

speed
reliability
visibility

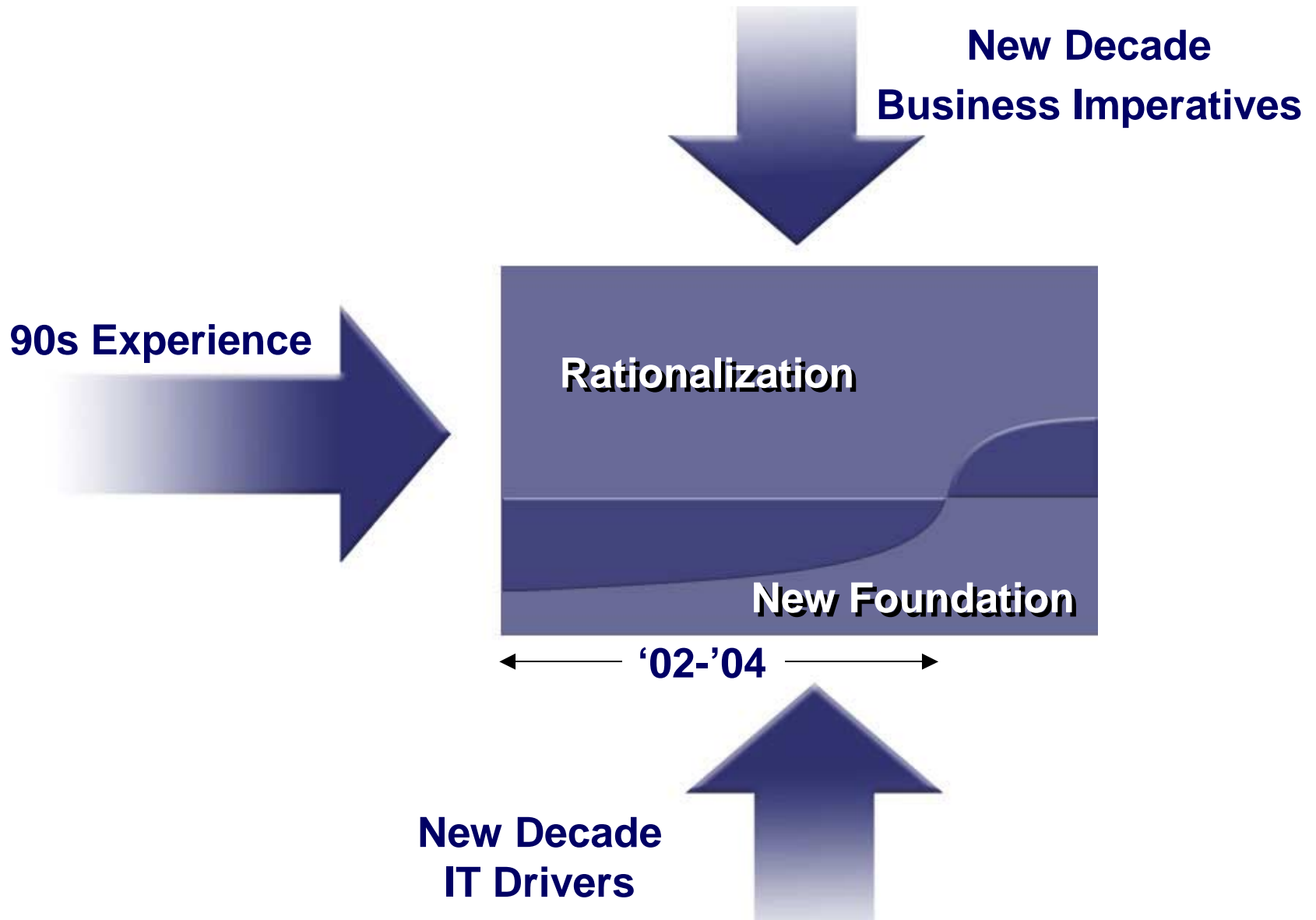
Applications on Demand

***The Experimental 90s and Their Impact on
the New IT Agenda***

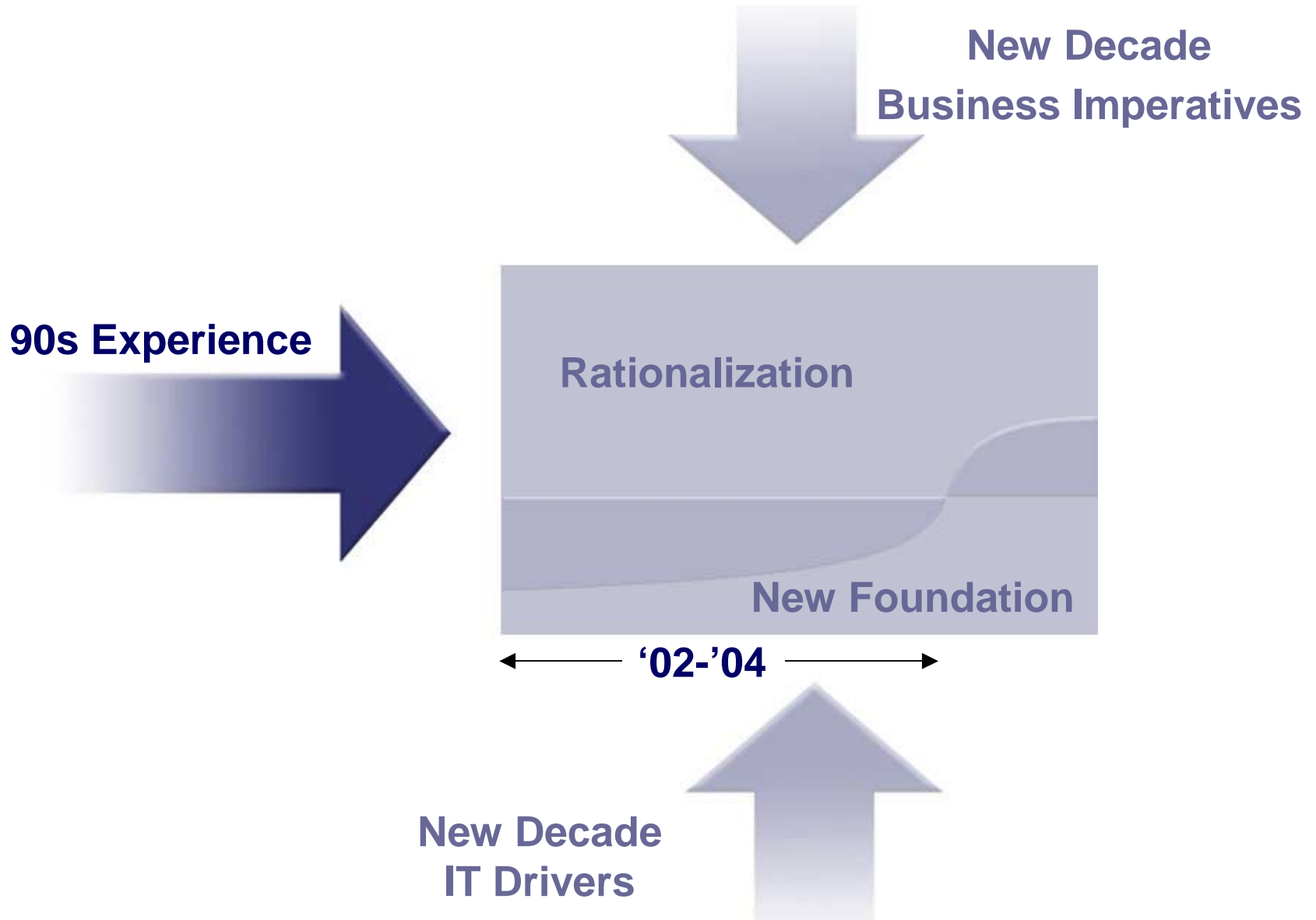
control
economics

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October 17, 2002

The Vision



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An Experimental Decade

The 90s: Several Technologies “Crossed the Chasm”

- Client/Server Systems
- Distributed Architectures
- Ethernet/LAN (what happened to Token Ring???)
- IP-based Networks
- PDA/Wireless
- Relational Databases
- PC-centric Desktop Applications
- Graphical User Interfaces
- COTS Packages replacing custom development
- ERP, CRM, SCM, PDM, EIS, BI – a new alphabet soup
- The Browser
- More alphabet soup: HTML, HTTP, XML, SOAP...

