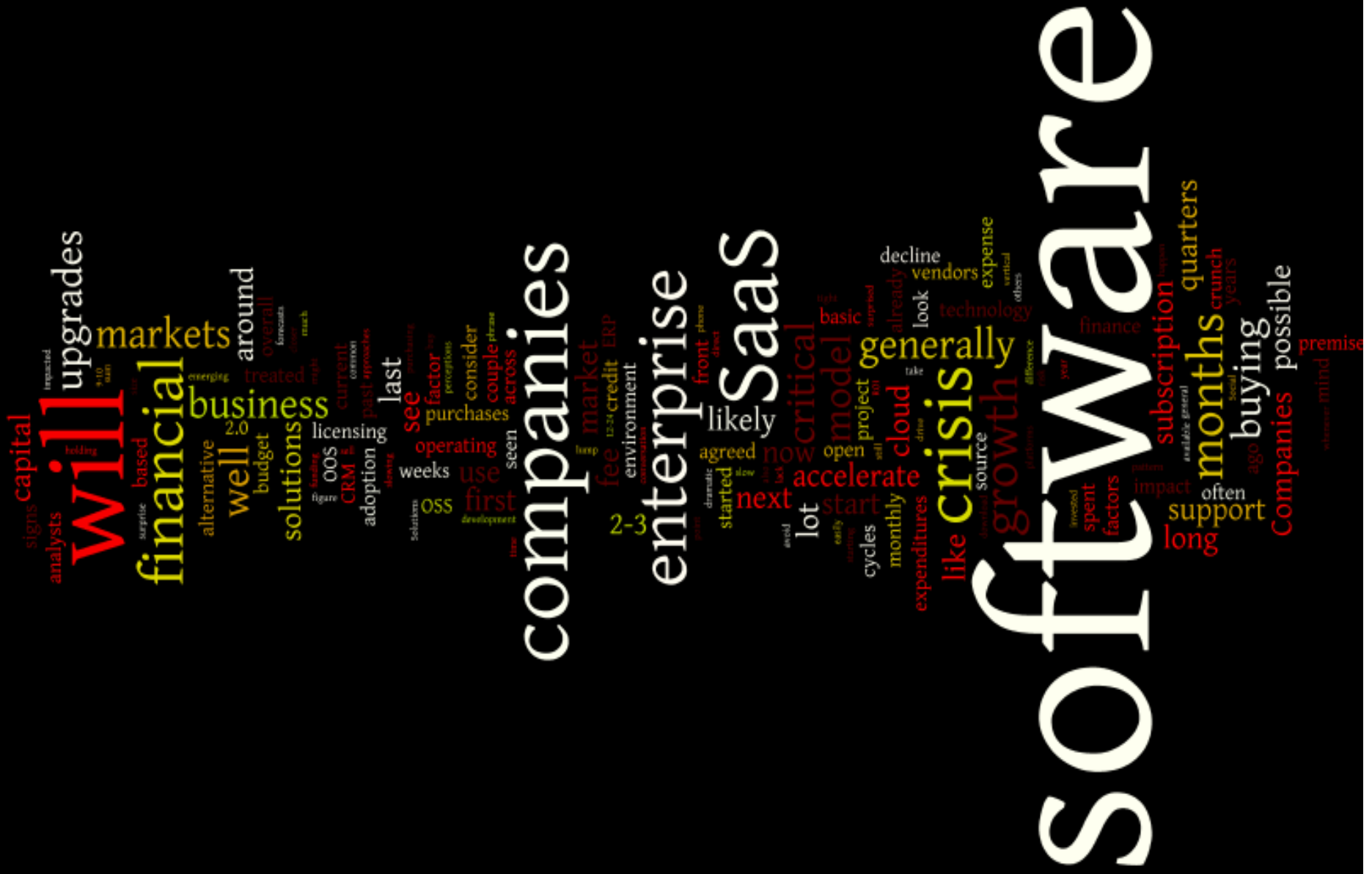


The Financial Crisis, what about software now?

Michael Fauscette

Group Vice President, Software Business Solutions

October 22, 2008



Today...

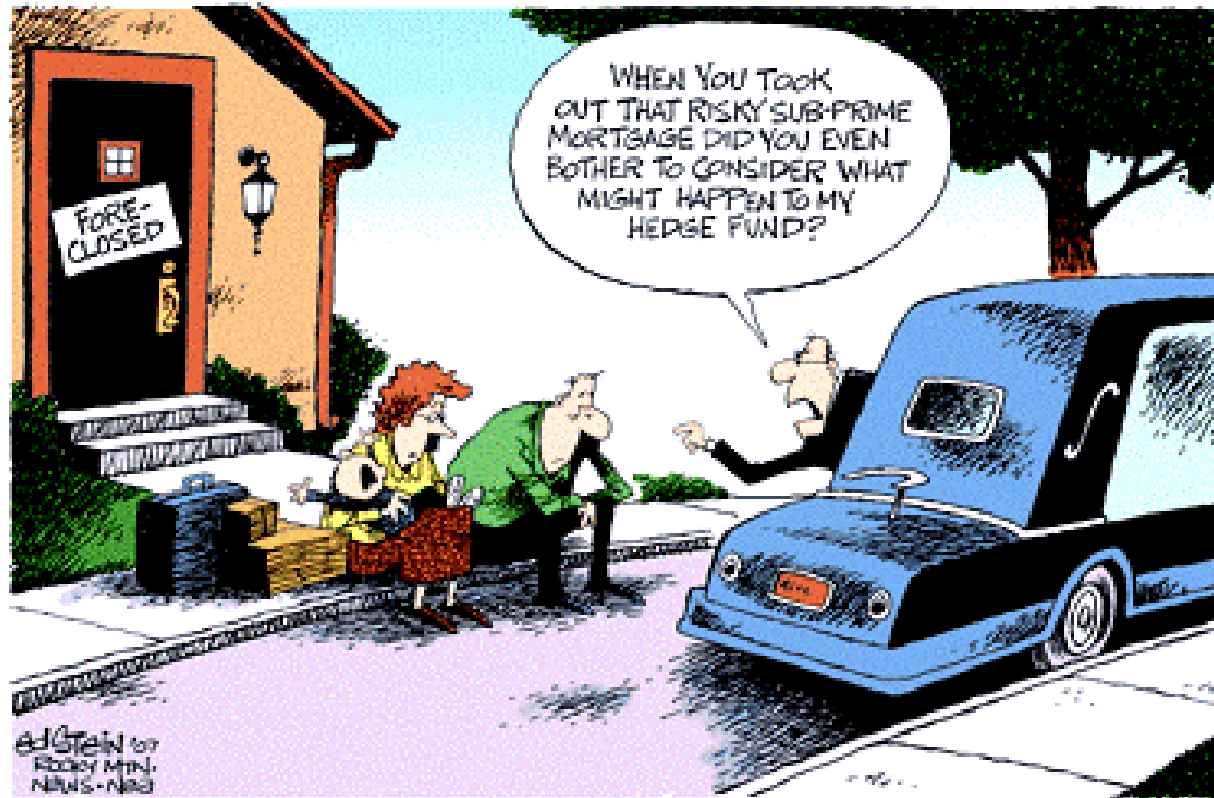
We're in a serious crisis

Far reaching impact on the IT industry

We will look different when we come out of this

Our customers will demand more from us

- Compliance
- License optimization – getting “ALL” the value out of investments



*"The only function of economic forecasting
is to make astrology look respectable."
John Kenneth Galbraith*

At this juncture, the impact on the broader economy and financial markets of the problems in the subprime market seems likely to be contained. - *Fed chairman, Ben Bernanke, Congressional testimony, March, 2007*

US sub-prime is just the leading edge of a financial hurricane. - *Bernard Connolly, AIG*

