

ENTERPRISE 2007 CONFERENCE SUMMARY



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

Enterprise 2007 advisory board

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The Enterprise 2007 report, and all previous Enterprise reports and conference information, are available online at www.sandhill.com

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Introduction

Enterprise 2007 took place in July 2007 as the tenth anniversary conference for a select group of senior executives and other leaders of the enterprise software industry. During the meeting, these leaders discussed the state of industry, reflected upon the past ten years, and debated the issues and trends likely to face their companies and clients in the future.

The conference looked at the last ten years of enterprise software in order to understand and prepare for the next decade. In this light, conference participants were optimistic about the future—63 percent of participants thought their companies or firms were doing well, versus only 6 percent who were seeing poor performance. However, 61 percent said that revenue growth was what kept them up at night, leading to many discussions about expected changes in enterprise demand, shifts in the role of the CIO, and new selling models for the next decade.

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.

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.

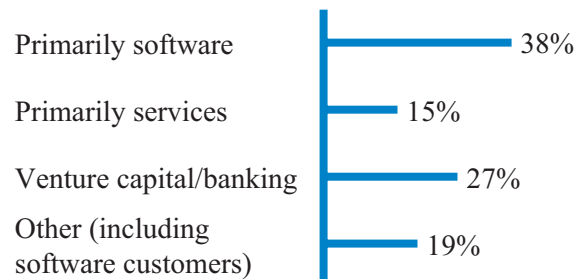
ENTERPRISE 2007 *Conference Summary*

The participants

The senior executives who gathered this year came from five important areas—software, services, investment banking, venture capital, and software customers. More than 80 percent were either CxOs or managing directors of their organizations.

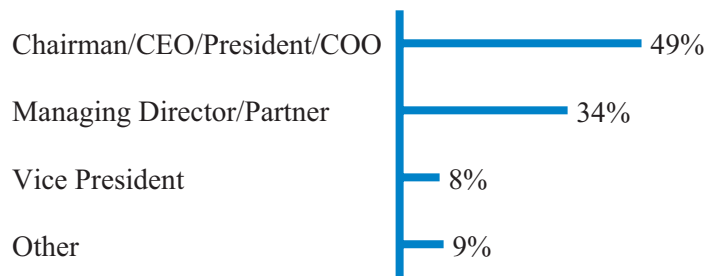
WHAT TYPE OF COMPANY DO YOU REPRESENT?

Percent



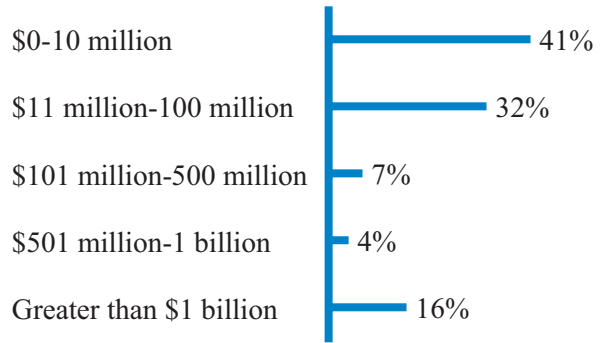
WHAT IS YOUR TITLE/POSITION?

Percent



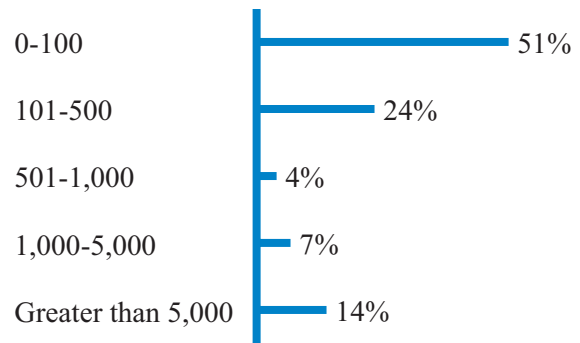
WHAT IS YOUR COMPANY'S REVENUE?

Percent



HOW MANY EMPLOYEES DOES YOUR COMPANY HAVE?

