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Annex Research Executive Workshop '98



Phoenix - Sept. 28, 1998

A Bob Djurdjevic Presentation:

Quo Vadis Global IT Industry?

“Old” vs. “New” World: Industry Stratification

■ “OLD WORLD”

- CENTRALIZATION
- MAXIMIZATION
- STANDARDIZATION
- CONCENTRATION
- SPECIALIZATION
- SYNCHRONIZATION

■ “NEW WORLD”

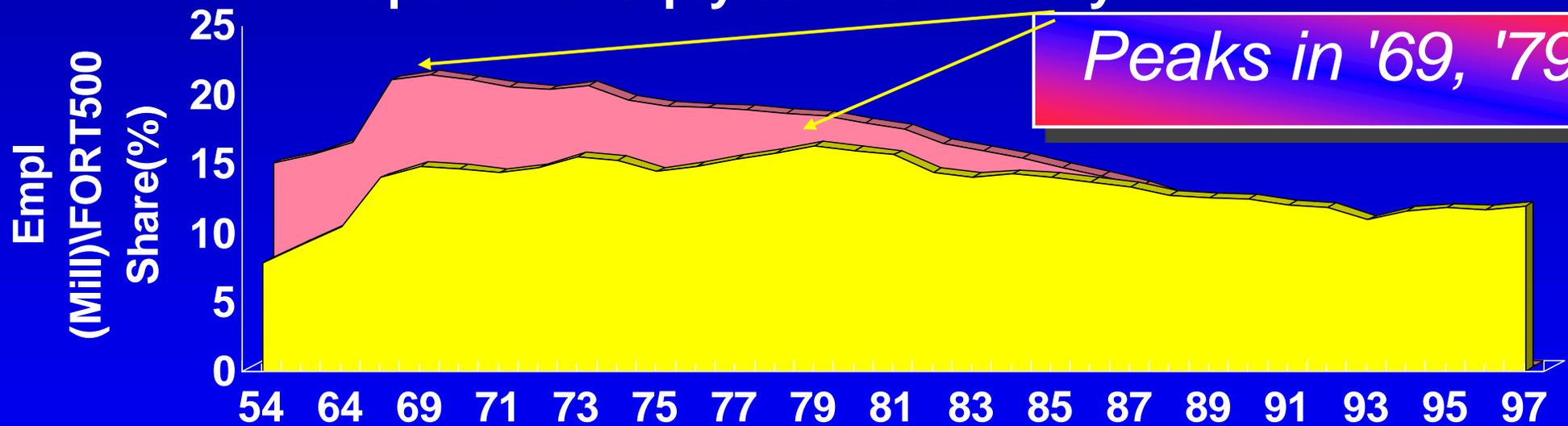
- Organized chaos
- Small is beautiful
- Customization
- Virtual workplace
- Integration
- Continuous

(based on Alvin Toffler's "Third Wave" model)



The Downsizing of Corporate America

FORTUNE 500 EMPLOYMENT Drops Off Sharply as Productivity Rises



(A New York Times letter - Mar. 8, 1996)