- Fueled by underlying technology drivers ...
 - Moore's Law
 - Metcalff's Law and Bandwidth Explosion
 - Stickiness of Software
- ... As well as cheap capital and the commitment of companies to invest in technology

- Producing productivity gains in businesses across all segments of the economy
- And resulting in the most radical change in the architecture and structure of IT in organizations
 - Rightsizing – Attacking the embattled fortress
 - Y2K – the expected nightmare did not happen
 - eBusiness – or out of business

The 90s: The Resulting Challenges

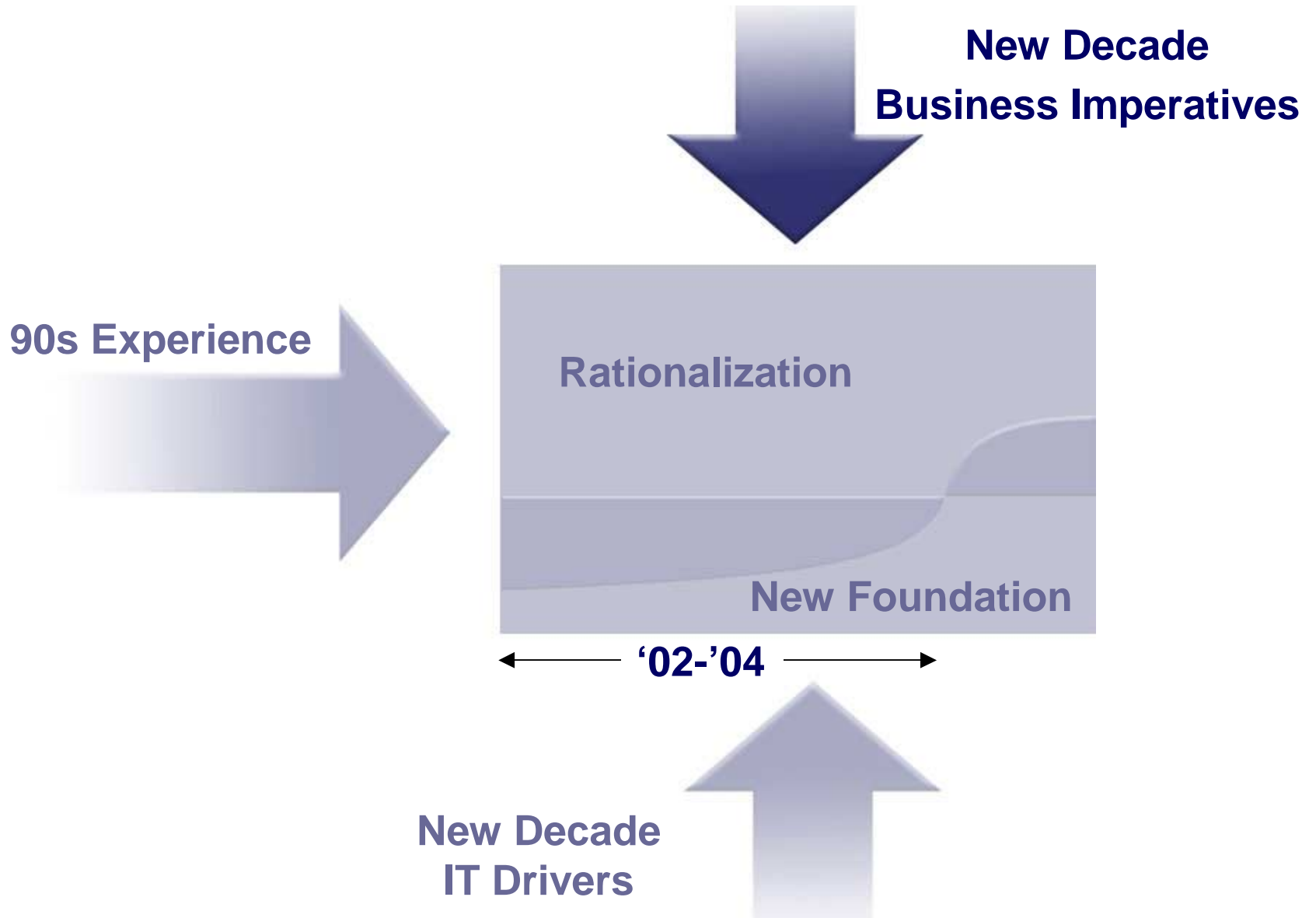
- Unclear returns on ERP and CRM investments despite enormous expenditures
- Resulting incomplete or frozen ERP and CRM deployments
- Total fragmentation of enterprise systems and data
- Loss of coherent structure for security and business continuity
- Explosion in labor needs for integrating and implementing solutions based on the new IT architectures
- High cost of operating and managing the new distributed IT infrastructure
- Lack of standards and dominance of monopolies or oligopolies on the IT supply side

