboration between Sand Hill Group LLC and McKinsey & Company, highlights the presentations and panel discussions and lays out survey results on many important questions participants answered during the conference.

For the first time at Enterprise, a significant number of influential CIOs participated in the event, as attendees, keynote speakers, or panelists. The inclusion of the customer perspective was very well-received by the software executive attendees.

We are pleased to offer this record of the conference. If you have questions, please contact MR Rangaswami (mr@sandhill.com) or Ken Berryman (ken_berryman@mckinsey.com). If you would like to obtain copies of this report or previous Enterprise reports and conference information, go to www.sandhill.com.

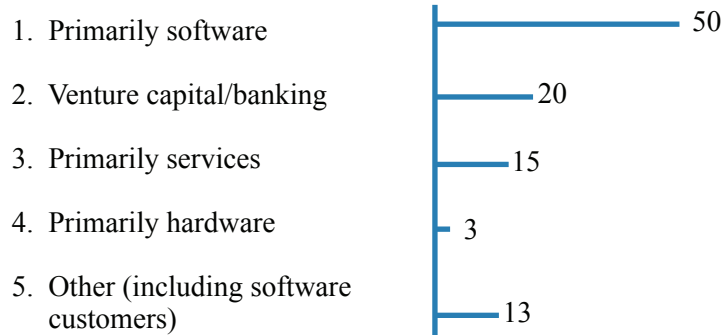
ENTERPRISE 2006 *Conference Summary*

The participants

The approximately 170 senior executives who gathered this year came from five important areas – software, services, investment banking, venture capital, and software customers. More than 80% were either CEOs or Managing Directors of their organizations.

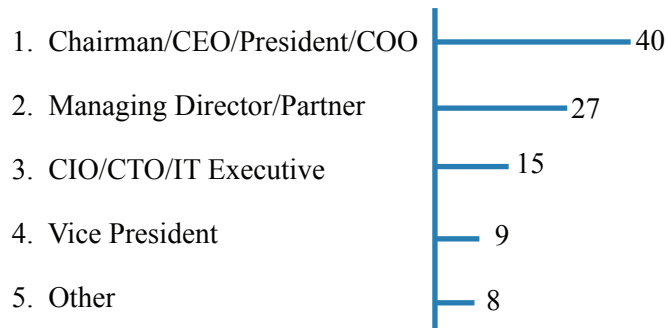
WHAT TYPE OF COMPANY DO YOU REPRESENT?

Percent



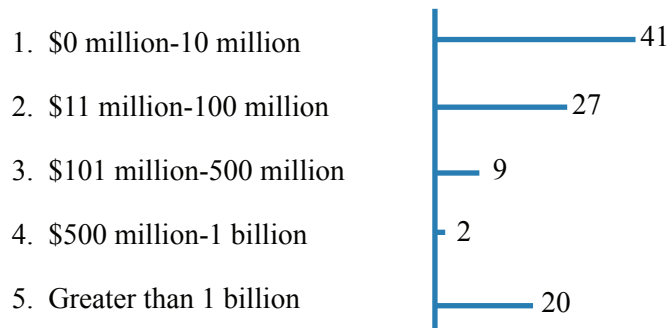
WHAT IS YOUR TITLE/POSITION?

Percent



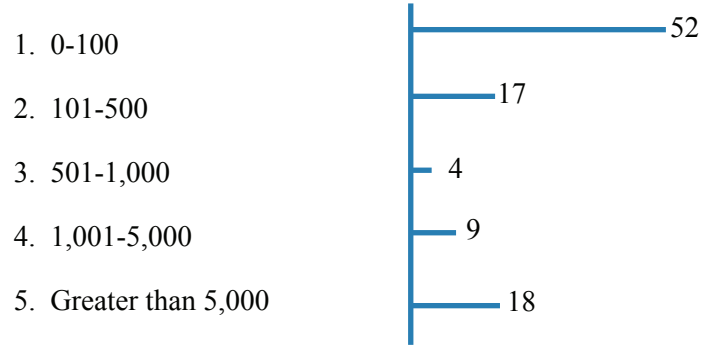
WHAT IS YOUR COMPANY'S REVENUE?

