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CEO GUIDE TO TECHNOLOGY

A VC's View of Web 2.0

The day of giant corporate software packages is over, says Oracle vet Ray Lane. The future lies in bottom-up, user-driven services

If Web 2.0 points to the future of information technology inside corporations, as some people believe, Ray Lane is in a good position to know what that future will look like. Until he joined the venture-capital firm Kleiner Perkins Caufield & Byers as a general partner in 2000, he was president and chief operating officer at software giant Oracle (**ORCL**) for eight years. Now he's nurturing companies at the opposite end of the spectrum, among them small startups such as Visible Path and SpikeSource that are providing software as a service over the Internet.

Recently, Lane has talked more forcefully about his belief that the traditional method of selling big corporate software applications as multimillion-dollar packages that take years to implement is broken. He contends that, thanks to the new wave of Web 2.0 companies, innovation is now on a six-month- instead of a three-year cycle -- virtually requiring that software be offered as a service instead. *BusinessWeek* Silicon Valley bureau chief **Robert Hof** spoke recently to Lane about the impact of Web 2.0 inside companies and the way it is transforming the software industry. Here are excerpts from that interview.

Web 2.0 means a lot of things to a lot of people, but what's most important about it?
It does mean a lot of things, such as the ability to scale up to many users, better use of bandwidth, ease of use, things like RSS feeds. But mainly, it's a much more natural experience for the users.

You've talked about consumer Web 2.0 services becoming enterprise services. What looks most interesting at this point?
Only a few have happened. It's not that consumer applications become enterprise applications. It is that the characteristics that consumer applications must have are going to be brought into the enterprise because they can come in under the radar. You, as a consumer, make decisions for yourself to use a technology. You decide if you want to go to MySpace (**NWS**) and you decide how you're going to use it.

What does that mean for corporate operations?
Typically in an enterprise some buyer makes the decision for users: "You will all use Windows desktops and Oracle financial applications." Now, an individual salesman could choose to subscribe to Salesforce.com and literally start entering data and all he's got to do is pay $50 a month. Individuals can decide to make themselves more productive with an individual decision. There are a lot of things out there like that, and there will be many more in the future.

You're on the board of one company, Visible Path, with a similar model. How does Visible Path, and by extension other companies like it, make money?
Visible Path does social networking for the enterprise. It's a very private way to manage your relationships in real time: who's getting to be stronger, who's getting to be weaker in your relationship network. When I

expand it to three or four of my colleagues, all of a sudden I've got all of their contacts and all of their relationships and all of their e-mail exchanges in my network.

They tell other colleagues, and now there's a network of five or six people in an enterprise. Then somebody from Visible Path calls them and says, "I see all these people are using the service. What if you could do all these new things if you upgrade to the enterprise version?" They pay for that.

The whole idea is not to have that long, expensive sales process to buy enterprise software. Blackberry and [Blackberry rival] Good Technology and [Net communications service] Skype (**EBAY**) are in the same category. Individuals didn't need to get some kind of corporate enterprise committee to make a decision. These will be adopted bottom-up.

Not all corporations can be happy about this, right?
Enterprises are fine with them. I've talked to a lot of chief information officers about this. As a group, financial institutions are wary because of regulations. They can't even use instant messaging without logging and archiving them. They've got to have a record of everything.

But other than that group, every other kind of industry and CIO I've talked to absolutely buys into it and says, "Bring it on." Obviously, you have to meet security concerns. But I don't find chief executives wary of podcasts, blogs, wikis, or social networks.

They're not trying to stop them?
All these things that are thought to be consumer technologies are coming into the enterprise. They can't stop them, and I think they understand that. The really good ones say, "Let's figure out how to utilize this stuff. Let's not do what we did 30 years ago with the PC, which was to call it a toy and not allow it here."

So Web 2.0 services are getting into the enterprise in much the same way as the PC?
A: Yes. In the 1990s, we in the software industry moved away from a focus on the users to a focus on the buyers. Now, the technology and all these services available with Web 2.0 allow the users to make the decision. It's very powerful. They start using it and talking about it, get value from it, and all of a sudden you've got 20 users.

