



OPINION



Innovation: The Next New Thing

A look at recent software successes underscores the importance of both technological and business model innovation.

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One of the sad states of today's enterprise-application market is its assumed general malaise: growth is tracking toward GDP and rampant M&A activity makes certain entrepreneurial types muse, why bother? This defeatist attitude is counterbalanced by a seemingly Electric Kool-Aid-spiked enthusiasm toward the Web 2.0 and how this community will take over the world.

Both extremes unfortunately are under and over the top as they miss the central business secret of creating value: Innovation. Regardless of whether you reuse 30-year-old approaches or have an epiphany when you are out with your dog for a walk, innovation is really what our market is all about. And I'm not writing about some hot technology.

Everyone got spoiled in the last decade as much of the growth of enterprise software was driven not as much by innovation as it was by a technical refreshing of corporate America as it moved to embrace PCs and replace proprietary mainframes with Unix-based servers. Y2K wasn't bad for business either. In many ways, the largest innovation in enterprise software was conditioning the market to buy your stuff even if it didn't work. But as the recent SEC filing against former i2 Technologies executives illustrate, too much innovation can be a bad thing. A very bad thing.

Thus we have hit the part of the technology inflection curve that Carlota Perez in her book, "Technological Revolutions and Financial Capital," calls the third phase where technology is best used and shines in many corporations. But this phase will come not from unbridled end-user spending growth but from a balance of cost-cutting and revenue-generating products that facilitate better operational margins for buyers.

To do both will require innovation from the technology community in two forms: product and business model.

The first aspect for innovation in the corporate technology market is that it must address a well-defined and existing need. This is unlike consumer-oriented buying where an unknown need like customized ring tones or instant messaging can create fast-growing multi-billion dollar markets. For technology targeted to corporate buyers, if the ideas are not too far out and difficult to grasp, they will probably be well received.

For example, one of the greatest innovators of the 20th century was R. Buckminster Fuller. Perhaps the most well known of his inventions is the geodesic dome, which is built by connecting groupings of equilateral triangles to form a structure. It is the most efficient and strongest type of dwelling you can build costing the least amount of money. The largest such dome today is over 700 feet in diameter. Yet where is the dome today in general construction?

Fuller also designed a three-wheeled car in 1933 that was 20 feet long, could hold 11 passengers, was incredibly manoeuvrable and got 30 miles to the gallon. Yet where are three-wheeled cars



today?

Both of these inventions never took off as they were too far removed from common experience and wisdom. Intellectually they were elegant and addressed real issues. Unfortunately they were too abstract for many buyers, an important lesson that many of today's technology sellers should take to heart. (Ironically, Fuller's geodesic designs are getting yet another try in nanotechnology via what are being called "buckyballs" - a good example of finding an innovative use of an old idea.)

On the other hand, when the old idea is simple and the value proposition is straight forward, great things can happen. One current example of this is VMware, which was founded back in 1998 by Diane Greene. I met Diane at one of Sand Hill's Enterprise conferences when I was moderating a panel on "The Next New Thing." When I heard her story, I thought, "What a great idea," and there would be no doubt that she and her company would go far.

Diane recognized that there were lots of rogue Windows and Linux servers that had sprouted up like so many dandelions on a lawn and a huge amount of processing power was being untapped. This problem had been solved decades ago on mainframe technology using a technique called virtualization. VMware just applied it to the rest of the market.

When I first met Diane, her company was pushing \$50 million. This year it is expected to garner over \$400 million for EMC, which recently stated that its ability to blow out revenue targets was due to its acquisition of VMware.

Another twist on everything old is new again is timesharing resurgence in the forms of on-demand or software as a service. Salesforce.com has made the most marketing hay in this area but other technology youngsters including RightNow, NetSuite, and SuccessFactors as well as oldsters such IBM and Computer Associates are actively pursuing this approach.

They all are tapping into a customer dynamic that is tired of paying a huge amount of money up front with the only future assurance being 20-plus percent annual maintenance payments and a five to seven year capital depreciation. While that may ring as a harsh indictment of enterprise software vendors, our industry is singular in its inability to ensure that our 98 percent-plus of our customers will be able to use our products easily, on-time and on-budget.

In fact, until the industry can rid itself of this problem buyers will not be open to some of the most innovative solutions out in the market today. In the same way prospective home owners would not buy into Fuller's elegant new house design decades ago, many technology purchasers will not try something new and out of the box for large up-front payments.

Some of the most ingrained inventions of the last 100 years were just happenstance. Teflon came out of an inquisitive DuPont engineer named Roy Plunkett doing an analysis of a failed experiment. The invention of Velcro came from a scientist named George de Mestral trying to figure out why burrs would incessantly stick to his woollen coat as well as his dog's fur.

When you look at the humble beginnings of companies such as eBay or Craigslist, both of which started as hobbies in 1995, you can see that the most unexpected futures can derive from a simple idea that focuses on helping people solve real problems.

All of us have the capability to innovate. And all you have to do is sit down and think.

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