Percent



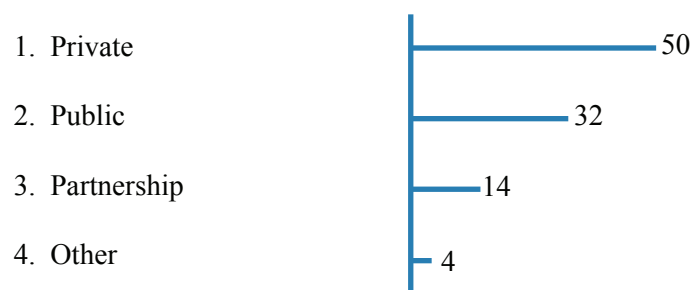
HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE?

Percent



WHAT IS THE FINANCIAL STRUCTURE OF YOUR COMPANY?

Percent



Overall industry perspective: continued optimism

Participants at this year's conference appeared optimistic about the software industry. Fifty-one percent expect the overall software industry growth rate to be 6 percent or greater, and 47 percent predict that their own companies will grow more than 20 percent in 2006. Seventy-five percent of respondents felt that staying focused on revenue growth was the most important element in achieving these results. Sales and Marketing has emerged as the dominant lever for doing this; it is where 60 percent of participants would put their incremental investment dollars.

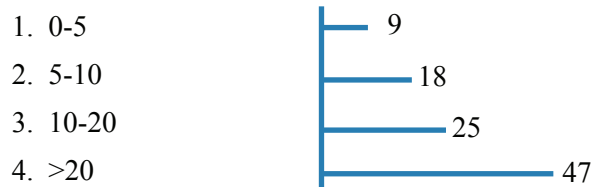
WHAT WILL BE THE OVERALL SOFTWARE INDUSTRY GROWTH IN 2006?

Percent



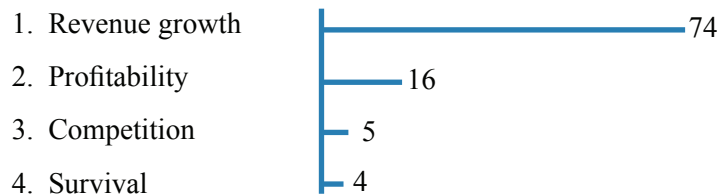
HOW FAST WILL YOUR COMPANY GROW IN 2006?

Percent



WHAT KEEPS YOU UP AT NIGHT?

Percent



IF YOU HAD AN EXTRA \$1 MILLION OF BUDGET, WHERE WOULD YOU PUT IT?

Percent



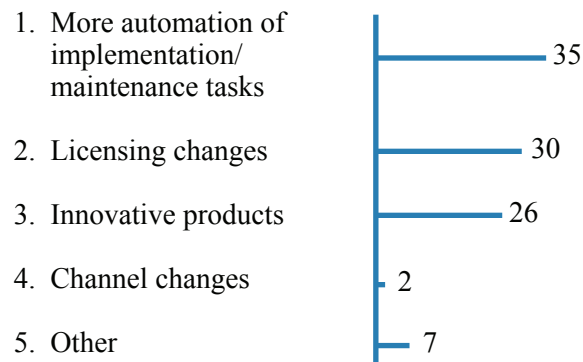
Wave of innovation inspired by Web 2.0

The large innovation wave approaching us will benefit all players within the industry. CIOs are likely to see a broad range of innovation in the enterprise software market including innovative products, licensing changes and increased automation. The software industry expects contributions from a broad range of sources including services-oriented architecture (SOA), software as a service (SaaS), open source, and Web 2.0 technologies.

What is interesting is that while all of these are expected to have significant impacts on the industry, the Web 2.0 companies and technologies were the most inspiring source of innovation for most participants (69 percent). Part of this is because respondents believe that Web 2.0 will benefit all players. When asked what part of Web 2.0 would have the most impact, they identified social networking and data tagging.