Is software as we know it dead?
I don't think it's dead. But the advantage of using software as a service is huge (see BW Online, 6/5/06, **"Web 2.0 Has Corporate America Spinning"**).

Can all software be provided that way?
I don't think you can do that with everything. I think there's a big concern over data outside the [corporate] firewall. Some companies, even companies like a General Motors (**GM**), are comfortable with placing their data in the hands of a service provider if they can keep control of it, so they can manage security. But it's going to take a long time for most companies to get comfortable with that -- another five years.

So many of these Web 2.0 companies are startups. How are they all going to survive?
A: They're not. I can name only 300 of the 5,000 software companies out there that have a chance to change the world. At the other end, you've got large category leaders like Oracle, SAP (**SAP**), Microsoft

(**MSFT**), Symantec (**SYMC**), and others, that basically are protected because they're pouring money into tons of R&D to incrementally move their products ahead. The 70% of startups out there that are trying to do what the big companies do, only better, faster, and cheaper -- it's a fool's errand. The customers would like to buy that from a large company, so they're going to lose out.

How can executives who want to use these startups' services protect themselves?
It goes back to giving some assurance to the enterprise. If you're offering a service, you're really not asking the enterprise to make that big a commitment. In the past, we would have asked them to spend $1 million and take three years to implement the software. If you make a commitment to Salesforce.com, by contrast, basically a couple of salesman are putting data into a database and if you decide, this startup just doesn't get it, let's throw them out of here, you just turn it off and don't use them anymore and move to something else. So the commitment level isn't that great.

Does that mean that ultimately big companies, such as existing software companies, will get most of this business?
Not necessarily. I see a lot of software companies today saying, "We're going to change our business from a product company to a service company and put our software online." But there are problems with that.

No. 1, the software company typically does not have the DNA to be a service company. It is a software company because the smartest guys in the company are developing new code, and that's what they want to do, as opposed to what is the boring task of serving a customer. Salesforce.com does that. They're not a perfect company, but they were developed with an intent from the start to be a service company.

Also, product management is different. The sales force is different. Every function of the company needs to be changed if you're serious about being a service company. It's a two- or three-year transition at minimum. It's not a flip of the switch.

Will Web 2.0 have an impact beyond the software industry, in the way corporations generally do business?
A: Instant messaging, Skype, Salesforce.com -- I think these things have made immense changes in businesses already. I think these are huge productivity gains that I think we'll see more of. Social networking and podcasting -- I think those will have huge benefits. This is about user-generated content.

But I wonder how many corporations, which are built on control, will be O.K. with that.
What's going to happen is, employees are going to start podcasting and blogging about what's really going on in the company. It's going to cause huge legal concerns on the company's part. But companies are not going to be able to stop it. Outside the company, you can't tell people not to talk about their products. We're not China. We can't shut it down.

The reality of how employees feel, and the reality of how customers and partners get information about your company, are going to change in the next five years from standard media and press releases -- which are a waste of time now -- to these other methods like blogs and wikis and podcasts and videos.

How should corporate executives take advantage of Web 2.0 while making sure they can protect their brand and other interests?

If companies are just approaching this now, they should put together a very diverse group of people that includes a bunch of kids. Get a bunch of young people who are really new to the company.

The bright guy in product design, triple degree from the best university, is going to expect, at 25 years of age, to see this technology in place. And if he's told, "Well, you gotta use Windows, you can't use blogs or wikis or instant messaging any of that stuff," he'll say, "Well, why do I want to work here?" Young people are not going to go where these tools are restricted.

Have any of your consumer-oriented Web 2.0 companies pitched corporations on their service? What was the response?
At Podshow, a company I'm on the board of, they find user-generated podcasts, promote it on their network, and syndicate advertising into those podcasts. So it's a consumer business. I've had them come and talk to a number of enterprises, and it's funny. There are these glassy looks on the executives' faces because they're the senior CIO types who have no idea.

Then they get into it. They see this is going to be a more democratic, bottom-up process where people are blogging and podcasting and using social networks. They see that's going to be a great way to communicate because more of their customers are not going to be listening to radio or watching TV. They're not going to be reading magazines. The only way you can communicate with them is through these new media.

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