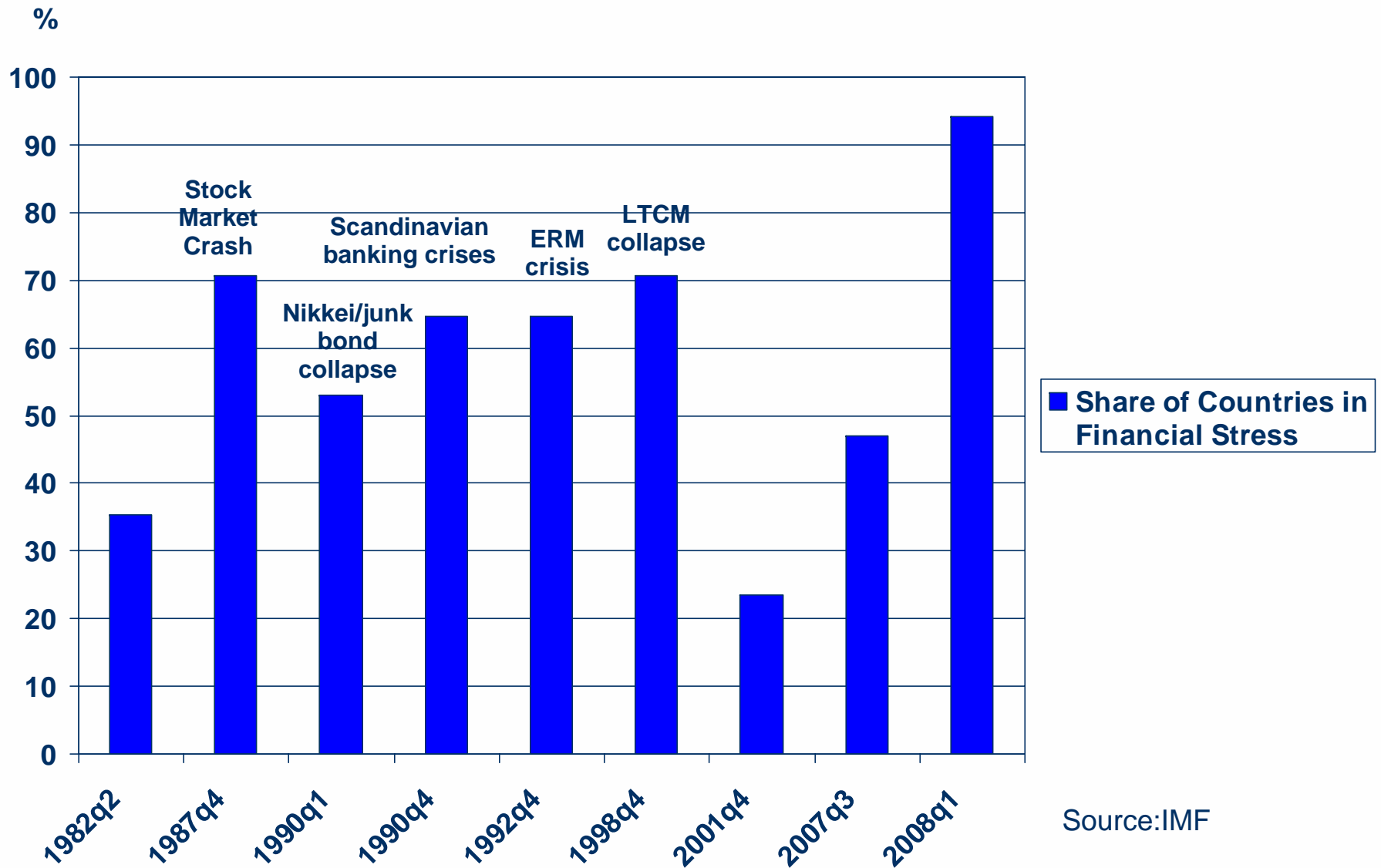
“This sucker could go down” G.W. Bush

“A successful program will not prevent recession. Once the genie of panic and uncertainty is unleashed, it takes years to put it back in the bottle”