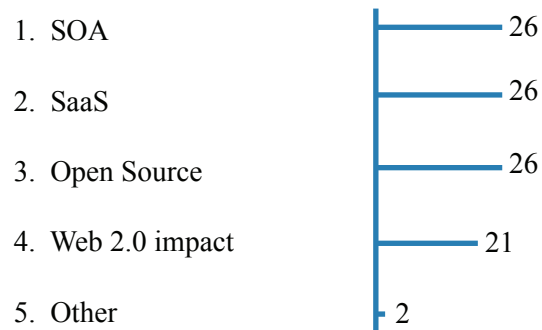
OVER THE NEXT 3 YEARS, WHAT ARE THE BIGGEST INNOVATIONS CIOs ARE LIKELY TO SEE IN THE ENTERPRISE SOFTWARE MARKET?

Percent



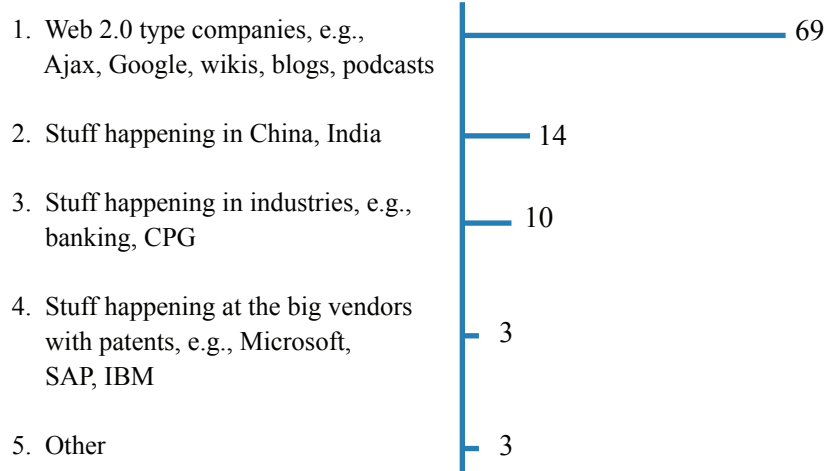
OVER THE NEXT 3 YEARS, THE BIGGEST INNOVATIONS IN SOFTWARE WILL BE?

Percent



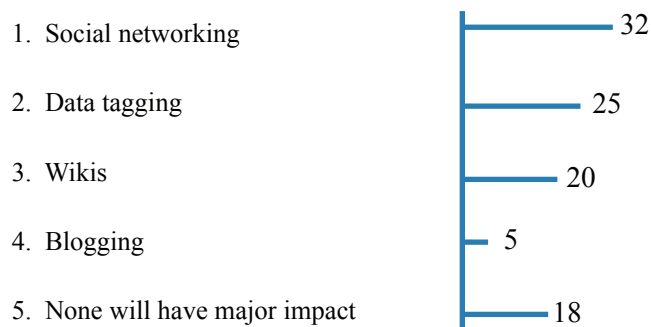
WHICH ONE OF THE FOLLOWING “SOURCES” DO YOU FIND THE MOST INSPIRING TODAY WHEN IT COMES TO TECHNOLOGY INNOVATION IDEAS?

Percent



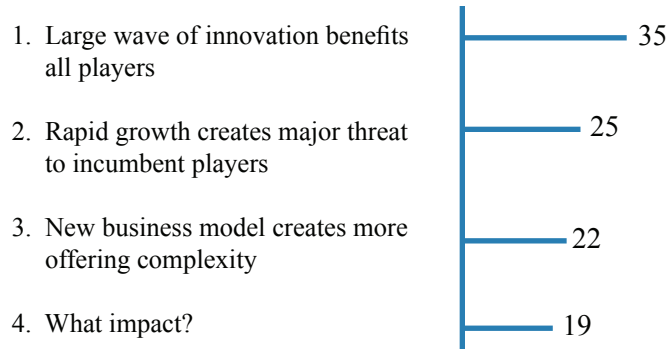
WHICH WEB 2.0 INNOVATION WILL HAVE THE GREATEST IMPACT ON THE ENTERPRISE?