- Resulting in IT expenditures becoming the dominant component of all capital investments in enterprises
 - IT capital expenditures have exceeded 30% of TOTAL capital expenditures of Fortune 1000 enterprises

- Meanwhile the suppliers of IT technologies, products and services have become the richest in the world
 - The Software Billionaires
 - The Venture Capitalists “insane” returns
 - \$300/hour consulting rates

- But the users of IT were left with the consequences of this massive technology shift and resulting large investments

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The New Decade: 180° Shift in Economic Drivers

- Internet bubble burst destroys \$7 trillion
- Continued political instability post 9/11
- Loss of market integrity and confidence
- Worldwide recession and lack of global economic growth

*The New Decade will experience continuous
VOLATILITY in all economic activities*

The New Decade: Economic Consequences

- De-leverage the balance sheet
- Eliminate large fixed cost structures and move to variable cost models
- Simplify the business and focus it along core activities

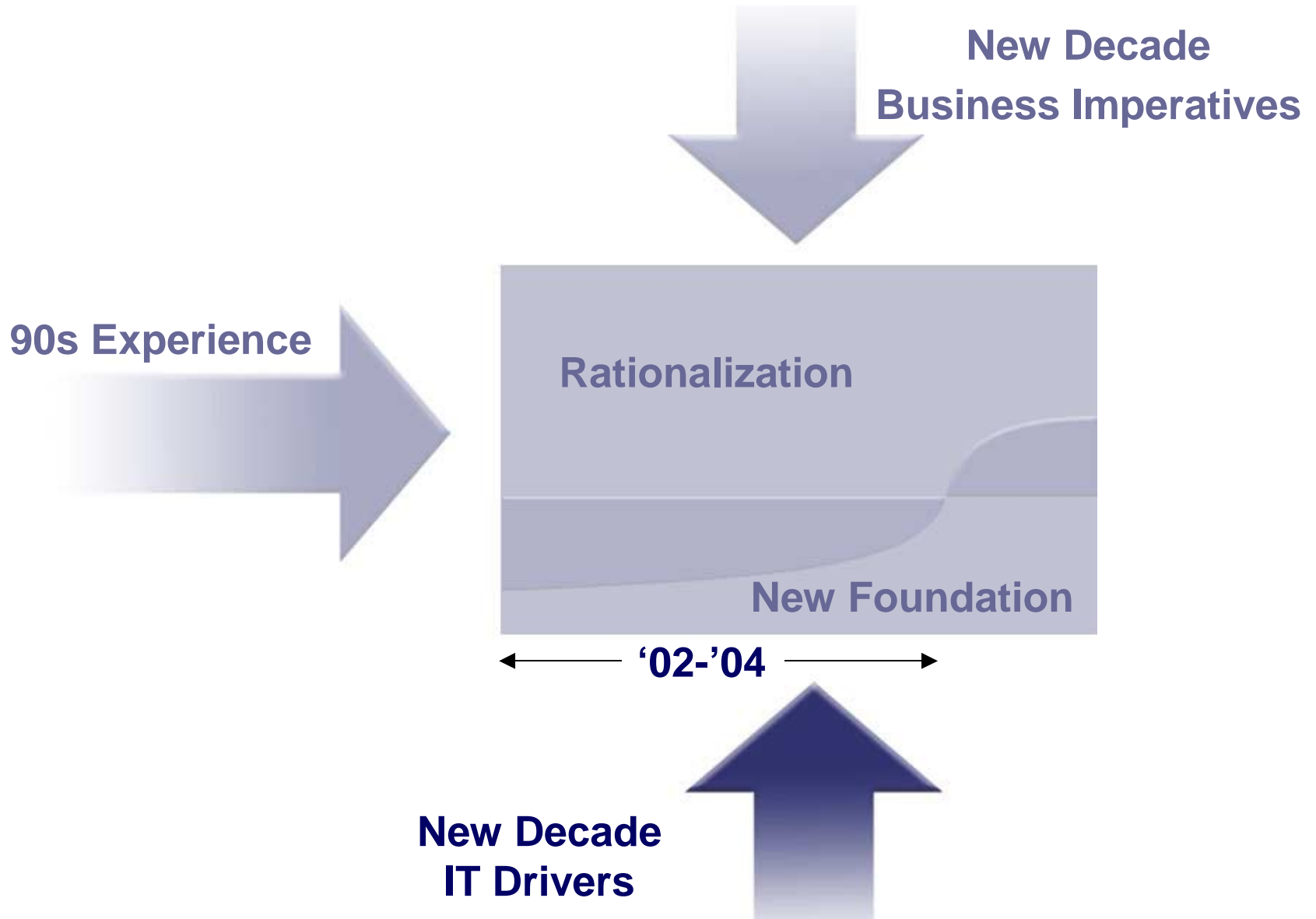
The New Decade: Economic Consequences

- **De-leverage the balance sheet**
 - Debt is a burden in a high volatility world and not an advantage anymore

- **Eliminate large fixed cost structures and move to variable cost models**
 - Build capabilities to dynamically grow and shrink with business conditions

- **Simplify the business and focus it along core activities**
 - Keep businesses with consistent business models
 - Shift all context processes and activities to service providers
 - Provide transparency to investors into your operation

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The New Decade IT Agenda: Technology Drivers

- Globalization of IT workforce
- Continued price reductions in IT product components
- Push towards broadband
- Commoditization of packaged enterprise software
- Emergence of new enterprise software based on new paradigms beyond transaction processing

The New Decade IT Agenda: Technology Drivers

- Globalization of IT workforce
 - Labor Costs will be cut by at least 50%
 - Risk of maintaining high labor content in IT activities
- Continued price reductions in IT product components
 - Servers, Routers, Storage
 - System Software, Applications Software
- Push towards Broadband
 - IP-based Networks
 - Further price reductions in bandwidth
- Commoditization of Packaged Enterprise Software
 - ERP
 - CRM, etc.
- Emergence of new enterprise software based on new paradigms beyond transaction processing
 - Collaboration
 - Content

The New Decade IT Agenda: Technology Drivers

- Industrialization of IT management processes
- Simplification of IT integration processes
- Maturity of functionality of context business processes

