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## HOTSPOTS I:

**BILL JANEWAY** VICE CHAIRMAN, WARBURG PINCUS

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I'm going to stop before the timer goes off. Last night I was so intent on introducing Mark that I didn't introduce myself. As you see, I'm vice chairman of Warburg Pincus, founder of the Technology Investment group there – as such, cofounder and sole funder of BEA Systems. And most important, and most relevant, SNS Member 100.

Five years from now, we're going to look back and it will have become obvious that from the waste and excess of the bubble and the gazillion dollars pissed away during it, three – at least three – fundamental killer applications emerged.

Customer self-service is #1. #2: straight-through order processing and fulfillment, moving from system to system, overcoming precisely the political issues that Ray [Ozzie] was just talking about. And finally, the integration of offline data mining and analytics with online real-time transaction processing – what I call “intelligent transaction systems.”

Today, it is clear that enormous productivity gains are available to those who are able to deploy these systems. None of them can be bought out of the box from an application vendor, although there are extraordinarily high-quality foilware available from everybody from SAP on down.

So, second: the challenge of deploying these systems comes at a moment when, first, application platform technology is making it easier and easier to devise, assemble, and customize such systems at the same time as every enterprise application software vendor is challenged to completely reinvent their infrastructure in order to be able to deliver the business benefits of the killer applications. It's possible that SAP will be able to continue to afford to provide proprietary infrastructure. No one else will be able to.

At the same time as the challenge of technological architecture transformation is hitting the enterprise application software industry, they will also be confronting a fundamental change in business model.

For 35 years, enterprise software has been sold and priced as a capital good, which means that customers have funded the development of businesses by providing very large upfront license payments. The move is inevitable, and it is happening towards payment for value delivered over time, whether through a subscription, transaction, or leasing model.

That, in turn, means that the cost to positive cash flow for a startup in this sector is in the process of moving from on the order of \$10–\$20 million to \$80–\$120 million dollars. Businesses will still be built. They will not be many; and they will have to be built by people with a very long-term point of view and very... deep... pockets.

Let me conclude by referencing the *Harvard Business Review* and its most recent thesis that IT doesn't matter. There's a famous line, tipping my hat to Mark's activities as a physicist – manqué to wannabe? There's supposedly a legendary peer review of an article presented to the *Physical*

*Review* letters in which the author, the peer reviewer, let's call him Dick Feynman, said "This article is so bad it isn't even wrong." *[Laughter]*

IT will not matter five years from now any more than electricity or air will not matter. *You will know* when it's not there. Thank you very much.

*[Ed. note: Bill later advised SNS that the quotation was from Wolfgang Pauli.]*