Peter Boone and Simon Johnson

“...History is just one damned thing after another ” Arnold Toynbee

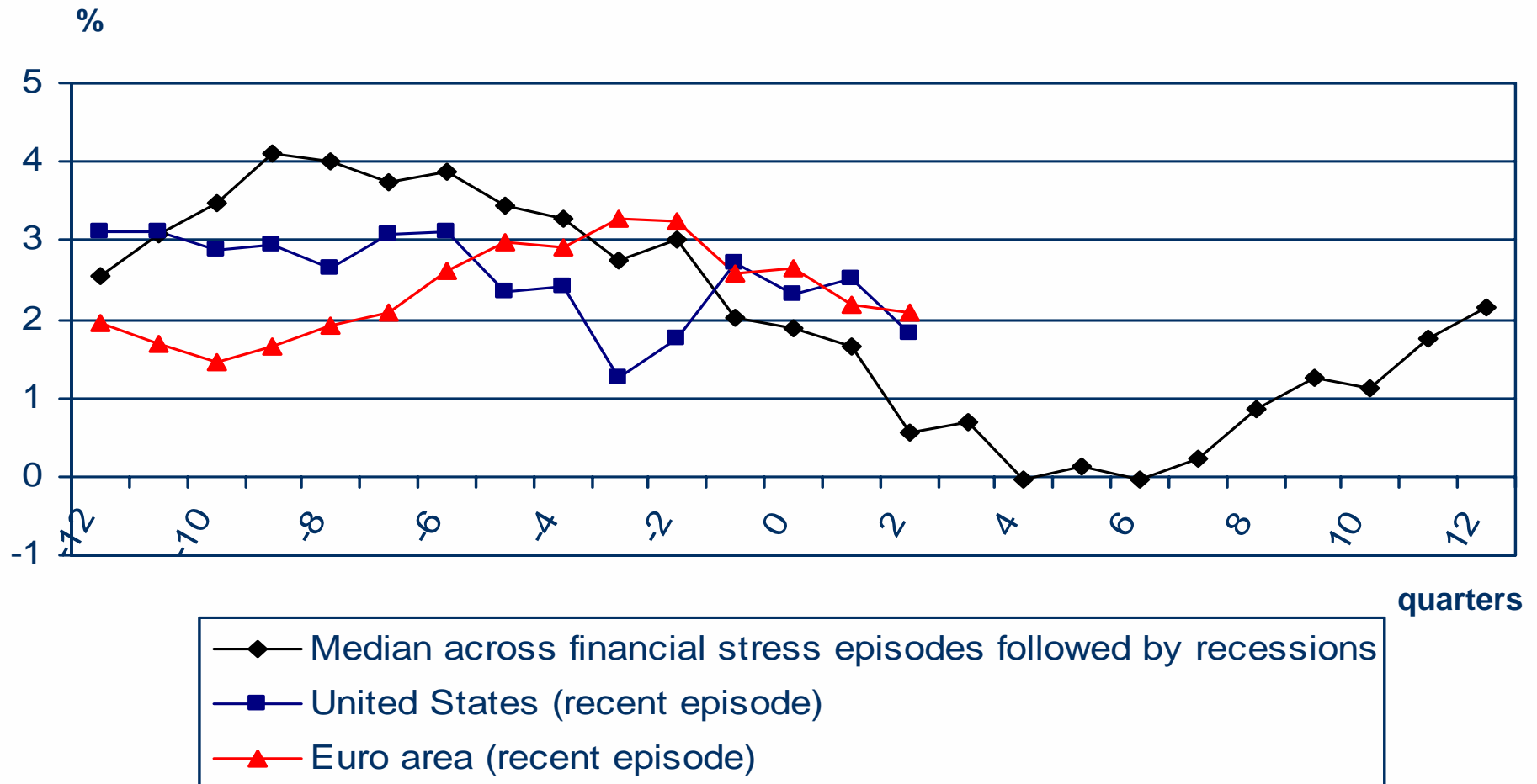
Episodes of Financial Stress



Source:IMF

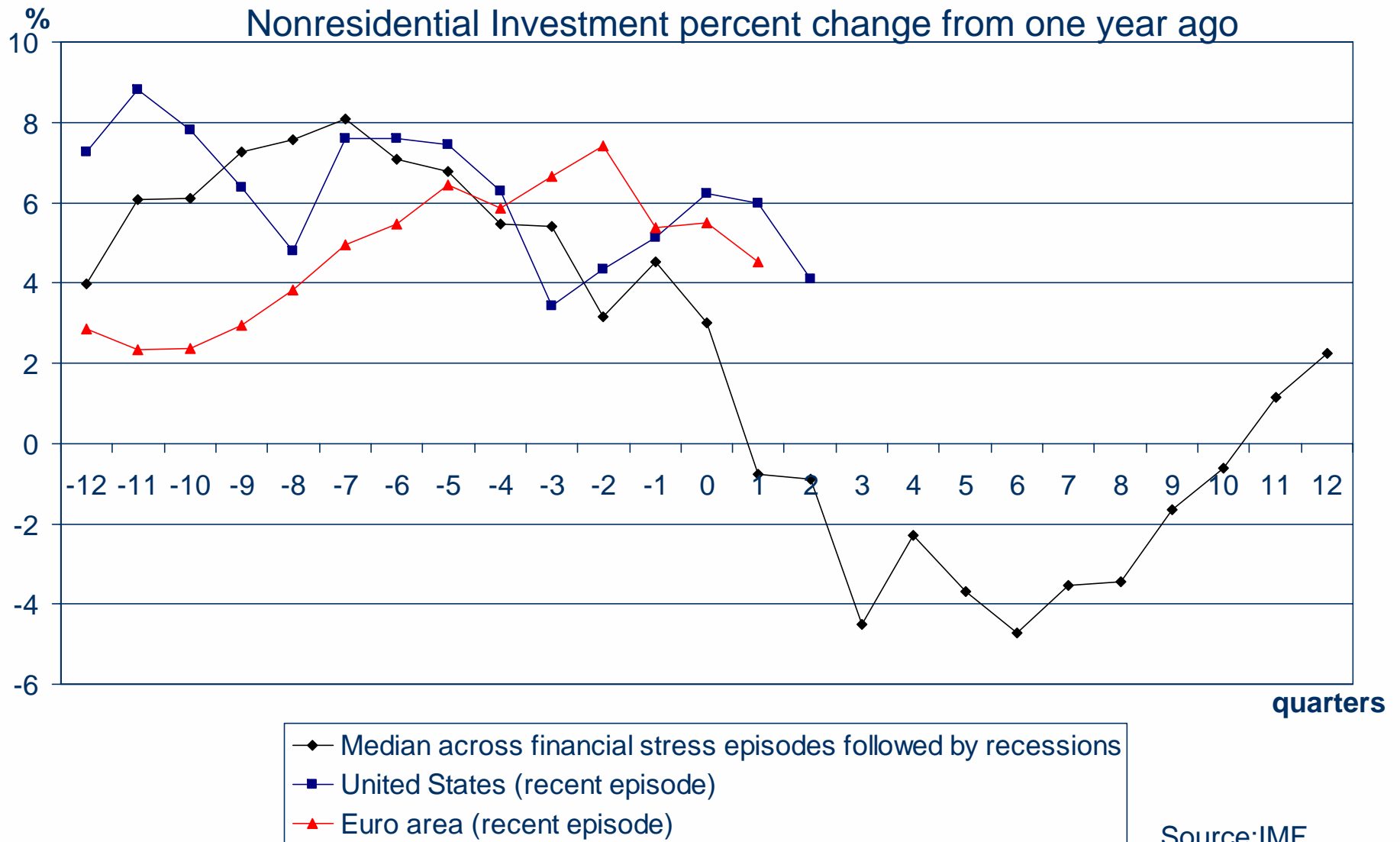
Toll on Output

GDP percent change from one year ago

