

# Insight & Perspective IT Thought Leaders

# Where Is the Information Technology Industry Headed?

This gallery of opinions from some of the best and brightest players in the information technology industry presents insightful thinking about where the IT business is headed and how it will confront an uncertain economy.

The thought leaders we've selected acknowledge that the market is maturing, but they also lay out a series of major opportunities that are well worth pondering—and even acting on.

Here are four of the most significant paths to prosperity discussed in the pages that follow:

- *SaaS* – Companies of all sizes are adopting SaaS (Software Applications as a Service). This new paradigm is part of a major move toward efficiency, cost-savings and IT simplicity.
- *Virtualization in the Data Center* – Increasing interest in simplified IT management and demand for better utilization of IT assets are creating a greater focus on virtualization.
- *Business Intelligence and Predictive Analytics* – Looking forward with this IT solution is becoming more commonplace in small, medium and large businesses. The bottom line is that data is everywhere; figuring out the best way to use it will be the profitable part.
- *The “Consumerization” of Technology* – This is beginning to drive innovation at the enterprise level. There is a real surge when it comes to the socialprise, leveraging the power of the masses. Part of this is the burgeoning market for mobile and wireless applications, which will continue to gain critical mass.

The IT minds gathered here also agree that venture capitalists are working hard—maybe even overtime—to find and finance the best ideas the world of innovation has to offer. And, in the end, these crucial breakthroughs almost certainly will change the way legions of people work and countless enterprises create value.

# Kevin Cable

*Executive Vice President, Cascadia Capital*

## **Opportunities in a Tough Economy**

“There are a number of areas that will leverage sweeping change, even if the economy sags, in the SaaS marketplace. Advertising accountability and efficiency is another opportunity well worth exploring. It’s important to note that there is a real revolution going on—not an evolution—when it comes to socialprise, and leveraging the power of the masses to create better decision making in the enterprise. What is becoming evident, as well, is that data is just going to be everywhere, and the question is how best to use it. This is the long window view I’m talking about.”



## **Financial Changes to Watch**

“The most significant change, in my view, is that the behemoths are going to get even bigger by purchasing the best green field companies out there. The monster growth opportunities will be fewer and further between because of the maturing IT industry. M&A will continue to play a role in a high percentage of exits. Finally, VC’s will be more measured regarding round sizes because of the shrinking number of big opportunities I mentioned above. One final thought strikes me: we need to really begin to settle on capital efficient models that will help companies scale with less.”

## **IT Over the Next Five Years**

“The huge take-away here is that access to information and analysis will become ubiquitous. And as a part of this new world of available information and analysis will be the retail, me to you, manner of operation: you will be able to go direct to the information, applications, and analysis that you want. The third party broker will disappear. Mobile devices will take over the landscape and talk to everything. User complexity simply won’t be tolerated. And, lastly, it’s alarming but true: privacy will become a thing of the past—potentially creating though a huge new market opportunity focused on privacy protection.”

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*Seattle-based Cascadia Capital is a national investment bank that helps emerging growth companies finance the future.*

# Clive Cook

*CEO, RNA Networks*

## **Opportunities in a Tough Economy**

“The most interesting opportunities in a difficult economy are for those companies (product or service based) that can dramatically reduce or even eliminate purchases while tangibly contributing to top-line results for the overall business unit. In a tough economy, all participants make an argument for cost saving, yet this is insufficient to distinguish oneself.”

## **Financial Changes to Watch**

“In a difficult economy, where growth is uncertain, financing activity will support transactions where the contribution to cash value dominates the overall transaction value. Therefore, you will see high cash flow, high margin and low capital costs as the key characteristics of companies seeking financing or initiating exit transactions. Investments in large infrastructure and long-term innovation will be deferred until the end of the economic cycle is in sight.”

## **IT Over the Next Five Years**

“In five years, the software industry will look almost nothing like it does today. A number of innovations that are just now beginning will have a profound impact by then. The increased use of virtualization will make IT resources more amorphous – yet much more flexible – for all applications and networks. Advances in cloud computing will concentrate access for computing resources and Internet services in large, high-performance data centers. Parallel programming concepts will be behind new IT applications. And lastly, we will see the successful alignment of IT with business as one of the top two or three factors in the success of industry leading companies.”



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*Based in Portland, Oregon, RNA Networks has developed a software appliance that helps transform data centers into revenue centers.*

# Jeff Dirks

*President & CEO, SchemaLogic*

## **Opportunities in a Tough Economy**

“Companies can stand out and endure a difficult economy if they can leverage their information assets for competitive advantage. By 2010, the world’s codified information base is expected to double every 11 hours, and every global company will feel pressure to be strategic with information assets and knowledge. Right now, more than 85 percent of all information isn’t stored in traditional databases. As a result, finding the right piece of information at the right time is a tough problem to solve on a global scale. This will get worse as companies expand, merge and become more virtualized. So, even the most routine business processes must provide for better information access and integration.”



