



Stanford eCorner

The Economic Context in 2004

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February 25, 2004

Video URL: <http://ecorner.stanford.edu/videos/799/The-Economic-Context-in-2004>



According to Winblad, M&A's picking up because companies now feel they can take risks in working with younger companies. Major corporations also went through a period of downsizing, but are now adding, she notes.

Transcript

From an economics standpoint, we do have a couple of things happening. One is companies have achieved stability. So the larger technology companies, the reason there's more M&A activity is that they have downsized their companies, gotten back to profitability models. They feel they can take risks in working with younger companies and actually purchasing them. That's why M&A's picking up. On the standpoint of major corporations, they went through a period where they also had to downsize, look at what they could outsource, look at what they could lower their cost of ownership, which let's bring in Linux boxes and set up Sun servers, let's take some of the technology vendors out of the pipe because we don't need two app servers, we can pick one. Once they finish that, they also looked up and said, for example hey, all of my employees are doing all the work on their email platform and even some of them are using oh, my god, instant messaging. Oh no, now we have a voice over IP system in here so now our phone calls are digital. Guess what? Now we have new regulations that we have to secure all this stuff and manage all this stuff. Guess what? That's tens of stuff and oh, my god, here comes spam on the sidelines.

And oh no, we need more storage. So should we look at blades? So once they stabilized, they got a chance to look at their plant which did not stand still. They have to compete as well and they're competing with technology. So they looked at their stabilized plant and now are adding versus subtracting or downsizing. They're not necessarily going through a pre-1999, 2000 boom but they are coming out. In fact, we're seeing groups of CIOs come out to do tours in Silicon Valley to meet with venture capitalists to say what new companies are you funding? Once a week, we have a major company in our offices with their CTOs and CIOs talking about new companies and new technologies to reacquaint themselves with what's available in the market. So it is. Plants are stabilized, plant cost cutting has happened, now we have to run them. We also have productivity gains. They were real.

Guess what? Once you get certain productivity gains, you have to keep getting productivity gains to retain competitive parity in your industry. Productivity gains as we learned in our look back on technology were driven by one thing, technology.