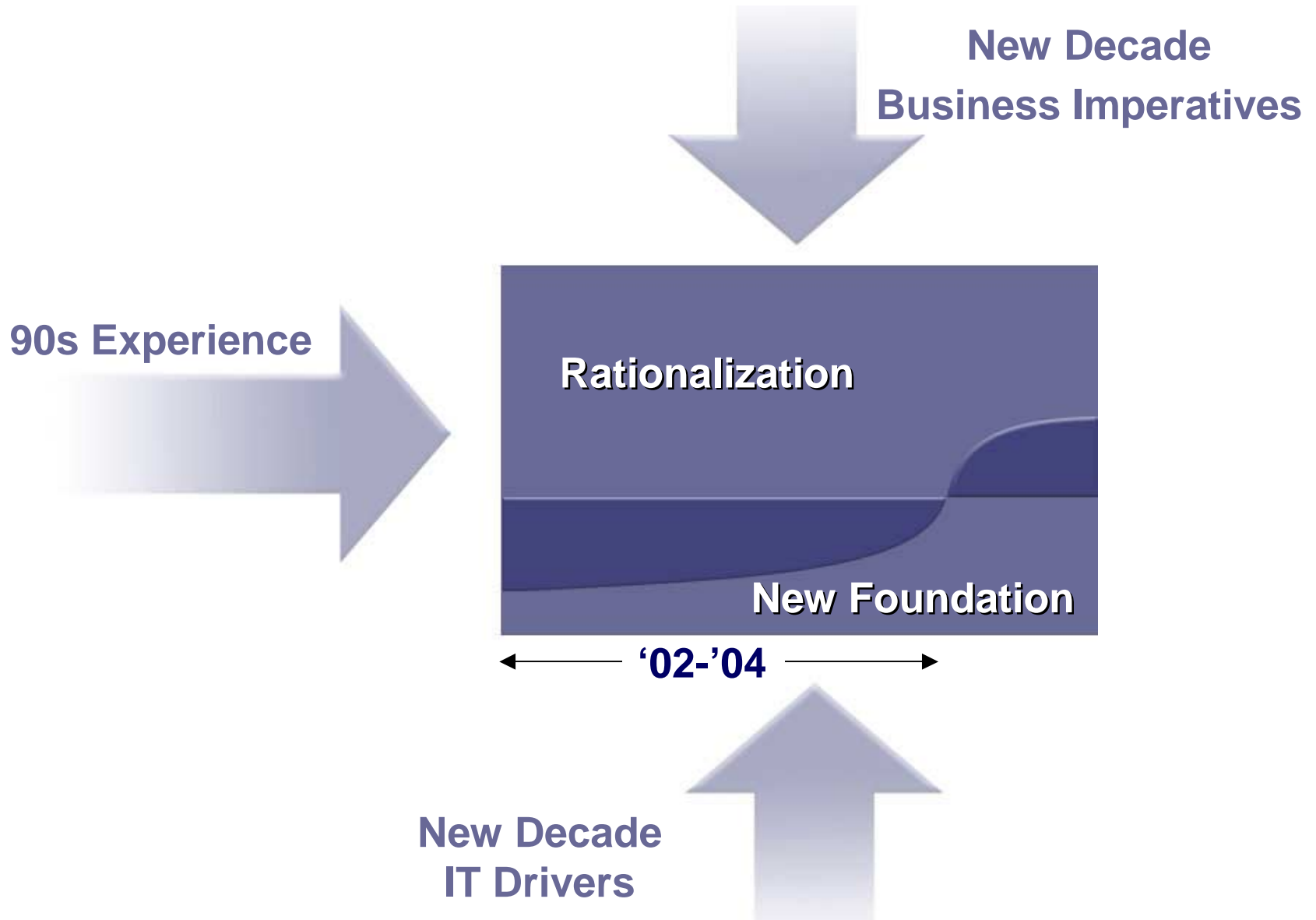
The New Decade IT Agenda: Technology Drivers

- Industrialization of IT management processes
 - Code “assembly” instead of development
 - Architected pre-integrated “products”
 - Six-sigma processes
 - Enabling technologies (TRM)

- Simplification of IT integration processes
 - Standards
 - Flexibility
 - Asynchronous

- Maturity of functionality of context business processes, e.g.
 - Payroll
 - Receivables
 - Payables

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The New IT Agenda: Two Broad Directions