## **Financial Changes to Watch**

“As Consumer Web 2.0 opportunities become over-invested and niche-oriented, we expect a flight back to investments in companies that are solving more tangible business problems and producing demonstrable business benefits for Global 2000 enterprises. We expect investment focus on companies offering Enterprise 2.0 solutions that offer a more participatory approach to classical problems in technology and information management – for example, improving information findability and collaboration.”

## **IT Over the Next Five Years**

“The software landscape will continue to consolidate around global platform leaders such as IBM, Microsoft and Oracle, who will add to their technology and intellectual capital assets. We will also see SaaS solutions figuratively pushing down market and being embraced by small and mid-sized enterprises that will increasingly outsource their technology reliance from installed software to Web services. Finally, we will see the convergence of mobile computing with an increasingly virtualized workforce.”

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*SchemaLogic is the leading provider of metadata management solutions for unstructured content.*

# Greg Gottesman

*Managing Director, Madrona Venture Group*

## **Opportunities in a Tough Economy**

"In a tough economy, most of the ingredients for success are the same: super-talented team, large opportunity, and timing. But there are some differences. We prefer early-stage to later-stage investing in a difficult climate. Early-stage companies and Web-based businesses generally have lower capital requirements, so you can afford to wait for the economy to cycle back to a more robust environment. We also continue to like online advertising as an investment area, even in a difficult economy, because you can measure and optimize the results of online advertising more easily than traditional advertising."



## **Financial Changes to Watch**

"There have been very few venture-backed IPOs this year, and we don't see the IPO window opening in the near future. That's troubling, of course, and it ultimately may affect the M&A market. These trends are cyclical, though, and the IPO market will open up eventually. The venture capital business is about timing as much as anything."

## **IT Over the Next Five Years**

"The software-as-a-service model will be everywhere. More and more, the browser will serve as the operating system, including in enterprises. We will see advances in security, scalability and efficiency in data centers to support the massive growth of cloud computing. Open source will continue to grow in importance. We are headed for an always-on, always-connected world, and you'll be accessing applications from wherever you are and with whatever device. Storage, CPU and memory costs will continue to decline. Online video will become more prevalent and accessible. Fast connections will greet you and your mobile device everywhere. Finally, self-service is an important trend. Even sophisticated, offline processes will start to come online, and they won't be on the Web merely to cut costs; they'll be available online because they offer users a more high-quality customer experience."

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*Seattle-based Madrona Venture Group has been investing in early-stage technology companies in the Pacific Northwest since 1995.*

# Len Jordan

*General Partner, Frazier Technology Ventures*

## **Opportunities in a Tough Economy**

“Consumers continue to shift their attention to the Internet and wireless devices, and spend more than 32 hours week online, 2X the time they spend with TV. They also continue purchasing aggressively online and may accelerate this behavior during a period of economic slowdown. These market shifts helped online advertising grow by 26 percent from 2006 to 2007, and they are expected to create a \$14.6 billion mobile advertising market by 2011, as well as an electronic commerce business greater than \$335 billion by 2012.”



## **Financial Changes to Watch**

“The Internet and open-source software have made it dramatically less expensive to get a high-quality software product to market. The volume of software companies started will continue to increase and they will be easily financed on more modest amounts of capital. Conversely, lower barriers to entry will mean that fewer software companies get to the audience or customer volumes necessary to create a durable, profitable, independent business.”

## **IT Over the Next Five Years**

“The ubiquity of the Internet, open-source tools, global PC distribution, expansion of mobile subscriptions and rapid technology adoption by small and mid-sized businesses has created a broad and deep opportunity for software applications and innovation. Having said that, consumers and business users often expect software to be free or advertising supported. As this shift continues, software may continue to become more media than technology, and it will no longer be thought of as mobile or PC based.”

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*Frazier Technology Ventures invests in entrepreneurs interested in building category-defining software companies in the Internet, wireless, and next-generation-enterprise sectors.*

# David McShea

*Partner, Perkins Coie*

## **Opportunities in a Tough Economy**

“Two kinds of companies have a unique opportunity in a difficult economy—market leaders and new entrants. Companies that are leaders in a market category or niche can leverage their market share and brand to continue to invest in their business. The challenge faced by new entrants in a hard economic environment is also an opportunity—to launch a new business at time when the market feedback is, if very tough, at least very clear. This clear feedback can enable a new entrant to craft, refine and re-refine a winning product or service strategy much more quickly and accurately than when the marketplace is booming.”



## **Financial Changes to Watch**

“Venture capital will remain resilient, particularly in the early stage. And valuations in later-stage, more mature companies will begin to come down as a difficult economy causes growth rates to rise more slowly than expected, and, as a result, the time to exit lengthens. The most pronounced pattern in exits is likely to be the predominance of strategic corporate buyers with strong cash flow and balance sheets, now that financial buyers are contending with a skittish lending market.”