Percent

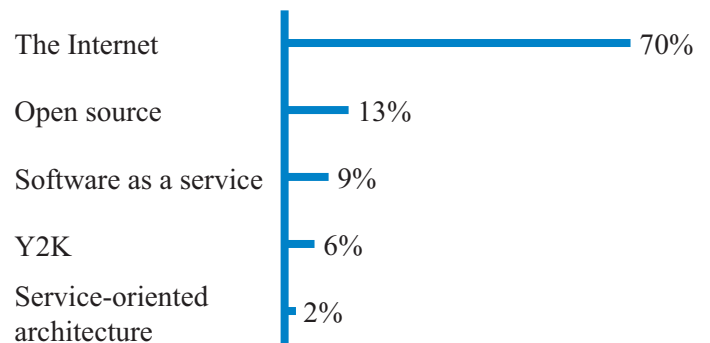


Highlights from the last decade

Much of the conference consisted of a look back over the last decade, reviewing the people, trends, and events that shaped the enterprise software industry. There was a strong consensus of opinion on some of the positive industry drivers—80 percent of attendees thought open source had been good for the industry, and 78 percent of attendees thought private equity had been a positive agent for change. Not surprisingly, the Internet was viewed as the underlying driver of the most change for the industry over the past decade.

WHAT HAS HAD THE MOST IMPACT ON ENTERPRISE SOFTWARE SINCE 1997?

Percent



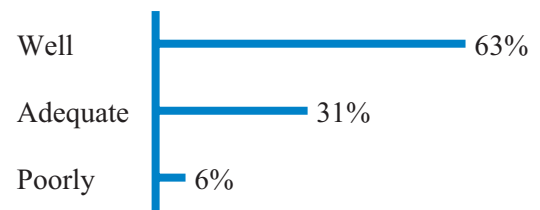
Much was made of the cyclical nature of the industry over the ten-year period, and the many ways in which the industry today resembles that of 1997—despite being substantially larger, more diverse, and more mature. In particular, the resurgence of technology themes reminiscent of the late 1990s—personalization, mass customization, globalization, and so on—suggested to many that ideas germinated in the run-up to the tech bubble were only now bearing fruit, and that after a long period of retrenchment the industry was ready to deliver on these earlier promises. In a similar vein, several participants observed that the enormous investment in overall global digital infrastructure—an investment perhaps as large as \$12 trillion-15 trillion dollars in total—had created an incredibly rich and flexible foundation for future software innovation.

What's good about the industry today

Most of the participants were observing strong performance from their companies or portfolio, with only 6 percent rating their current performance as “poor.” At the same time, the greatest urgency for increased investment was tied to sales and marketing—almost 70 percent of participants would put incremental budget towards these areas, as compared to only 4 percent who would spend more on service. While these priorities reflect the underlying reality of the drivers of software company growth, they perhaps also explain the current unfortunate perception of enterprise software service in the eyes of most customers.

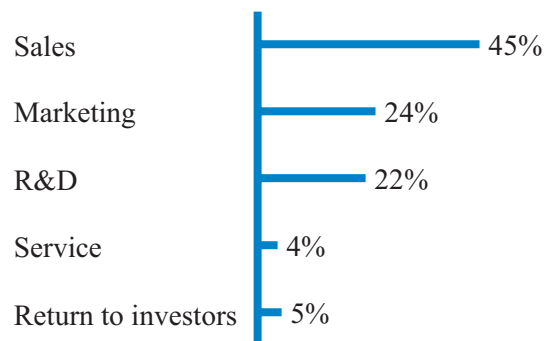
HOW DO YOU FEEL YOUR COMPANY/PORTFOLIO IS DOING?

Percent



IF YOU HAD AN EXTRA 10% OF BUDGET, WHERE WOULD YOU PUT IT?