The Upsizing of America

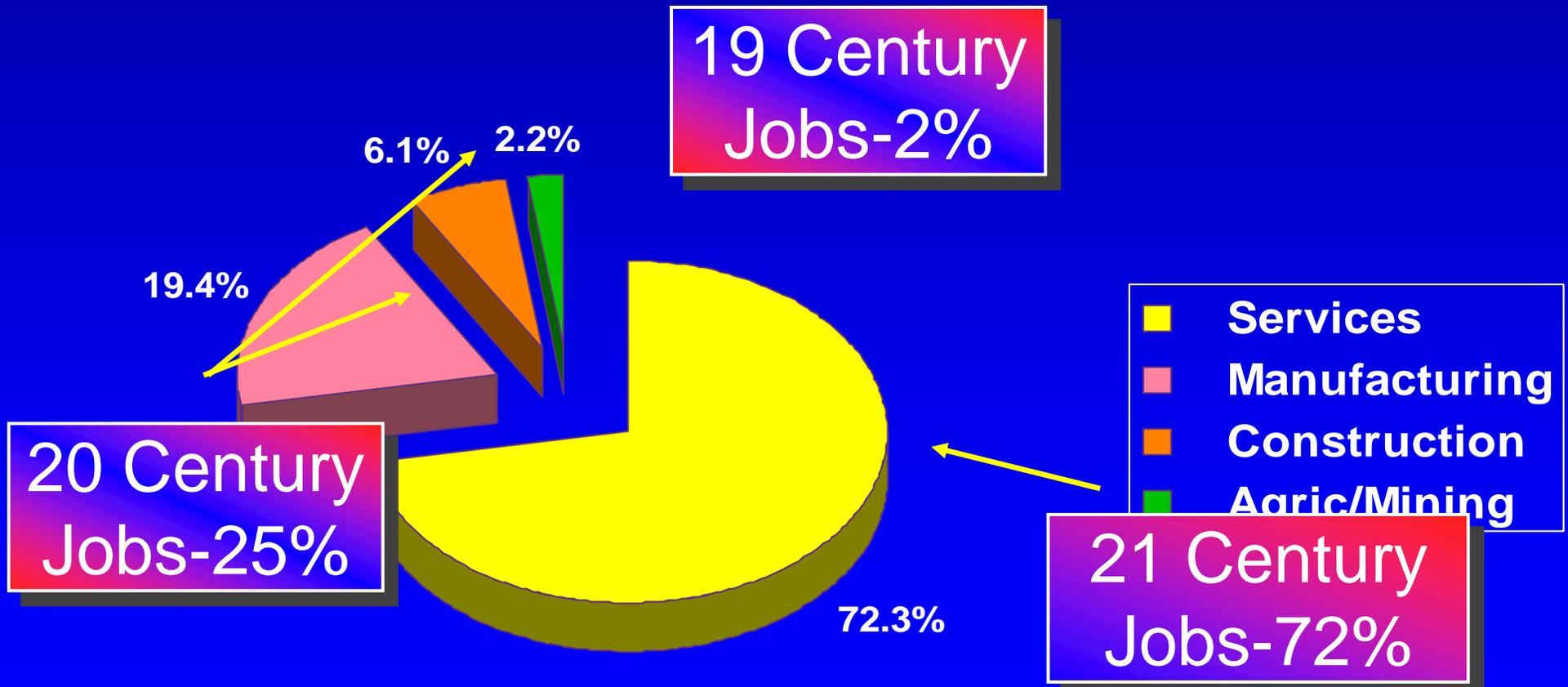
- Since "everybody" watches the FORTUNE 500 giants, "everybody" is writing about **downsizing** of America
- Indeed, FORTUNE 500 shed **3 million** jobs in 1980s
- And they will dump another **2 million** jobs in 1990s
- Yet, **1.5 million** NEW businesses created in 1980s
- They generated **21 million** NEW jobs in America

The Growth Is from the BOTTOM!

Industry Stratification

Not Just IT Industry Shakeout

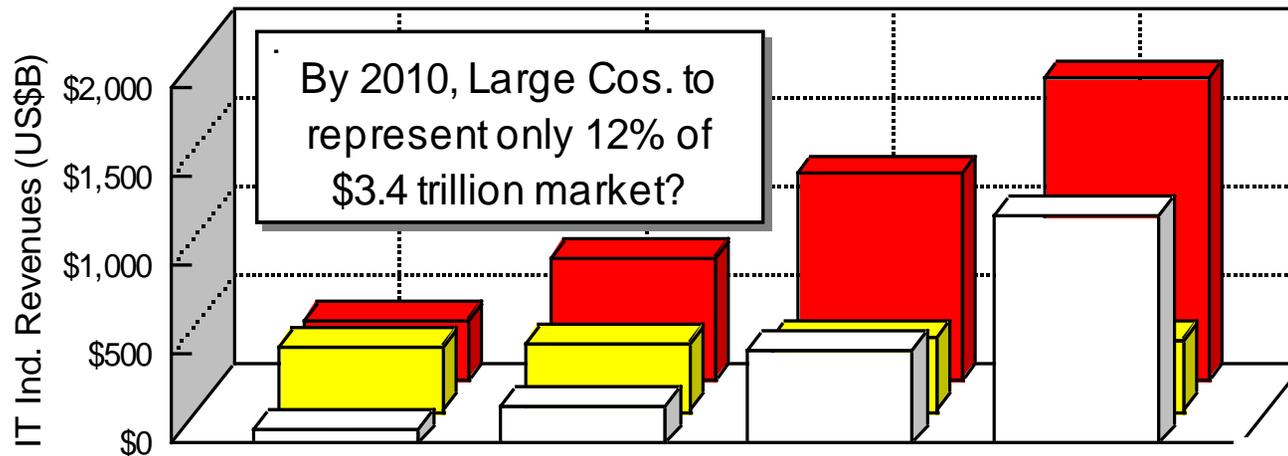
*Services Replacing Factory Jobs Everywhere
(already 72% of total in the U.S.; 65% in Canada)*



