RESEARCH NOTE D139

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NUCLEUS RESEARCH

Top 10 Technology Predictions for 2004

THE BOTTOM LINE

Nucleus looks ahead to the technology developments we expect in 2004. Although we don't foresee tremendous changes in most key technology areas, we're watching to see the value as well as the ROI that various investments will deliver.

1. IT BUDGETS IN 2004 WILL BE FLAT.

Nucleus doesn't see any evidence of a return to free-for-all IT spending. CFOs used to be able to give budget to the IT black hole because they didn't understand it, but now they have their own wireless networks at home and have dealt with upgrades and security on their family e-mail accounts. CFOs are no longer the innocent ones who have to take the CIO's word that someone's parents will be at the party — they're policing IT projects just as carefully as they monitor where their kids are surfing on the Web. As IT has moved from phenomenon to practical, big investments demand the same kind of scrutiny as any other investment, and CFOs are used to scenario analysis and calculated risk — skills the IT department should learn if they want to sit at the adults' table.

At the same time, IT decision makers have been burned too many times by overzealous sales tactics and vaporware. Gone are the days of CIOs changing jobs every 24 months — and so are the nervous decisions pushed by a software salesperson. Serious decision makers have gotten smarter about IT investments, and they now have the available tools and data to ensure that their decisions deliver value and that they can monitor the costs and benefits at every step of deployment, so they're looking to clear business justification for every investment.

Vendors should not despair: if they can make the case for ROI for their technology, and they're pitching at the right level, only the most Luddite of CFOs would refuse a project that delivers greater returns than other capital investment.

2. TRADITIONAL SOFTWARE LICENSING WILL CONTINUE TO ERODE.

First, hosted players are changing the rules for software investment. Hosted solutions are no longer about a technological difference: They're about users managing risk and keeping vendors on the hook for continuing to deliver value beyond the purchase press release. As the leadership of Upshot said [Upshot has been acquired by Siebel], the hosted model is about keeping customers satisfied every month — or risking churn because users are recognizing that switching costs are declining.

We've already seen companies such as webMethods change the way they charge for software to respond to changing customer expectations, and their shift is just the beginning. As users become more savvy about the risks and returns associated with software investments, vendors will need to be flexible on financing, timing, and risk sharing to win deals.

Beyond the initial license price, users will play hardball with maintenance contracts. Too many users today are paying maintenance contracts on licenses they're not using or on solutions that don't deliver upgrades with value to justify the maintenance contracts. Microsoft will be able to demand "software assurance" for solutions where upgrades continue to deliver increased value — and expect pushback when the upgrade doesn't justify the cost. Other vendors should be scared about any client with existing licenses that don't deliver value.

3. THERE IS NO NEXT BIG THING.
But the days of companies blindly spending on unproved technologies supported by vendor marketing is over. Nucleus has found that although IT decision makers have their ear to the ground for the next big thing, they're carefully evaluating what they're told to determine if it actually applies to their business. Nucleus clients are looking for clear business value before they even pilot grid computing, RFID, BAM, or other trend acronyms. We don't see any "next big thing" that promises returns, and users aren't buying it. The bigger focus will continue to be on leveraging existing assets — using technologies like integration and business intelligence — to deliver maximized value.

4. MARGINAL ROI WILL BECOME THE NAME OF THE GAME.
In many key technology areas, companies are looking at marginal ROI. In most companies, the low-hanging projects — those that would deliver 4-digit ROI by dramatically impacting productivity or cutting costs — have already been accomplished. Upgrades are rarely revolutionary, but they can deliver incremental savings that improve corporate performance without breaking the bank. Moving to a better portal or integration solution (for example) won't deliver huge ROI, but it will deliver value that companies shouldn't ignore.

5. THANK SAM WALTON AND BIG BROTHER FOR SOME — ALBEIT LIMITED — SPENDING.
Few companies will make big investments based on Sarbanes Oxley compliance alone, but they will be looking for the most cost-effective means to comply with governmental and regulatory requirements. Although many will find a lot of what they need is already in the IT department, some spending on services and tweaks may be needed to ensure the CFO sleeps well at night.