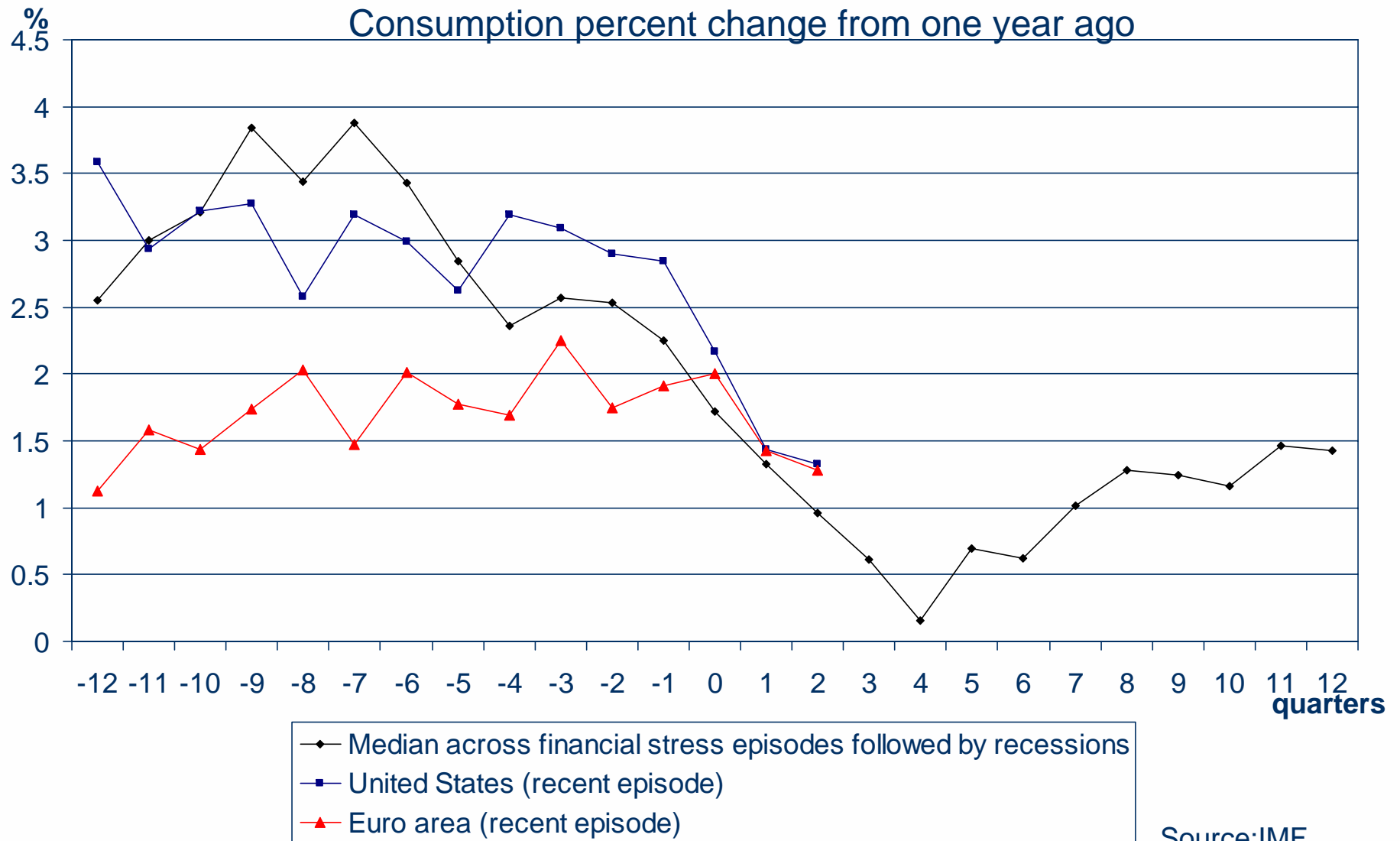


Source:IMF

Toll on Investment



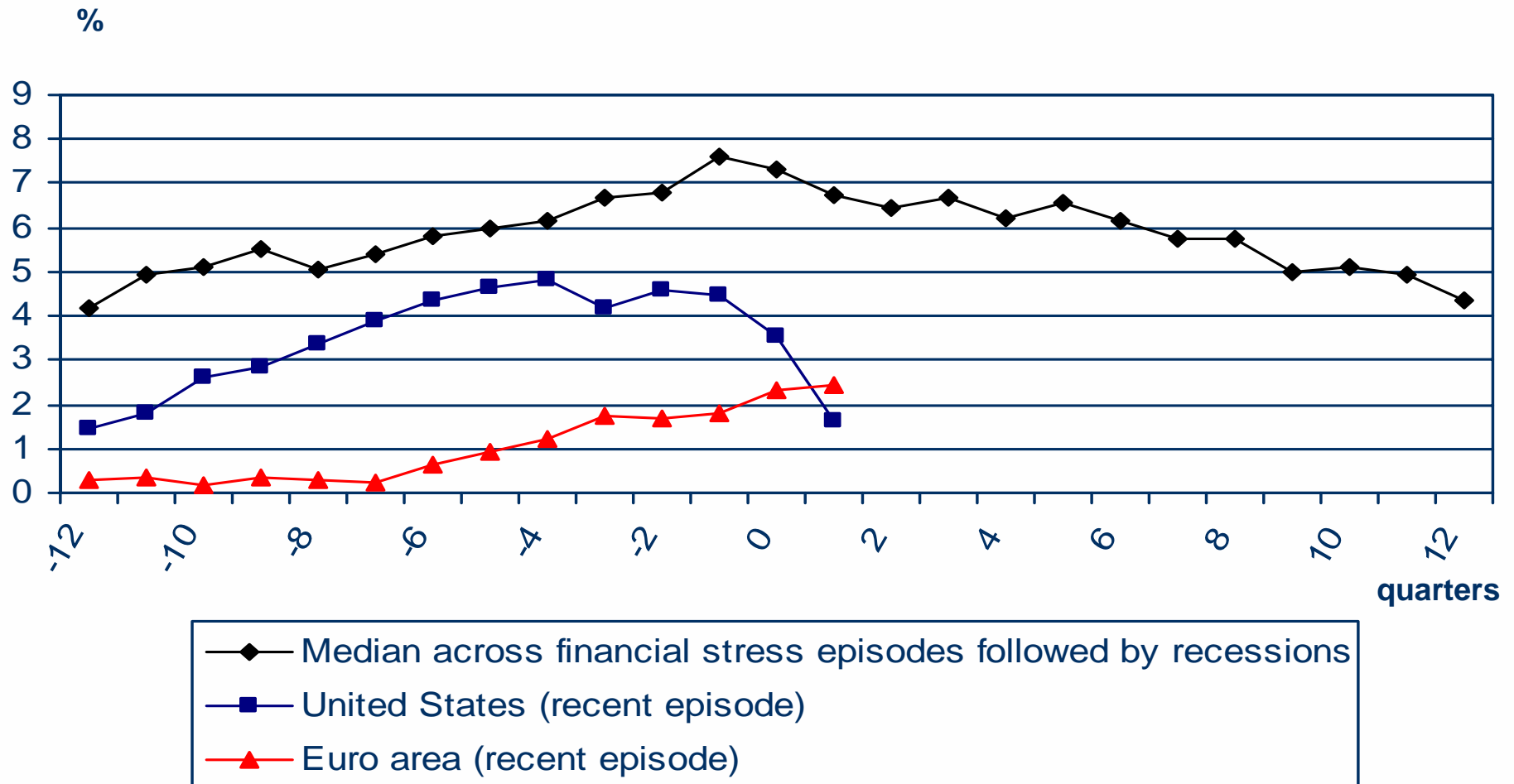
Toll on Consumption



Source:IMF

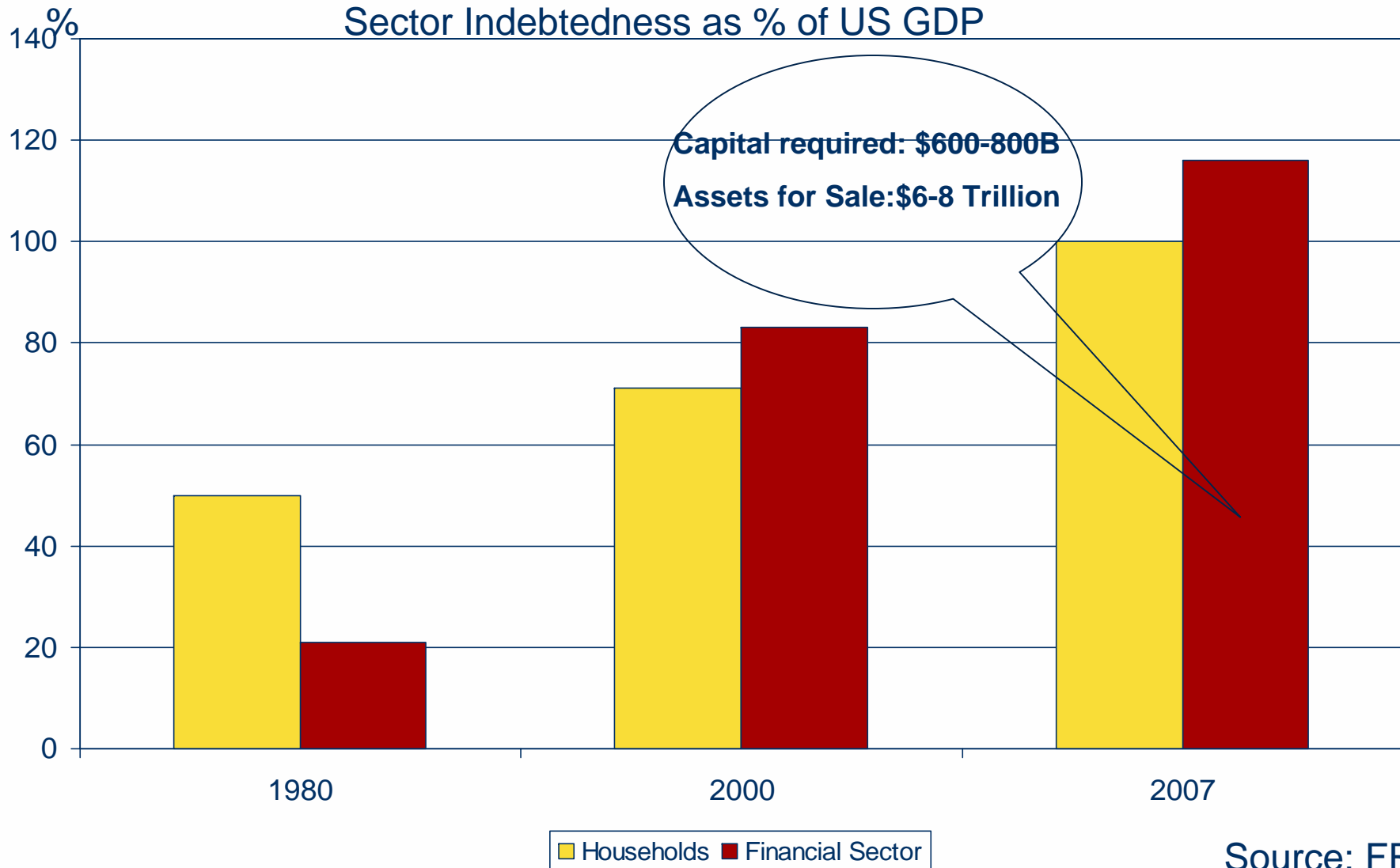
Toll on Real Cost of Capital

Real Interest Rate



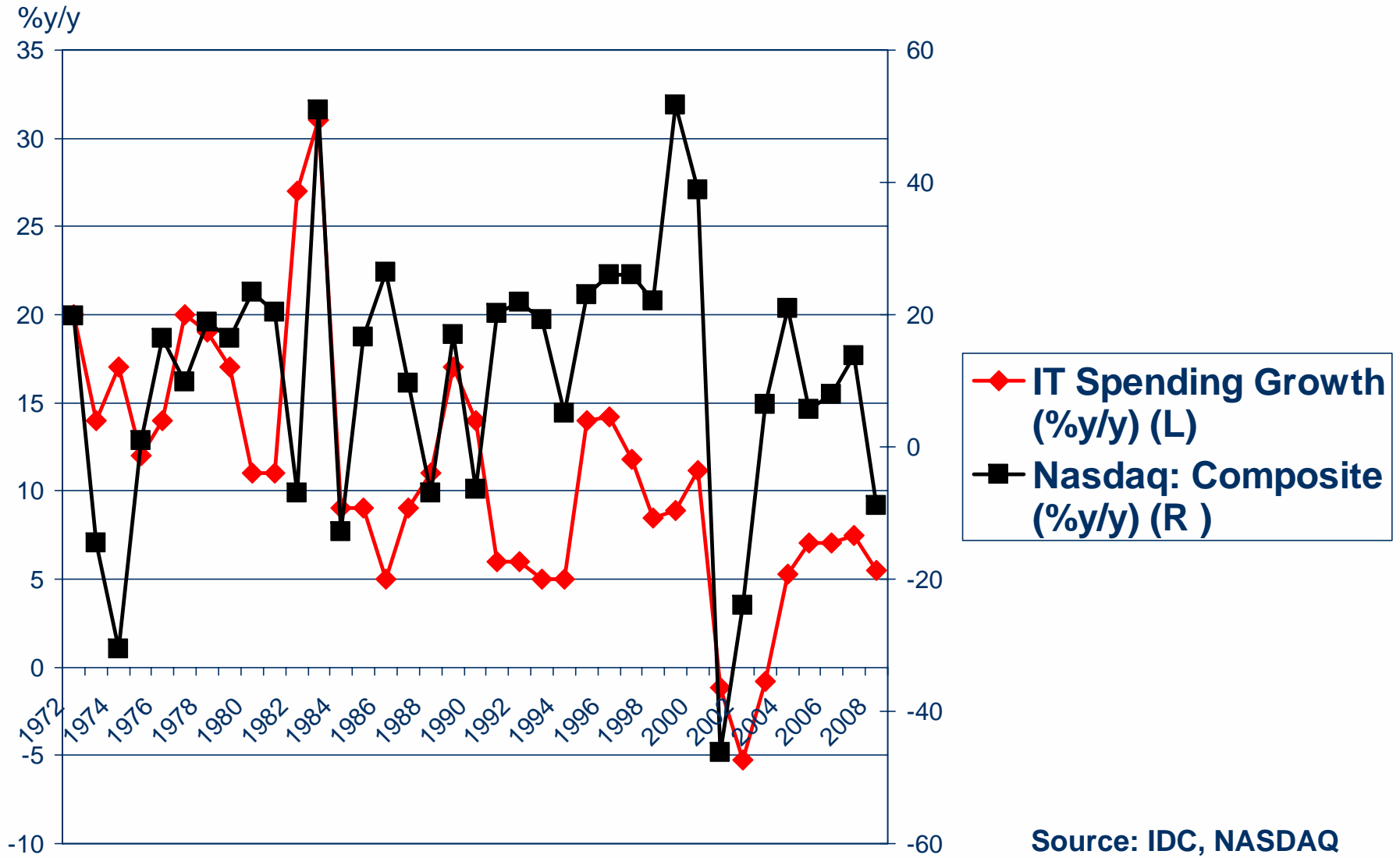
Source:IMF

The Ins and Outs of It



