

Under the Buzz

Commentary on Business Strategy for Tech Company Executives

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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 perplexing strategic and operational challenges. Now in its tenth 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.

Time for Tech to Get Going Again

In the last issue of the Buzz (Vol. 10, Nbr. 1, published on March 17, 2009), I made the following comments in the main article(*): "Sooner or later, even if the market doesn't actually recover its full momentum for two or three years...companies start adapting to the "new normal" in their business activities. ...It's anyone's guess when this will happen but based on past experience, this may start to occur sooner than we might think."

From what my colleagues and I can tell based on our current consulting work with tech companies as well as feedback at conferences and other interactions in the marketplace, tech companies are beginning to get going again with growth strategies to accompany their recent "hunker-down" expense control initiatives. For whatever reason, whether it be as a result of the current stock market rally; the "green shoots" that the president, Ben Bernanke, and other government officials have talked about; the much-anticipated imminent distribution of stimulus funds; the large number of quarterly earnings results that are meeting or only just below (admittedly modified) expectations; the need to do something to revitalize each company's fiscal year performance; or just because it feels right to start getting back to the normal pursuit of growth by any means, executive teams are starting once again to look to the future and make investments accordingly. However delicate things still are in the global and U.S. economy, this change in movement signals the return of the single most critical ingredient that makes the world go round: No, I'm not referring to money, but hope.

To my mind, there are a number of leading indicators that the above factors are inducing tech executives to feel a sense of hope for the future and thus to act. Among them are these:

1. Unlike the last recession, tech is not one of the sectors that's in the penalty box this time around: Far from it, the right types of technology, particularly those that provide a solid return in exchange for moderate to low risk continue to grow despite the disarray and lack of funding in many sectors that are under severe pressure, such as real estate, financial services, retail, consumer packaged goods, and other manufacturing industries.
2. Software and IT services investments that require moderate to low financial or business exposure are either doing okay or even booming: Thus, SaaS-based software and managed hosting services are two examples of businesses that are doing quite well, as exemplified by the positive earnings results of companies such as Salesforce.com,

Rackspace, and others, in addition to increasing Buy recommendations by analysts for leading companies in these spaces.

3. Increased hype and accelerated emergence of the Cloud concept, with Amazon, Google, and Microsoft touted as the leading mass-market players: News accumulates every day about the increased investments that these major players are adding to their already-considerable data center assets. Since they are obliged to run data centers capable of coping with seasonal or sporadic peaks in consumer demand but are often at 5% utilization levels, the deep recession acts as a forcing function for them to urgently consider how to rent out the unused processing cycles and storage capacity, and thus significantly ratchet up their profits to offset slower growth in their core businesses. Despite the secrecy of some of the main companies' strategies for cloud computing, books such as "The Big Switch", by Nicholas Carr, and an array of other articles and papers are helping to explain why cloud computing is far from being just the latest edition of previously hyped but never actually feasible "utility computing".

4. Accelerating trend toward "virtual work": The changing nature of how work is performed, in particular the increased global demand and feasibility for home-based freelancers or other "virtual" workers, is being solidified by a combination of faster and cheaper communications and the economic pressures of the current recession. These factors are forcing companies to find cheaper ways of getting work done than having on-premise workers in the classic industrial age model at a faster rate than ever before. Overall, this is a socio-techno-economic trend that will be hard to reverse, and increasing numbers of new and existing tech companies, service providers, and others are beginning to exploit it to their and to their customers' advantage.

5. Impact of the Oracle/Sun acquisition: After IBM's aborted mission to snap up Sun at a bargain price, Ellison and his team moved quickly to overcome Scott McNealy's rumored resistance to some of IBM's conditions, and acquired Sun at a healthy premium but still a relatively low price. Most significantly, the strategic implications of Oracle buying into the hardware and systems business for the first time and thus increasing its footprint from its traditional power bases of infrastructure software and business applications has shaken up companies everywhere, from IBM and HP, to SAP, to the major systems integration companies, even to Microsoft. This is the kind of unexpected move that changes the competitive dynamics sufficiently to force others to make their own moves, so coming months are likely to be quite interesting for M&A.

It would be foolish to risk getting ahead of ourselves at this point and proclaim a return to "normal" levels of economic growth merely based on recent developments such as these. After all, it is widely anticipated that unemployment will continue to rise for another several months before the trend begins to reverse itself. Thus, among other possible casualties consumer credit is still regarded by many as an unexploded bomb. Nonetheless it has been proven in past downturns that major new technologies, transformational socio-economic trends, and major acquisitions - occurring separately, or in this case simultaneously - can go a long way to galvanize market activity and thus pull substantial parts of the economy out of a downward spiral or a deflationary holding pattern. While it remains to be seen whether or not there is sufficient oomph in these trends to warrant sustained confidence going forward, it does seem to me that management teams have recovered their hope in the future and their desire to get moving again. Barring any major surprises, this is likely to result in moderate and increasing growth for the technology sector going forward.

Having said all this, it is critical now that tech company executives and their boards take the temperature of their company's ongoing business viability by addressing questions such as these:

- How "investable" are our main categories to customers today and going forward, in light of the changes occurring in the U.S. and global marketplace? For example, what is the impact of cloud computing going to be on our current business?
- How relevant and differentiated are we, or can we be, as a company in these categories against our reference competitors? Should we be seeking to exit or de-emphasize current businesses and enter new categories via acquisition or other means?
- What might have changed regarding the market segments that we should target for growth? For example, should we divert our attention away from problematic financial services segments, or intensify our focus on them based on an assumption that they will benefit from government cash infusions and rebound?
- What offerings do our target customers need from us to solve problems that are critical to them going forward? How different are they from what we were providing twelve months ago when the economy was in a very different situation?
- What different marketing, partnering, sales and/or channel programs do we need to execute today in order to create and fulfill demand, and to satisfy our customers' needs for support and care?

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- Under the Buzz offers commentary on business and management issues facing technology companies. The goal is to provide provocative insights into the latest events and thinking shaping this continually evolving sector. Under the Buzz also provides commentary on strategies for building sustainable competitive differentiation and maximizing growth and market valuation.