Percent



HOW WILL ENTERPRISE 2.0 MOST IMPACT THE SOFTWARE COMPANY?

Percent

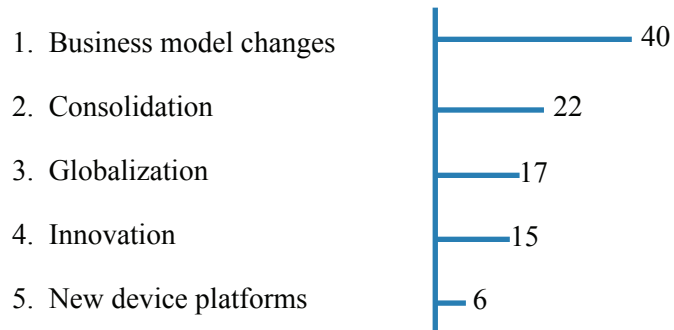


Importance of alternate business models

According to attendees, business model changes will be the “hottest” industry topic for 2007, surpassing industry consolidation, the recent leader. Forty-seven percent of attendees cited a change in business model as the most important success factor for their own business in the year to come. In terms of specific models, software-as-a-service (SaaS) and open source were discussed extensively. SaaS is considered a popular delivery model for customers, while open source is viewed as a viable business model, with 40 percent indicating the attractiveness of its potential for EBIT margins of 20 percent or greater.

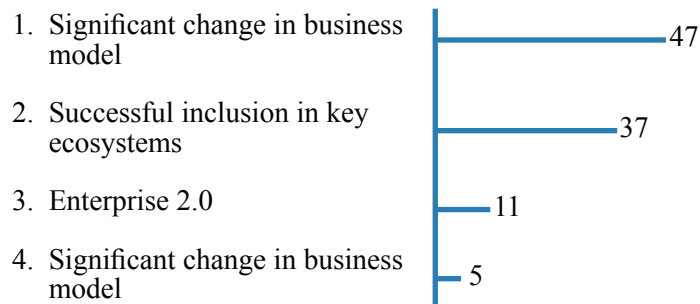
WHAT SOFTWARE TOPIC WILL BE MOST IN THE NEWS IN 2007?

Percent



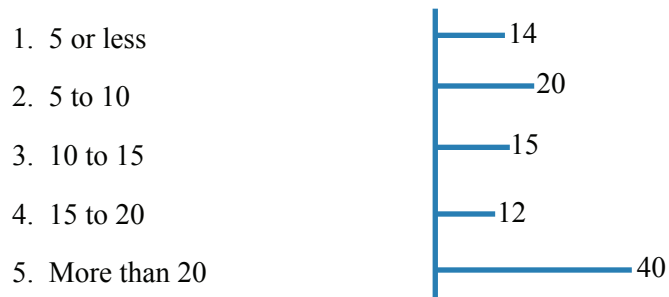
OUT OF THE FOLLOWING, WHICH IS THE MOST IMPORTANT TREND/FACTOR FOR YOUR SUCCESS IN 2007?

Percent



WHAT IS THE MAXIMUM EBIT POSSIBLE FOR AN OPEN SOURCE COMPANY?

Percent



Importance of ecosystem

Ecosystems continue to be important for enterprise software companies, particularly as they look for partners with strong sales organizations. The number of attractive ecosystems is broadening – while 45 percent of attendees cited one of the enterprise software leaders (i.e., IBM, Microsoft, Oracle, SAP) as the most attractive ecosystem leader, an equal number cited either Salesforce.com or open source.