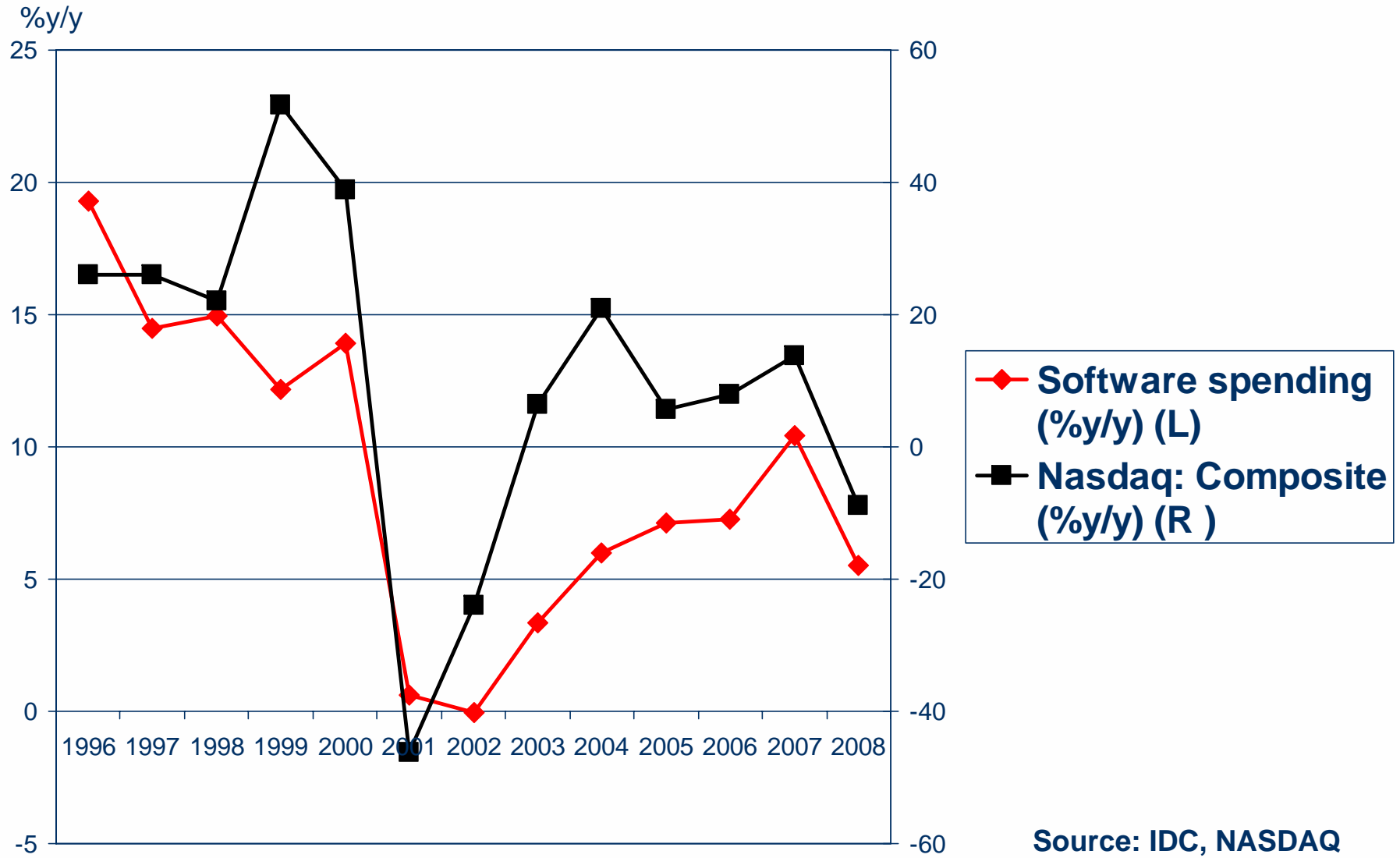
Source: FRB

IT and NASDAQ Composite

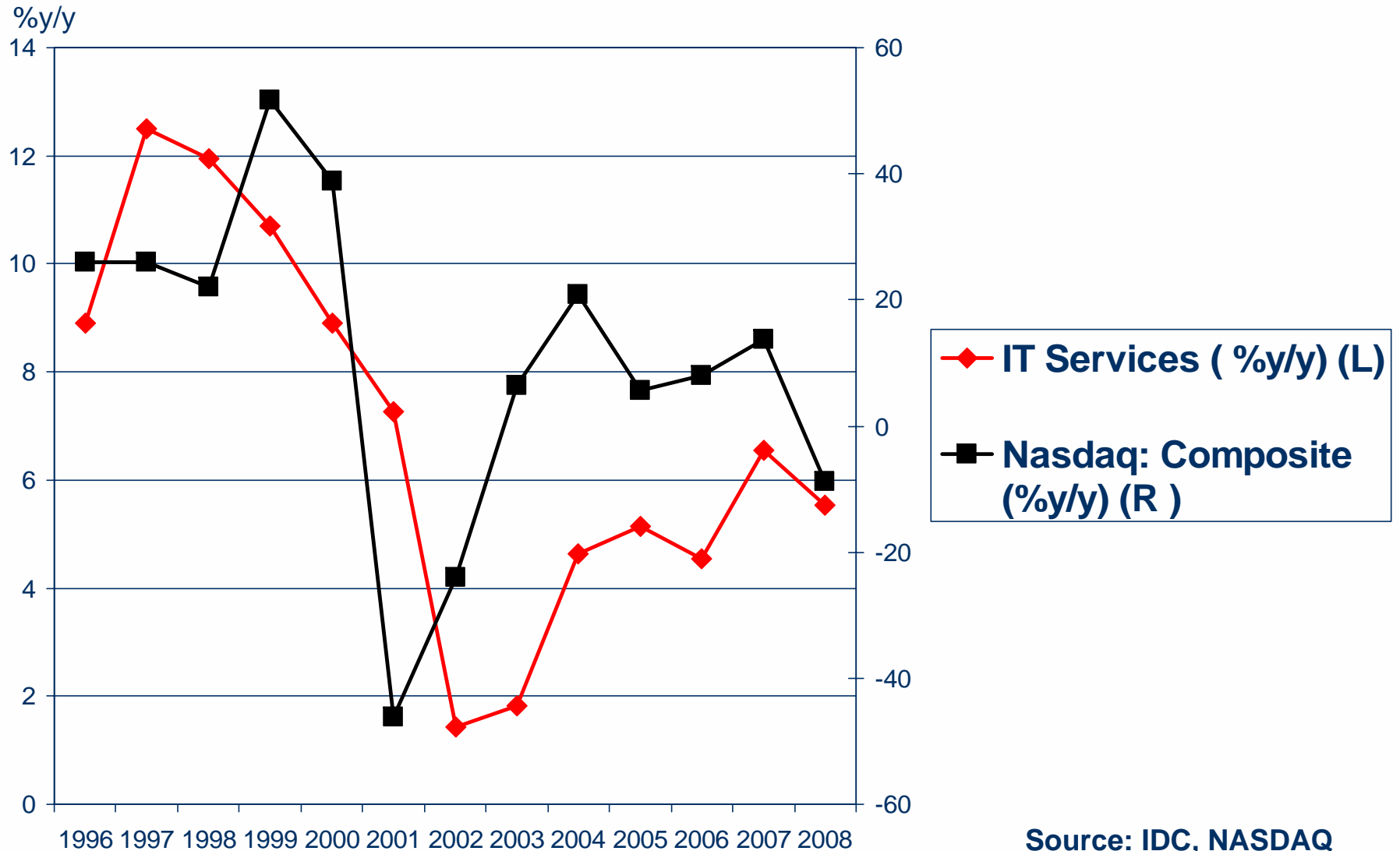


Source: IDC, NASDAQ

Software and NASDAQ Composite



IT Services and NASDAQ Composite

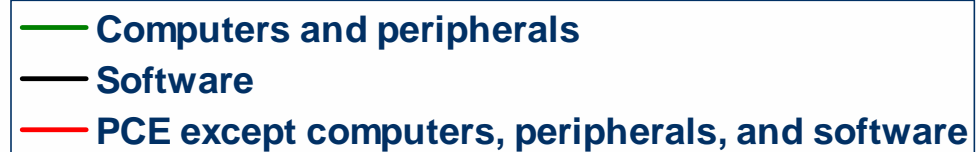
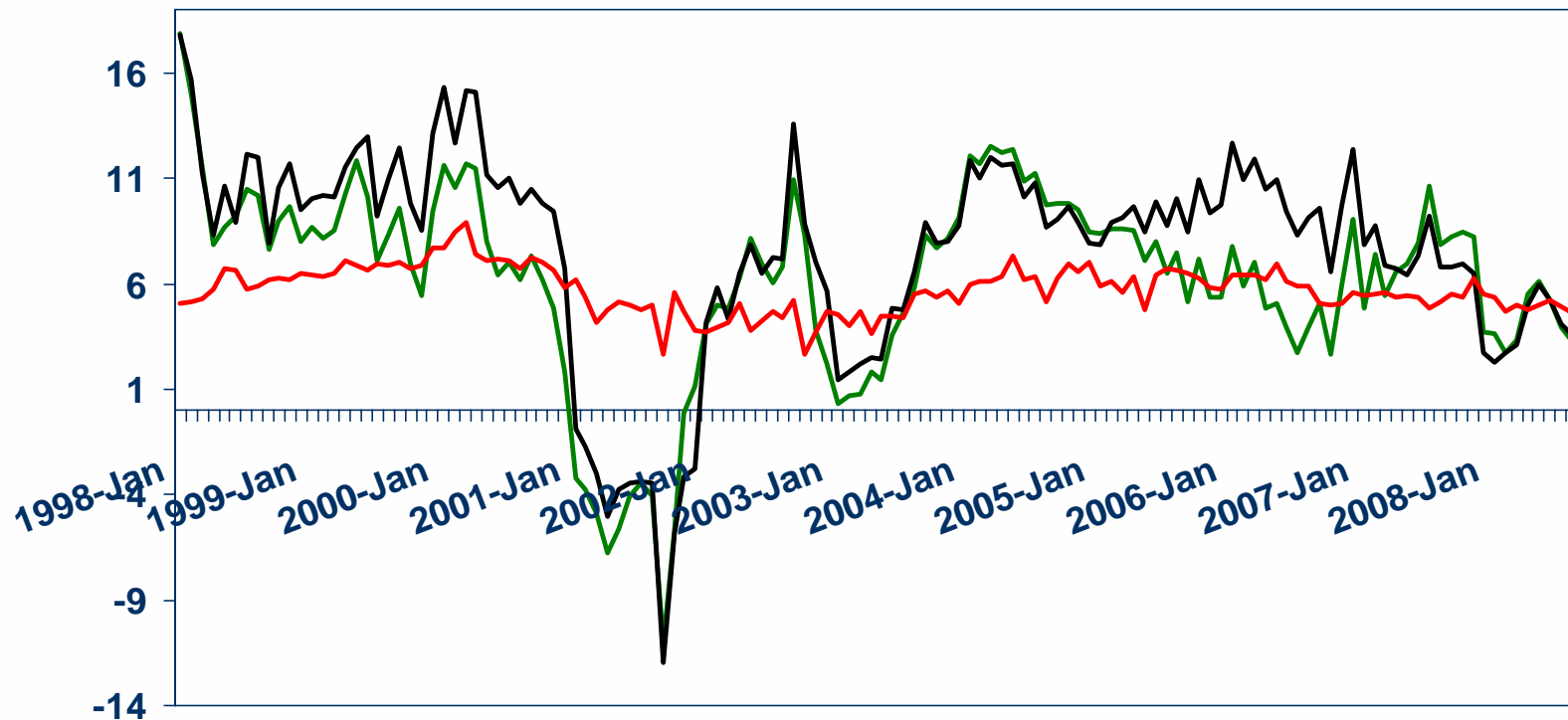


