

Under the Buzz

Commentary on Business Strategy for Tech Company Executives & Professionals

Vol. 11, Number 4 – January 21, 2011

Under the Buzz is an email "viewsletter" published by Philip Lay, managing director at TCG Advisors, a Silicon Valley-based firm that helps executive teams in tech companies to deal with complex strategic, organizational, and operational challenges. Now completing its eleventh year, this journal is published periodically and delivered free to subscribers via email on an opt-in basis. It is also posted on TCG Advisors' website, <http://www.tcg-advisors.com/Library/utb/utb.htm>, where back issues are also available.

*Note to readers: This issue will be the last to be published as Under the Buzz. From now on, I shall author and publish an offshoot of the "Buzz" called "Under the Buzz **Nuggets**". Its purpose is to provide briefer and more frequent advice, guidance, and perspectives on critical strategy, leadership and management issues in the tech sector.*

Major Trends & Surprises in 2010-2011

Among the major surprises of 2010, my number one nomination for IT Innovation of the year isn't Apple's latest innovation, the iPad – although, after so many false starts in tablet computing over the prior decade or so, the iPad shot out of the blocks as an extremely user-friendly product, recording over a million sales in its first 90 days and over 10 million by the end of 2010. No, what surprised this author was the rapid adoption of the iPad by corporate executives and professionals as a business productivity tool for responding to email and reviewing PDF & Word documents and Powerpoint presentations. As such, for many executives (many of whom are at the age where failing eyesight makes it a chore to perform these tasks on a smartphone) the iPad became a must-have, eclipsing their laptops and smaller-screen mobile cousins such as the iPhone and Blackberry. Not even Steve Jobs could claim to have anticipated this phenomenon. Seems to me that this precedent will be hard to emulate in 2011, but of course there is plenty of time for such a thing to happen.

Looking forward into 2011, there seems little doubt that both consumer electronics and applications and, increasingly, enterprise high-tech products and services, will make a considerable contribution to drive economic growth in the next few years, thus helping the U.S. and other countries to solidify their recovery from the nasty global financial crisis of 2009-2010. As already noted in prior issues of this journal, enterprise IT investments need to catch up with the explosion in consumer IT and electronics over the past several years, catalyzed to a large degree by Apple's industry-shaping moves in mobile telephony and computing, music distribution, and tablet computing.

On the enterprise computing front, Virtualization has been the single most powerful growth engine for the past 3-4 years, and in 2010 the tornado blew with great force. Virtualization has its greatest relevance to "private" on-

premise computing and managed hosting. Today it is possible to declare that this category has its gorilla – VMware. This company has been the catalyst of dramatic growth in enterprise and hosted data centers, not only by generating significant compute efficiencies, but stimulating responses from major storage management and network management vendors to incorporate virtualization into their architectures. Of course, when a tornado occurs there are many beneficiaries apart from the gorilla as the rising tide lifts many boats. Not only are there the category chimps (IBM, Microsoft, and Citrix in this case) which continue to contend in vain to dislodge the gorilla, but major players in significant adjacent/complimentary categories such as database management (Oracle and IBM), storage management (EMC and NetApp), networking and communications systems (Cisco and Juniper), data center servers (HP, IBM, Oracle), and analytics/BI (IBM, Oracle, and SAP via their recent acquisitions) who also experience strong growth correlated to the uber-trend – i.e. dramatically reducing idle compute capacity through virtualization. Incidentally, it pains IBM to see the upstart VMware usurp its virtualization leadership mantle, but that’s what happens in the continuing Darwinism that characterizes the high-tech industry. Looking forward beyond 2011, there is no doubt that the winds blowing behind Virtualization will die down soon, as commoditization and new emerging categories take their effect.

The major new competitor to virtualization is of course Cloud computing. Although already established among consumers and, to some degree, small businesses, through mainstream applications such as email, search, and online commerce, cloud computing has yet to be widely adopted by enterprise customers, particularly those that traditionally invest in and manage their own IT operations. For the past 2-3 years, however, cloud computing has been the subject of rapidly increasing growth expectations, divided into two sub-categories known as the Public Cloud and the Private Cloud. While the latter promises the full benefits of shared computing resources in a multi-tenant architecture, the latter provides a reassuring compromise for more cautious IT and line-of-business executives who prefer to keep one hand on the tiller and thus avoid what they see as unacceptable risks of outsourcing their critical systems to the nebulous cloud. The question now is how fast mid-sized and larger corporations and government agencies will adopt public cloud solutions for day-to-day mission-critical computing needs alongside their more predictable adoption of private cloud systems. The supposed concerns with security and other perceived risk factors are beginning to seem unfounded for all applications except those that really require tightly managed, hyper-secure systems such as those to be found in top-secret government agencies or the most sensitive financial systems. In general, analysts and industry experts foresee that most corporations will adopt a hybrid mix of public and private cloud systems. Among the no-brainer workloads that are candidates for the public cloud implementation are archiving, development/testing, disaster recovery, redundancy, and web-serving – hardly the most mission-critical applications but the safest place to start.

One company that is beginning to look like a credible standard-bearer for enterprise-grade cloud computing is Salesforce.com, which attracted no less than 30,000 attendees to its DreamForce conference last month in San Francisco, numbers that rival those of Oracle, Apple, and Cisco conferences. Besides having become the undeniable gorilla in so-called salesforce automation

(still a stupid category name, but it has stuck) with its Sales Cloud SaaS offering, the company now has *eight* product offerings, among which are Service Cloud (for Customer Support) and Chatter, its service for enterprise-wide collaboration around its sales and customer service applications, both of which are now experiencing rapid adoption. As demonstrated by earlier market phenomena such as Oracle in relational database management (late 1980s and early '90s), SAP in ERP (early-mid 1990s), and Cisco in routers and switches (mid-late 1990s), it only takes one company in a major growth category to become for most buyers the default choice – in our terms, the gorilla – and all of a sudden the tornado is unleashed. To my mind, Salesforce.com looks to be just such a company today and the tornado, if it hasn't already started, seems to be about to hit. The company's valuation has increased by 120% in the past twelve months. Investors have finally begun to understand its growth and strategy, and all signs are that it will galvanize the tornado that will help to take enterprise computing out of the eight-year plus doldrums that it has experienced since the bursting of the simultaneous internet and Y2K bubbles.

Since I am not a professional industry analyst and therefore try to avoid going too far into the IT trend prediction game, this is a good place to cite the predictions published last week in Sandhill.com's newsletter, from the admirable blog authored by Kamesh Pemmaraju, who heads up Sand Hill Group's cloud research practice. Kamesh, who exhibits impressive knowledge of cloud computing development and trends, states that he sees five major trends that will shape the cloud space in the next year:

1. Private clouds reach an inflection point – but hybrid clouds will rule
2. The battle for PaaS supremacy will become red-hot
3. Databases in the cloud will be the next big frontier
4. Cloud computing will go global
5. Mobile devices and applications will accelerate cloud services

For more detail on each of these trends, I recommend that you go to: <http://www.sandhill.com/opinion/editorial.php?id=342>

This article was authored by Philip Lay, managing director at TCG Advisors.

Under the Buzz offers commentary on strategic and operational issues facing technology companies and executives. The goal is to provide provocative insights into the latest events and thinking shaping this continually evolving sector. © 2011 - Philip Lay

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