- **Rationalization**
- **New Foundation**

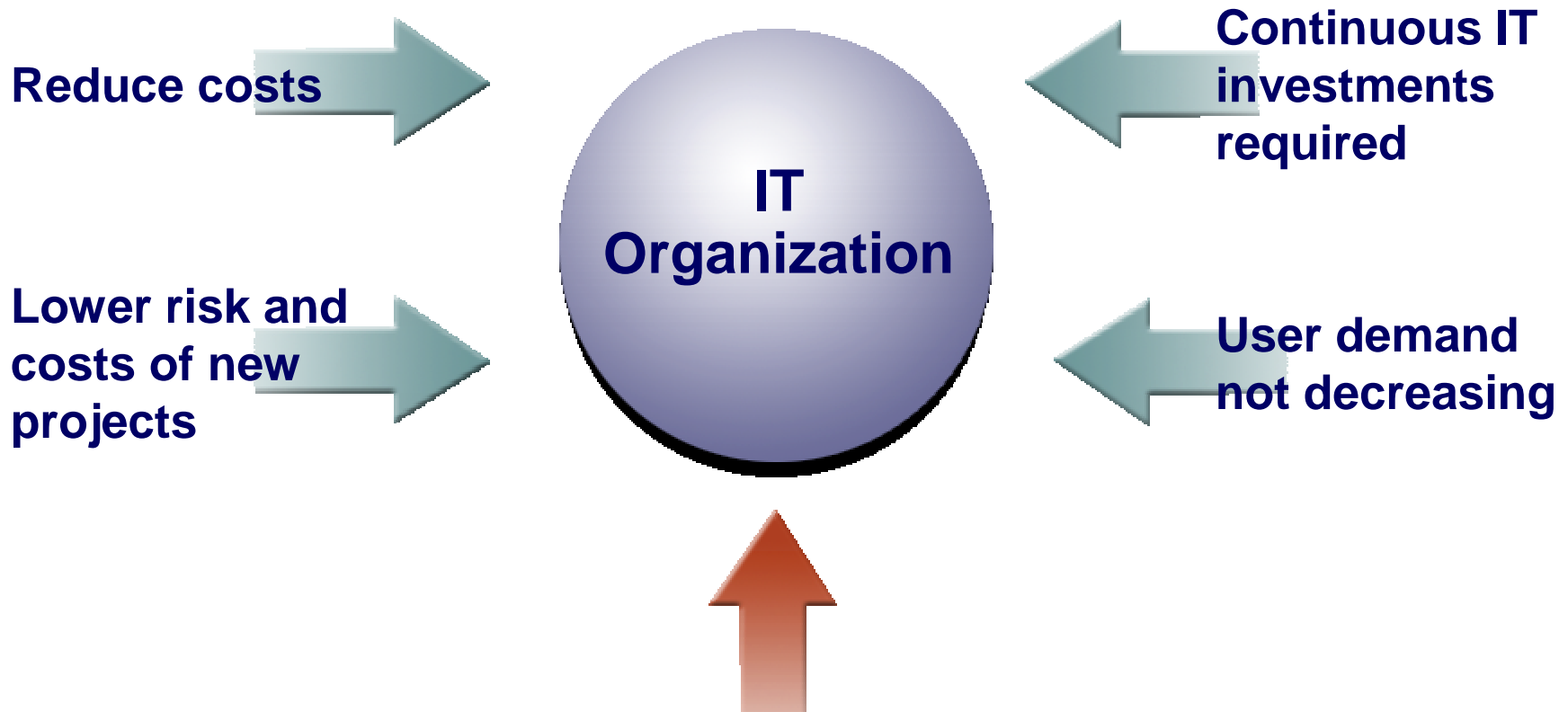
The New IT Agenda: Two Broad Directions

- Rationalization
 - Finish the incomplete tasks of the 90s

- New Foundation
 - Architect a new IT foundation based on the new business and technology drivers

- In the next two years 2002-2004
 - Majority of IT activities will be absorbed by the massive Rationalization exercise
 - IT spend based on the nineties model will slow down significantly and eventually disappear
 - The expected economic recovery will not bring IT spending back to its nineties levels

The Current CIO Dilemma



- **Conflicting priorities**
- **Short term fixes or long term solutions**

- The operating model of IT organizations is evolving
- Three new models are emerging
 - Utilities model
 - Enabling model
 - Augmenting model

- The majority of IT organization are still at the Utilities level

- Major business opportunities and value creation exist by
 - Adopting a “low internal footprint” for the Utilities model
 - While channeling the available resources to create higher business value by operating the Enabling and Augmenting models

Three Different Models for IT

| Model | Customers Of IT | Offerings | Results | Strategies |
|-------------------|-------------------------|---|---|--|
| Utility | Internal Business Users | Utility Services <ul style="list-style-type: none"> ▪ Functional (HR, ERP, CRM) ▪ Technical (desk top, telco) | <ul style="list-style-type: none"> ▪ Lowest cost ▪ Highest availability ▪ Variable cost ▪ Lowest asset needs | This is not core to the company |
| Enabling | Company Revenue Stream | Enabling systems <ul style="list-style-type: none"> ▪ Custom systems and software ▪ Support ▪ Infrastructure | <ul style="list-style-type: none"> ▪ Highest availability ▪ Most rapid response time ▪ Flexibility ▪ Economic model | Own it all |
| Augmenting | Company's Customers | Solutions <ul style="list-style-type: none"> ▪ Software development ▪ Software integrations ▪ Systems implementation ▪ Production support | <ul style="list-style-type: none"> ▪ Defining product ▪ Having capabilities ▪ Making money | Partner with Provider |

You Can Resolve the CIO Dilemma!!