Source: IDC, NASDAQ

Personal Consumption Trade Offs

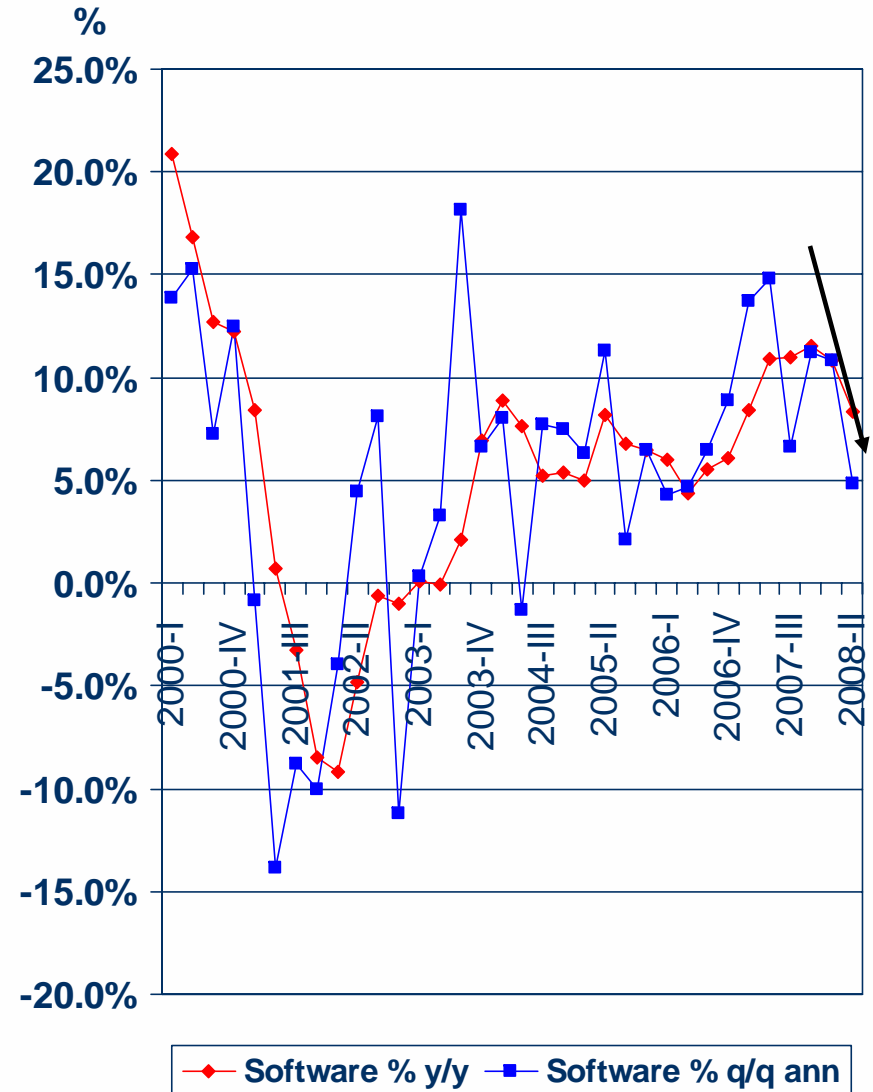
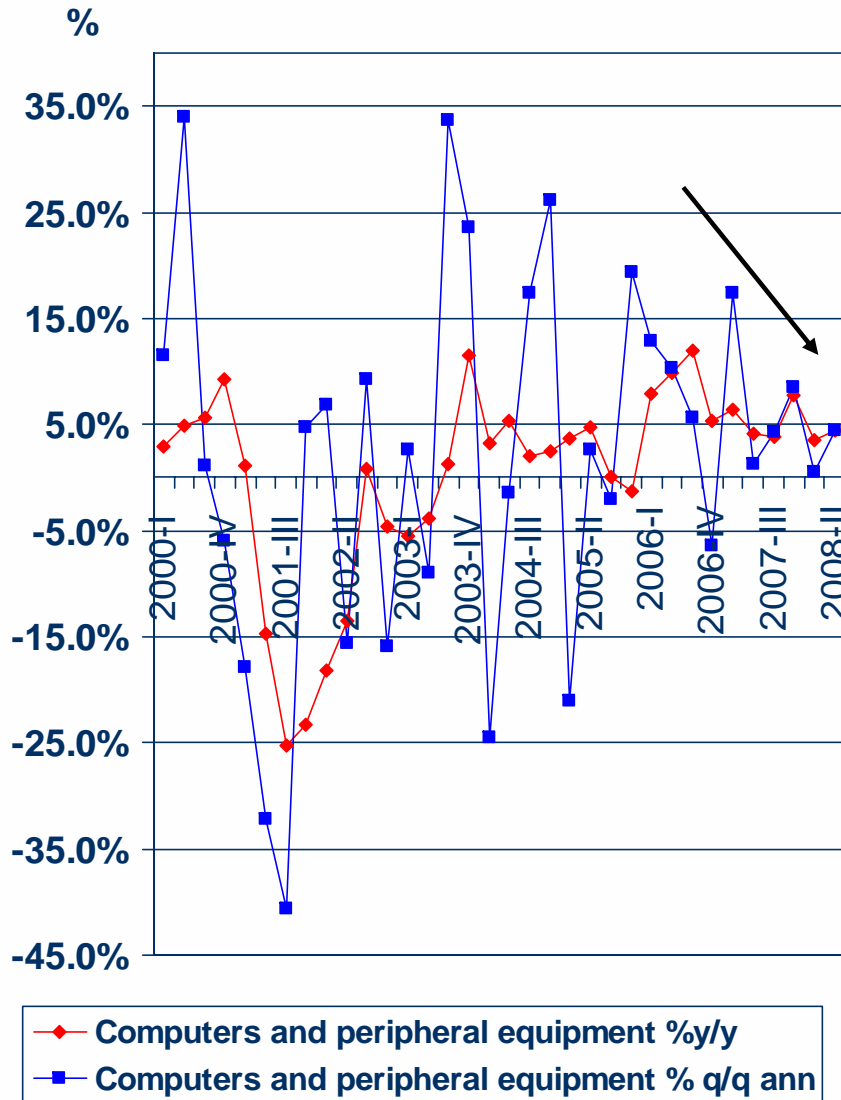
% y/y