Speaking of sleeping well, Wal-Mart's top suppliers will likely be investing some sleepless nights — and painful dollars — in complying with Wal-Mart's RFID push. This will likely be good news for RFID because spending should drive increased R&D and innovation, making RFID a better ROI prospect for those companies not pressured by Wal-Mart for accelerated adoption. Does using a dominant position to pressure partners to adopt your technology strategies makes Wal-Mart look like the new redneck Microsoft? Nucleus will be watching to see how companies cope with a potential ROI black hole.

6. MERGERS AND ACQUISITIONS WILL CONTINUE.

From EMC to Hyperion, technology vendors will continue to pursue acquisitions. Nucleus expects a number of big vendors will announce equally big purchases in 2004. In vendor-overpopulated tech areas such as CRM and BI, expect consolidation as players seek to acquire customers as a survival strategy. Key to users deriving value will be taking a measured approach to "integrated" solutions and using their leverage to demand continue support for existing technology "eaten up" by acquisition. Acquisitions Nucleus will be watching to evaluate value of the combined tech story include EMC-Documentum, Docent-Click2Learn, Siebel-UpShot, Hyperion-Brio, and whatever actually happens with Oracle-PeopleSoft-JD Edwards.

7. OPEN SOURCE WILL CONTINUE TO SHAKE UP THE MICROSOFT MONOPOLY.

The growth of Linux on the server side will continue, and Microsoft certainly should have learned its lessons about using commissioned research to push Windows over Linux. The next step to watch is whether or not Linux will make it to the desktop. Nucleus will be watching closely to see how contenders such as Sun's Java Desktop System address compatibility issues and gain credibility in the market. As for SCO, Nucleus generally recommends that companies shouldn't sue their customers — particularly if they can't explain what they're suing them for. We'd be surprised if the big bully on the playground is still around in a few years.

8. WIRELESS WILL DELIVER ROI — BUT ONLY IN THE RIGHT PLACE AT THE RIGHT TIME.

When we say wireless, we can be talking about cell phones, wireless networks, hotspots, or RFID — but the story's still the same: Deployments will be driven by clear business needs and not enterprisewide, all-holds-barred deployments. Cell phone number portability is an area all smart decision makers will be watching if they haven't already started to ensure that corporate accounts are getting the best ROI — and vendors that balance cost management with undemanding contract limits will benefit from corporate contracts. Companies that have to comply with RFID demands from their big partners will try to figure out a cost-effective means to comply; others will wait until benefits outweigh costs. Wireless network adoption will continue where it makes sense.

9. DASHBOARDS AND THEIR MARKETING COUSIN, CPM, WILL BE EXPLORED — BUT VENDORS STILL HAVE A LOT TO DELIVER.

Business intelligence has delivered and will continue to deliver significant returns for companies that make good investments. Vendors will continue to market the next BI innovation, CPM, but it's more about strategy, realignment, and consultants at this point than about technology. Expect users to find the low-hanging fruit by piloting dashboards and delivering key metrics to managers and to demand clear results before they take on institutional CPM.

10. INTEREST IN OUTSOURCING WILL CONTINUE TO GROW, AS WILL SOPHISTICATION IN EVALUATING THE RIGHT OUTSOURCING STRATEGIES.

We've all heard a lot about outsourcing and how it cuts costs. However, today the success of outsourcing beyond the obvious project depends on the need for expert care and feeding of a development project or application. Often poor project design leads to a need for more complex and iterative management of a project than is really warranted — if you don't really know where you're going, you're not going to get there as quickly as you'd like. Nucleus will be providing users with a clear road map for evaluating the cost savings and other factors associated with outsourcing and key steps users can take to ensure that any project — outsourced or otherwise — delivers maximized returns.

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