

Tech giants rush to embrace software

December 21 2012, by Steve Johnson

Hewlett-Packard's purchase of Autonomy may have turned into a multibillion-dollar disaster, but it hasn't stopped HP - and other Silicon Valley tech giants - from making more big bets to bolster their software offerings, reflecting a tectonic shift in the industry.

With sales of personal computers and other electronic gear sluggish, many companies - even traditional hardware vendors - view [software](#) as a lucrative alternative. HP saw Autonomy as a way to boost its software efforts, and still says the deal will pay off in the years ahead. Santa Clara, Calif., chipmaker Intel has been adding thousands of software specialists in recent years, and nine of Cisco Systems last 10 acquisitions have been [software companies](#).

Worldwide sales of prepackaged software have surged from \$307 billion in 2009 to nearly \$375 billion this year and are forecast to exceed \$485 billion in 2016, according to [market researcher](#) International Data Corp.

"In the 1990s, software represented about \$1 in every \$10 spent on IT," said IDC Vice President Stephen Minton. "By the end of this decade, it will represent \$1 in every \$5."

That has triggered what Wells Fargo [Securities analysts](#) have termed a corporate "arms race" to get into the business along with a related hiring frenzy. More than 70,000 software jobs have been added nationwide in the past couple of years, according to an analysis of [government data](#) by CareerBuilder. On top of that, by 2020, employment in the profession is expected to grow 30 percent nationally - much faster than other

professions - authorities have reported.

"We are in the middle of a dramatic and broad technological and economic shift in which software companies are poised to take over large swathes of the economy," HP board member and Netscape co-founder Marc Andreessen said in an essay last year. Listing [Amazon](#), AT&T, Wal-Mart, FedEx, and Google as among those driving the transformation, he added, "Over the next 10 years, I expect many more industries to be disrupted by software, with new world-beating [Silicon Valley](#) companies doing the disruption in more cases than not."

Among those counting on that is Cisco. CEO John Chambers earlier this month vowed to boost the San Jose, Calif., networking firm's annual software revenue from \$6 billion to \$12 billion over the next three to five years in its quest to become the world's top tech company.

"By 2020, 50 billion new things are going to be connected," said Cisco spokesman John Earnhardt. "Our secret sauce, if you will, is the software that runs over the hardware that we also design."

Intel also has heavily invested in the trend, largely to ensure its chips function properly with software created by others. It has bought 14 software companies since 2004, including security firm McAfee, which it snapped up for \$7.7 billion in 2010. Although Intel won't disclose precisely how many software engineers it employ, it says it's in the thousands.

"Software has become a bigger part of what we do," said the company's software head, Renee James, noting that her workforce has probably quadrupled in the past four years. Intel's overall employee ranks over that period have grown only about 16 percent.

IBM and computer maker Dell also have jumped heavily on the software

train, as have some old-school industrial firms like General Electric. Last year, the Connecticut-based company opened a Global Software Center in San Ramon, Calif., "to help develop a new generation of intelligent devices." So far, 325 software specialists have been hired by the center. But it has room for 1,000, according to a company statement, which added, "we hope to grow the operation in the future to meet that capacity."

Despite the push on the software side of the tech business, the hardware side is still critical for many valley companies. Apple, for instance, has long blended its hardware and software expertise into highly profitable gadgets, and other tech giants would love to do the same. In addition, Google, whose lucrative search engine is essentially a giant piece of software, made a big push into the hardware business by buying Motorola Mobility for \$12.5 billion.

It all makes perfect sense to technology analyst Charles King of Pund-IT.

"When a company goes to the effort of highly integrating software with hardware, they can deliver significantly better performance for their own product and they can also eclipse the performance of competing vendors," he said.

That was the rationale when HP - long known primarily as a maker of printers and personal computers - bought Autonomy last year. Despite acknowledging it paid more than \$5 billion too much for the company, HP officials insist the acquisition - along with other software firms it has purchased lately - will pay great dividends in the future.

During a conference for Wall Street analysts in October, George Kadifa, HP's executive vice president for software, said its software sales already total \$4 billion a year, making it the sixth-biggest software company in the world. And that's just for starters, he said, estimating the software

market available for HP at \$54 billion.

"It definitely has the potential to keep growing," said Technology Business Research analyst Jillian Mirandi, which would be a big plus for HP, whose revenue and profit have stalled worrisomely along with sales of PCs. If it can manage the tectonic shift properly, she added, "I think they'll be very competitive."

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SOFTWARE CASE STUDIES

Increasingly, technology companies - including many that traditionally have sold computer-related equipment - are investing heavily in software. Here are several examples.

-Intel: The Santa Clara, Calif., chipmaker has bought 14 software companies and added thousands of software specialists to its ranks since 2004.

-[Cisco Systems](#): Nine of the past 10 companies snapped up by the San Jose, Calif., computer networking giant have been software firms, and it has vowed to double its \$6 billion in annual software revenue in the next three to five years.

-Hewlett-Packard: Known primarily for its printer and personal computer products, the Palo Alto, Calif., corporation has bought a number of software companies in recent years, including Autonomy, for which it now admits it paid more than \$5 billion too much.

-Dell: Hoping to revitalize its business, the Texas computer maker also has been acquiring software companies and it announced in February the creation of a software division to "help catalyze our transformation."

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