Personal Consumption Expenditures



Source:BEA

Software Investment Sharply Slows in 2Q



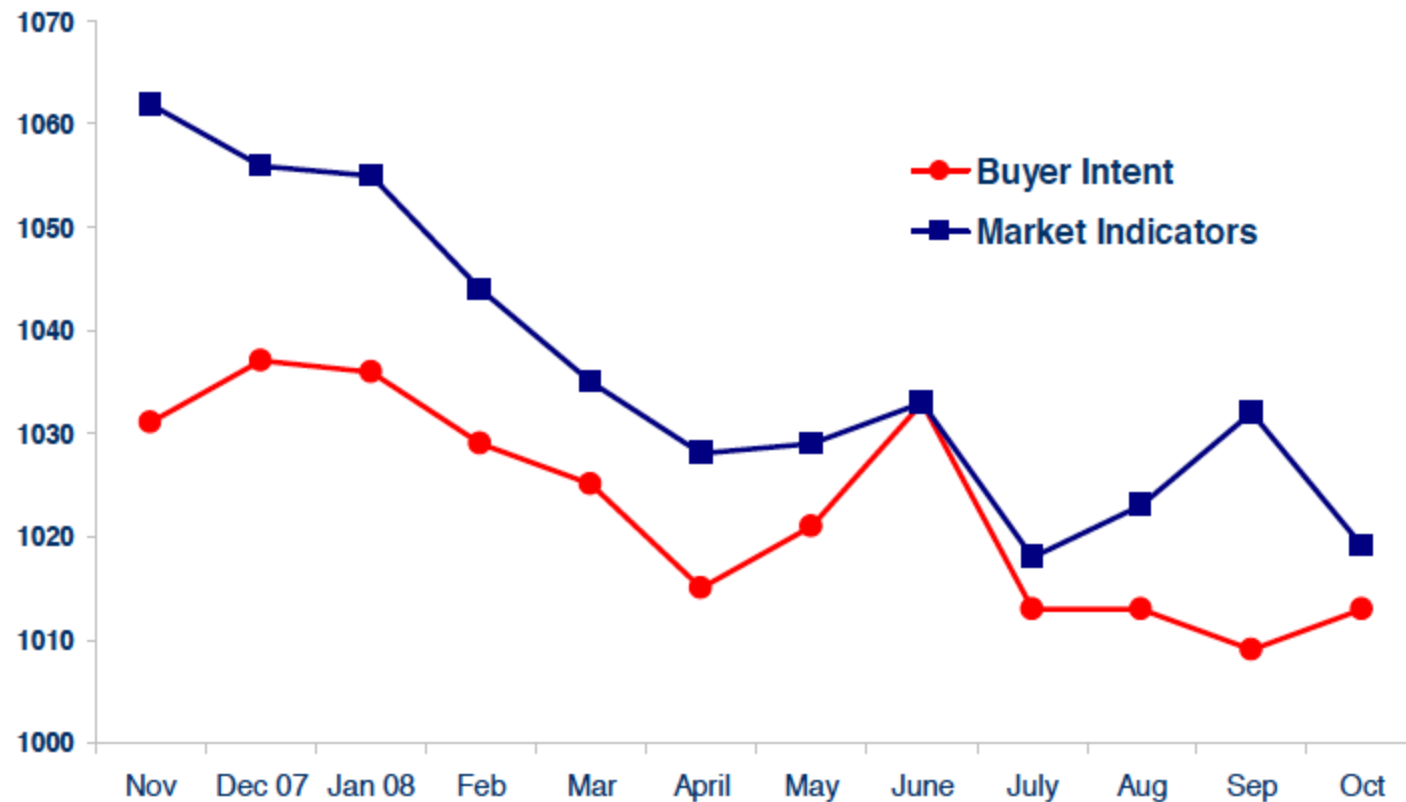
Source: BEA

Buyer expectations

Expectation for IT Budget Growth, Next 12 Months

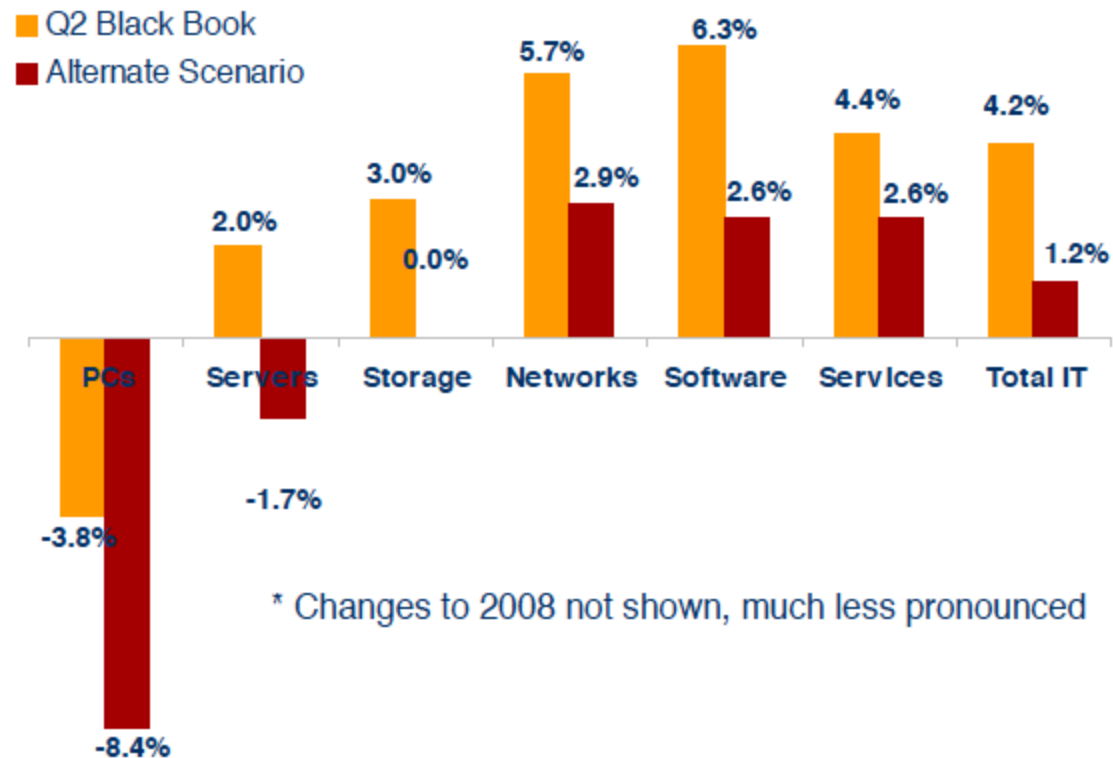
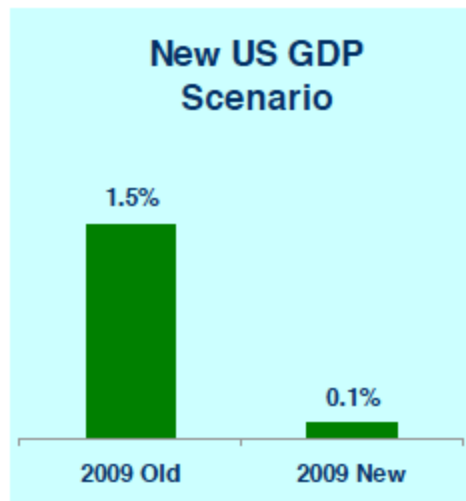
US CIOs and LOB Respondents

1000 = 0% Growth
1010 = 1% Growth
Etc



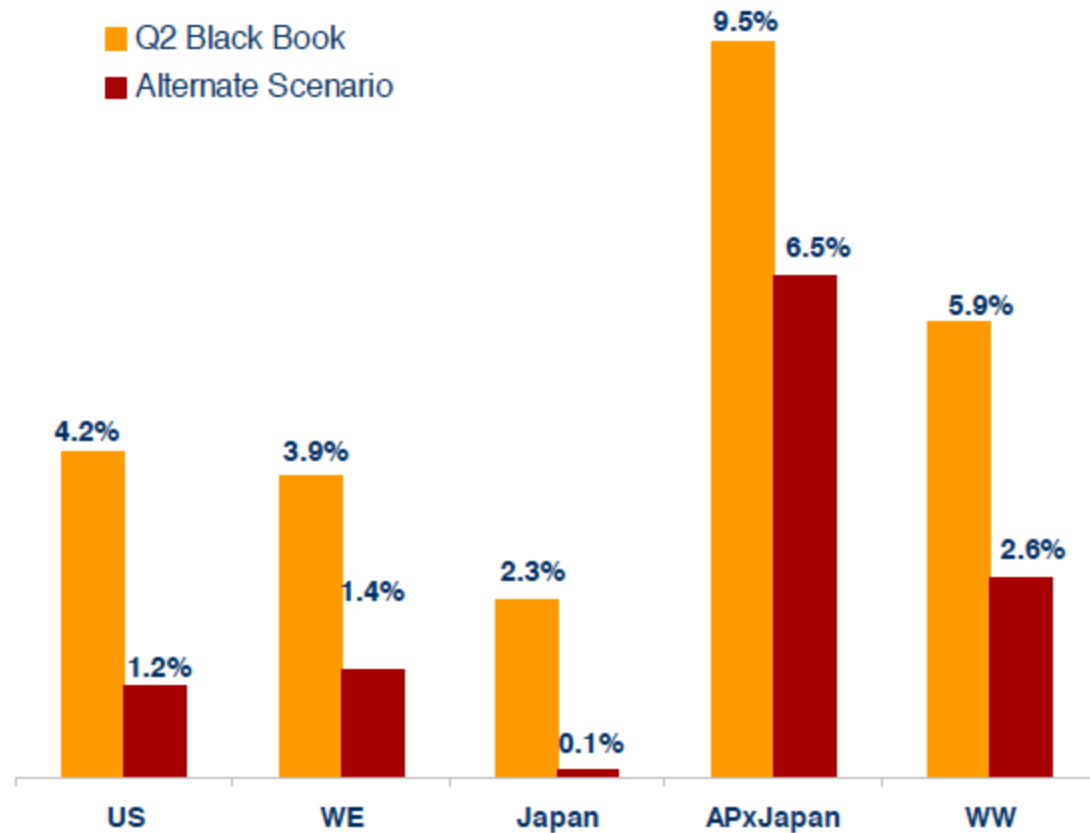
Source: IDC FutureScan Oct 2008

2009 U.S. IT Spending*



* Changes to 2008 not shown, much less pronounced

2009 IT Spending



Software forecast 2-3% but...