## **IT Over the Next Five Years**

“Web 2.0 software that focuses on user-generated content and collaborative knowledge-organization and sharing (Wikis) will begin to show up in the enterprise. Right now, the types of software features you see in the consumer space (whether Facebook or Twitter or others) really don’t have clear analogs in the enterprise. But as those consumer-driven software features become more prevalent, I think enterprises (and enterprise software providers) will find better ways to integrate them.”

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*With more than 650 lawyers in 14 offices across the United States and in China, Perkins Coie is a leading international law firm offering a full spectrum of legal services.*

# Jeff Pancottine

*President and CEO, Daptiv*

## **Opportunities in a Tough Economy**

“The real opportunity in a rough economy lies in being efficient, planning, tracking and reporting in a holistic way. The key is not wasting resources and to focus on real-world work intelligence management. You need to be able to slice and dice the data using business intelligence. Analysis is important for prediction. Data quality is crucial – and so is the ability to analyze it over a significant period of time.”

## **Financial Changes to Watch**

“The SaaS trend will explode in the B-to-B arena. Companies are seeing the cost and flexibility benefit, and this is removing the barriers to adoption. As long as the security is there, companies say they are comfortable. There will be SaaS platform providers, too. Some of the classic providers will be in trouble as this adoption occurs. CA, SAP and IBM will have a rough time. The beauty of the SaaS model is that the results are much quicker. Despite its attributes, however, SaaS isn’t a savior for small business.”

## **IT Over the Next Five Years**

“Good deals will continue to get done, but with more scrutiny. Most of the IPOs will go back on the shelf and will require additional funding. M&A is slowing to a trickle. The cycle for exits will be elongated by a few quarters. The key is making sure you have enough cash to get through. These downturns can be cleansing in a way – like a fire.”



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*Founded in 1997, Daptiv is the on-demand leader in collaborative business software that enables companies of all sizes to transform their mid-office business operations.*

# Mike Satterfield

*General Partner, Yaletown Venture Partners*

## **Opportunities in a Tough Economy**

"We see opportunity – whether there's a downturn or not. We especially like IT for healthcare and IT for energy. Economics is a big part of this. We gravitate to sectors with growing demand. People are looking for efficiencies, and IT has a history of bringing operational efficiencies to industry. Payers for health care, for example, are running out of willingness to pay, and IT solutions bring costs down. Smart Grid is a good example in the energy sector. We believe IT will be a driver here."



## **Financial Changes to Watch**

"It's all about capital efficiencies. We see new hybrid models of financing with angels playing more of a role and more angel-VC collaboration. There will be smaller rounds and smaller syndicates. We also believe we are in a long trend toward consolidation and there will be more M&A and less IPO activity. As a result, look for cradle-to-grave financing and funds to come under just one brand."

## **IT Over the Next Five Years**

"There's going to be a lot of innovation over the next five years. Software will become much easier to use as technologies from consumer/social applications migrate toward businesses applications. The self-help culture will make itself felt. More specifically, the SaaS "IT-free" revolution will be a big deal for the SMB market. In business intelligence, for example, Web 2.0 technologies and business models will allow business users to collaboratively assemble, visualize and share the information they need without IT involvement, driving down customer acquisition costs for vendors and implementation costs for businesses. New technologies, such as predictive BI that looks out the front windshield will be accessible sooner to SMBs, enabling them to compete more effectively with bigger firms."

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*Yaletown Venture Partners backs entrepreneurs building disruptive clean technology companies throughout the Pacific Northwest and entrepreneurs driving the next generation of information technology in British Columbia.*

# Craig Sherman

*Partner, Wilson Sonsini Goodrich & Rosati*

## **Opportunities in a Tough Economy**

“Regardless of the state of the economy, software is inexorably moving online. Although traditional desktop software will not disappear overnight (just like the traditional printed newspaper isn’t going to disappear overnight), the efficiency of SaaS and improvements in ubiquitous wireless data networks will lead to rapid growth of SaaS companies. I also believe that online advertising is here to stay. Although many start-ups will fail, either through failure to execute or dominance by a small number of giants, there will be multiple opportunities to find niches for growth – either through old fashioned start-ups delivering advertising-supported content or suppliers of technology and tools for the online advertising industry.

Online games will stay strong. Often combining the two first trends, and relatively recession-proof, I like this space.”

## **Financial Changes to Watch**

“VC activity will continue to hold steady in SaaS, online advertising and the game industry, as long as the game companies offer more than simply content development. At best, the public markets will remain reserved only for a very narrow range of the highest quality companies. M&A activity will be the best exit for early-stage software companies, as the few big players have, and will continue to have, plenty of cash to spend.”

## **IT Over the Next Five Years**

“It’s relatively simple. Everything will be online. And Google and Microsoft will continue to battle for worldwide domination.”



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*Wilson Sonsini Goodrich & Rosati is legal advisor to technology and growth enterprises worldwide, as well as the investment banks and venture capital firms that finance them.*