Percent



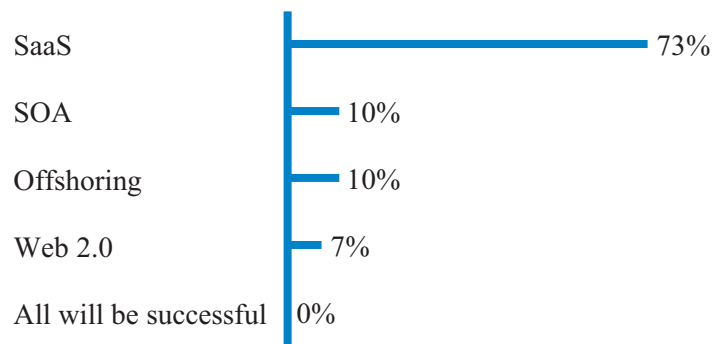
Viewed from a different angle, the enterprise software industry has had a disproportionate impact on the broader economy. Over the past decade, for example, software's rough share of the overall US economy has doubled. During that period, the industry added more than 100,000 new jobs in the US alone, absorbed billions of dollars of venture and private equity investment, and together with IT more broadly drove real productivity changes across the entire economy. There is indeed cause to celebrate the success that enterprise software has achieved.

Looking ahead to the next decade

According to attendees at last year's conference, business model changes were expected to be the "hottest" industry topic for 2007, a prediction that did indeed come true. Software as a service was widely viewed as the trend most likely to be successful, but other trends, perhaps most notably open source, have shaped the dialog not just in software but across a much broader technology, media, and telecom landscape.

WHAT TREND IS MOST LIKELY TO BE VIEWED AS A SUCCESS BY 2010?

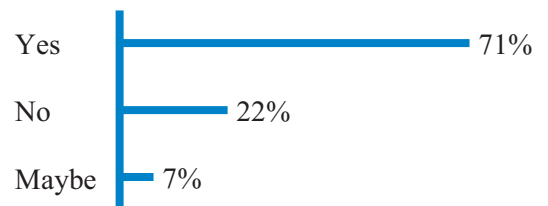
Percent



As far as industry structure, there was a strong belief in the continued emergence of new companies and rapid growth into the top tiers of the industry. More than 70 percent of attendees felt that we would see a new software vendor emerge with greater than \$10 billion in revenue, and over a quarter of attendees felt that the company that will have the most impact on shaping the industry will be a newcomer.

WILL WE SEE A NEW \$10+ BILLION SOFTWARE VENDOR BY 2017?

Percent

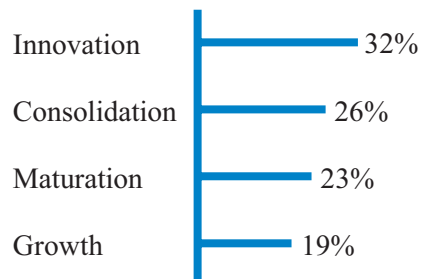


There was a substantial amount of discussion of the areas in which the industry should become more active—most notably in clean technology and energy. More than 70 percent of participants felt that enterprise software leaders could do more to protect the environment. Perhaps surprisingly, there was also consensus on the need for some expanded government role—61 percent of attendees voted that the US government should be doing more to keep enterprise software on the cutting edge.

Looking further ahead, there was a diversity of opinion about where the industry will be in another ten years, with nearly equal division between innovation, consolidation, maturation, and growth.

WHAT PHASE OF THE LIFECYCLE WILL THE SOFTWARE INDUSTRY BE AT IN THE YEAR 2017?

Percent

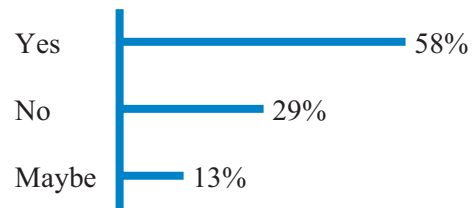


Conclusions and final comments

There are many reasons to be excited about the next decade of the enterprise software industry. The pervasiveness of software in all devices—and the increasing functionality from which enterprises can benefit for automation and improved decision making—suggest that demand and new applications will continue to grow at rates well above the overall economy. The convergence of wireless connectivity, high-performance portable computing, and pervasive network access only increases the potential for growth. It is therefore not surprising that almost 60 percent of participants would recommend the industry to college-age kids as a good place to start a career.

I'D ENCOURAGE MY COLLEGE-AGED KID TO START A CAREER IN THE SOFTWARE BUSINESS

Percent



The next decade of the industry will undoubtedly bring with it a kaleidoscope of innovation and high expectations, as well as some failures. What is certain is that the next decade will be as surprising as the last, and that enterprise software will continue to be an engine not just for its own industry growth, but for change across the entire global economy. We look forward to seeing that continuing story unfold.