- Vary by market
- Core ERP upgrades
- Higher value vertical apps
- Customer centricity and intimacy
- Other?

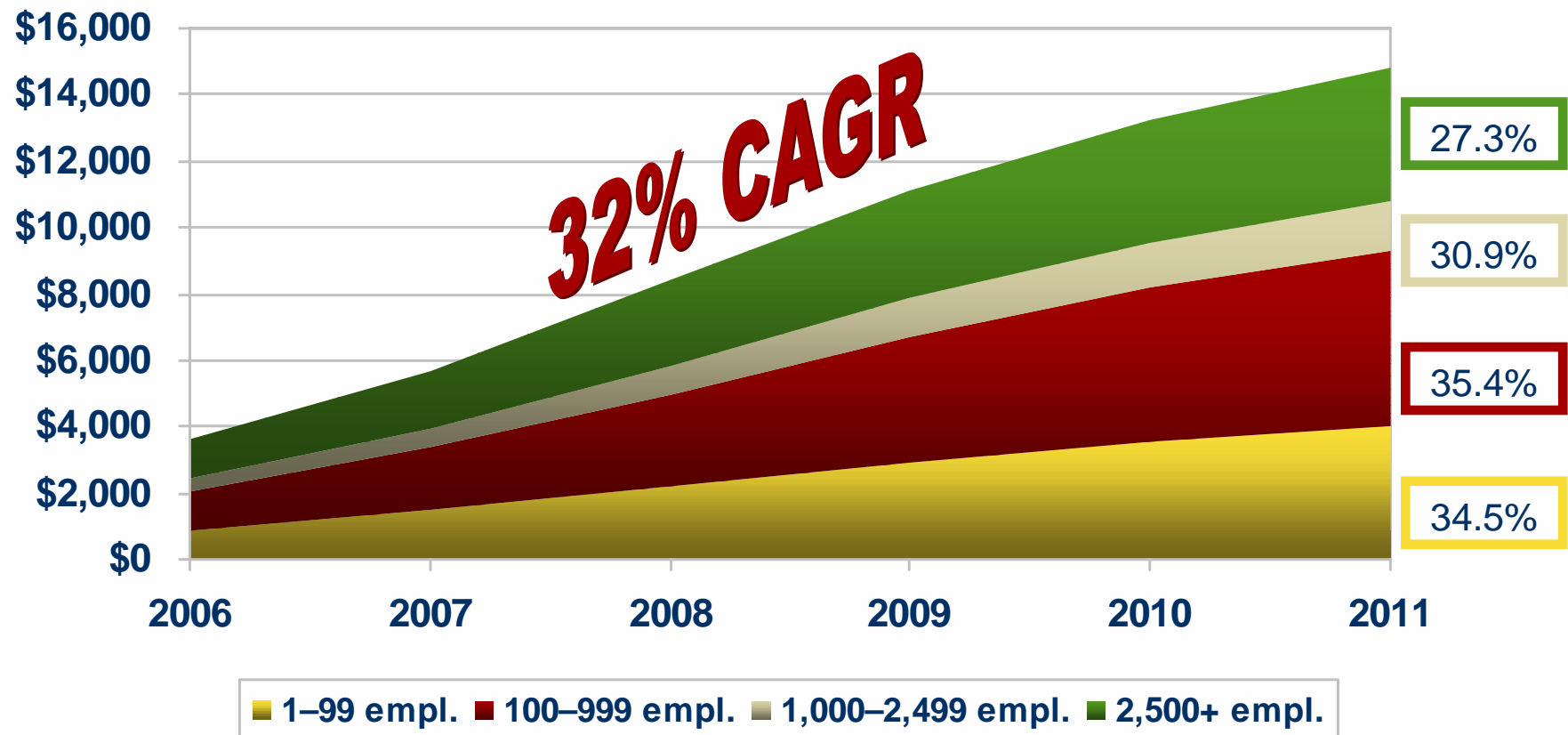
- Capital expenses v. operational expenses

SaaS

- Financing alternatives
- Open Source Software
- Paying for consumption

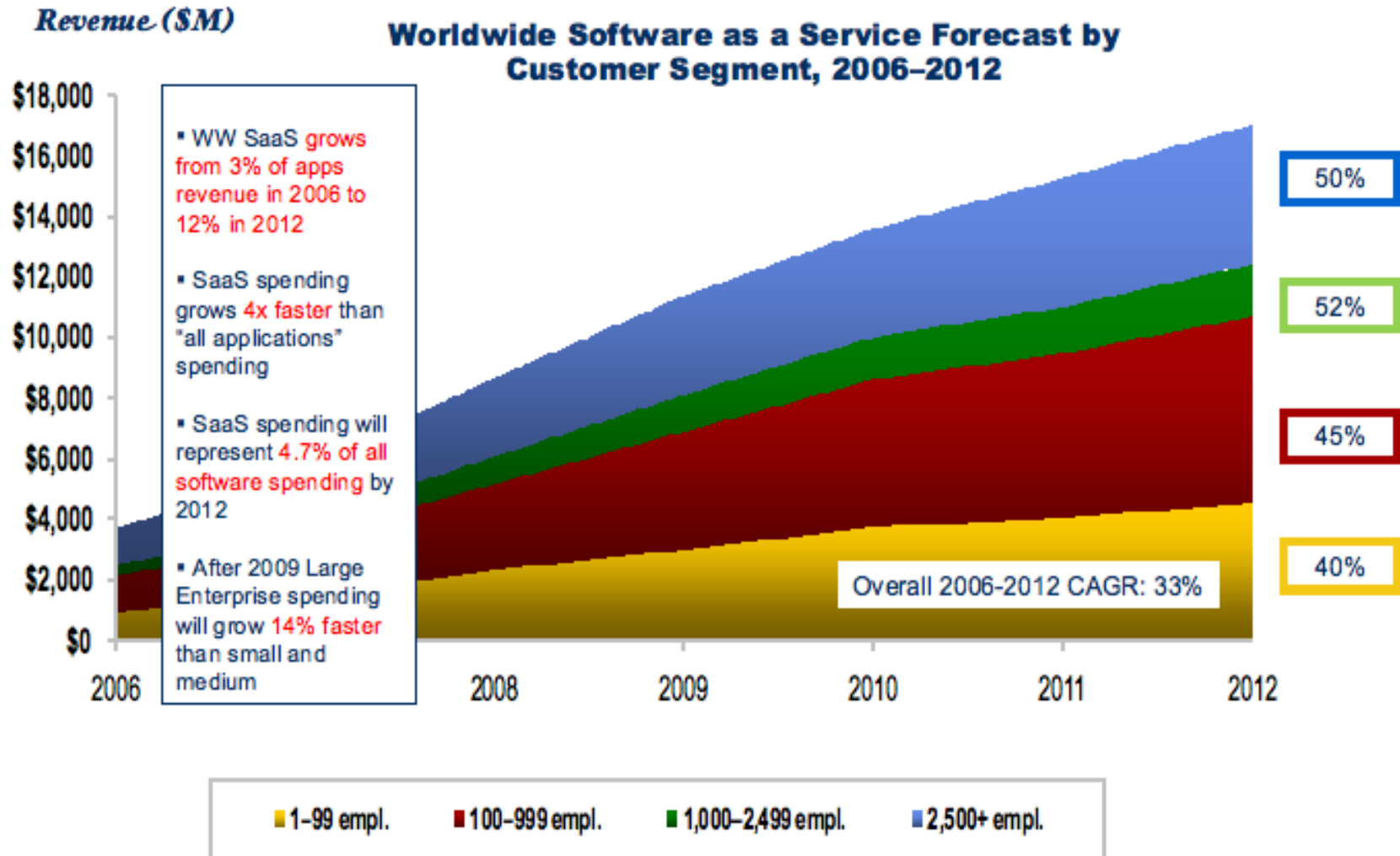
SaaS Revenue Forecast Q1 2008

Worldwide Software on Demand Forecast by Customer Segment, 2007-2011



Source: IDC's Software as a Service Vertical Views Program

Software SaaS Revenue Forecast Company Size Segmentation Q3 2008



Source: IDC, 2008

Licensing implications

- Shift to subscription licensing
- Desire for accuracy in models
- Value-based pricing based on a business metric
- Pay-per-use licensing based on a measure of use intensity

And...



Be flexible, let customers consume your software the way they choose

Plan for transparency in your model

You may have to adjust your model to meet changing customer desires

Become partners and trusted agents for your customers!

Questions, Feedback?



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