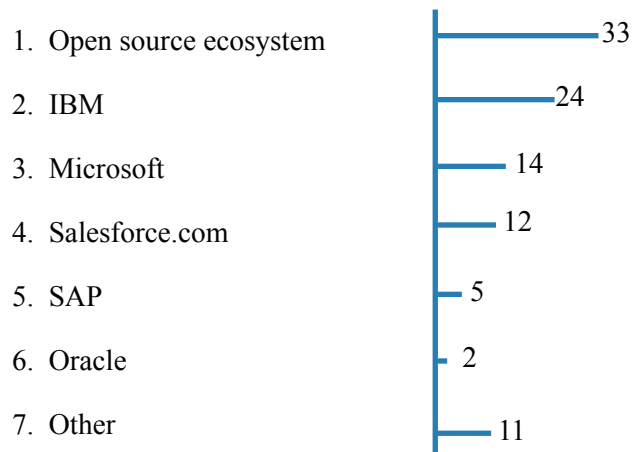
IN MAKING A DECISION ABOUT WHO TO PARTNER WITH, WHAT IS MORE IMPORTANT?

Percent



WHICH ECOSYSTEM LEADER HAS THE MOST EFFECTIVE PROGRAM TO HELP YOUR SUCCESS?

Percent

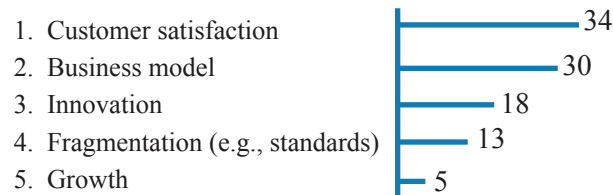


Continuing need to improve total customer experience

The software industry continues to lag on customer satisfaction with business model a close second. Lowering operating costs continues to be an issue for customers with the price of maintenance and support of particular concern; 50 percent believe that a reasonable percentage to pay would be less than 15% of license price, significantly lower than current rates. Software industry vendors must address not only the well-known issues such as reducing total cost of ownership, increasing business value delivered, and improving software return on investment (ROI), but also those aspects of customer interaction that contribute to the overall customer experience.

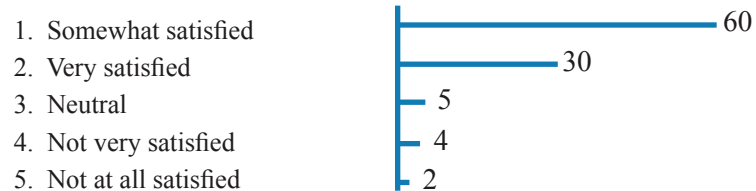
IF THE SOFTWARE INDUSTRY HAS ONE PROBLEM, WHAT IS IT?

Percent



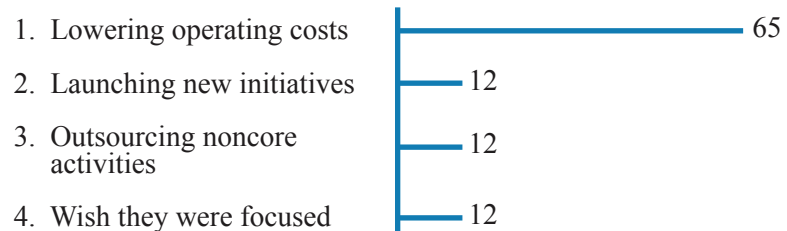
HOW SATISFIED ARE YOUR CUSTOMERS WITH YOUR PRODUCT OR SOLUTION?

Percent



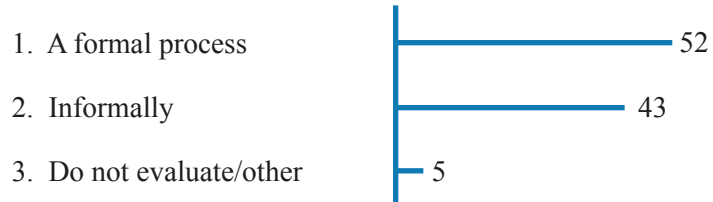
CUSTOMERS ARE MOST FOCUSED ON?

Percent



HOW DOES YOUR COMPANY EVALUATE SATISFACTION?

Percent



AS IT CONCERNS TRADITIONAL ON-PREMISE SOFTWARE, WHAT IS THE REASONABLE PERCENT THAT USERS SHOULD PAY FOR ONGOING MAINTENANCE AND SUPPORT?

Percent