Large Companies: A Stagnant Market

Large Cos: A Stagnant Market

Consumers, Small & Medium Enterprises to Grow Fastest

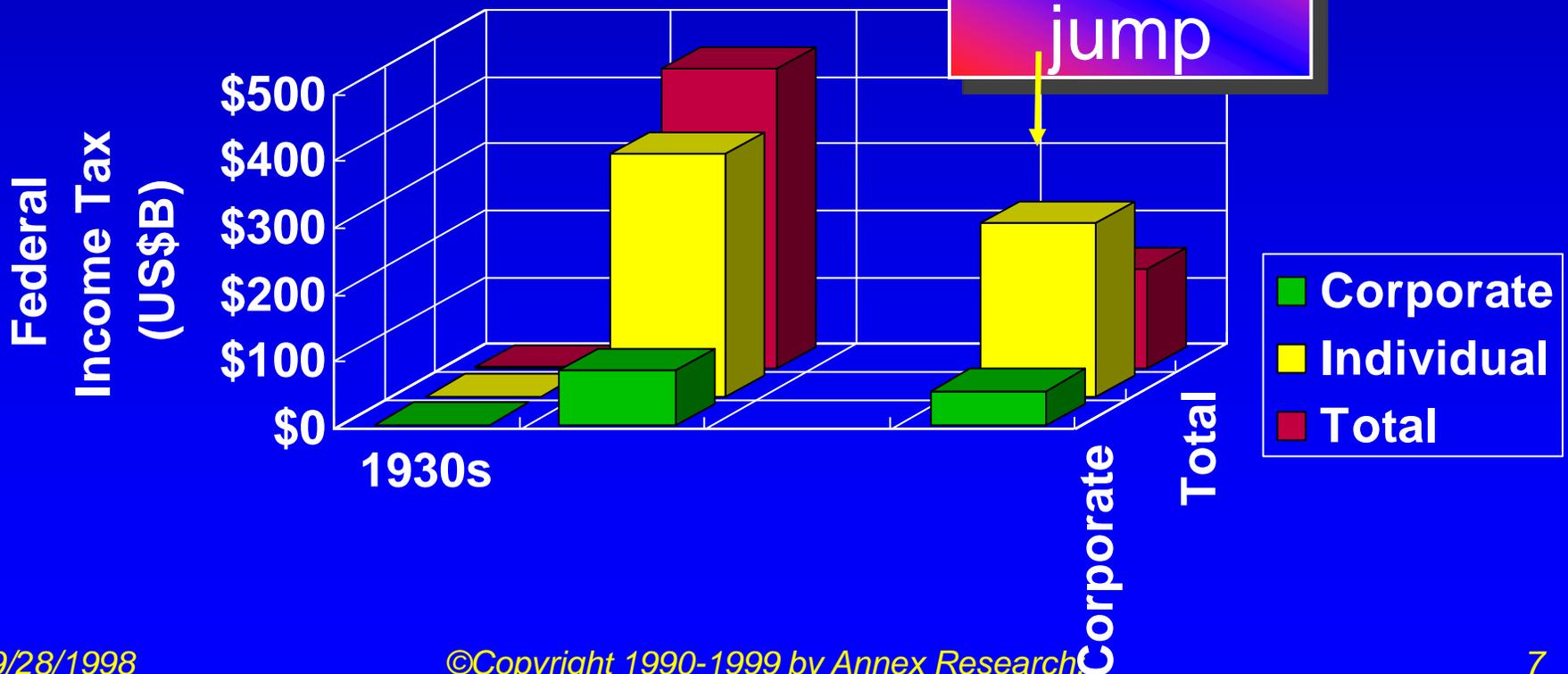


| | 1995 | 2000 | 2005 | 2010 | CAG |
|--------------|-------|-------|---------|---------|-----|
| □ Consumers | \$90 | \$220 | \$530 | \$1,290 | 19% |
| ■ Large Cos. | \$370 | \$390 | \$420 | \$410 | 1% |
| ■ Small&Med | \$340 | \$690 | \$1,160 | \$1,700 | 11% |

Source: Annex Research

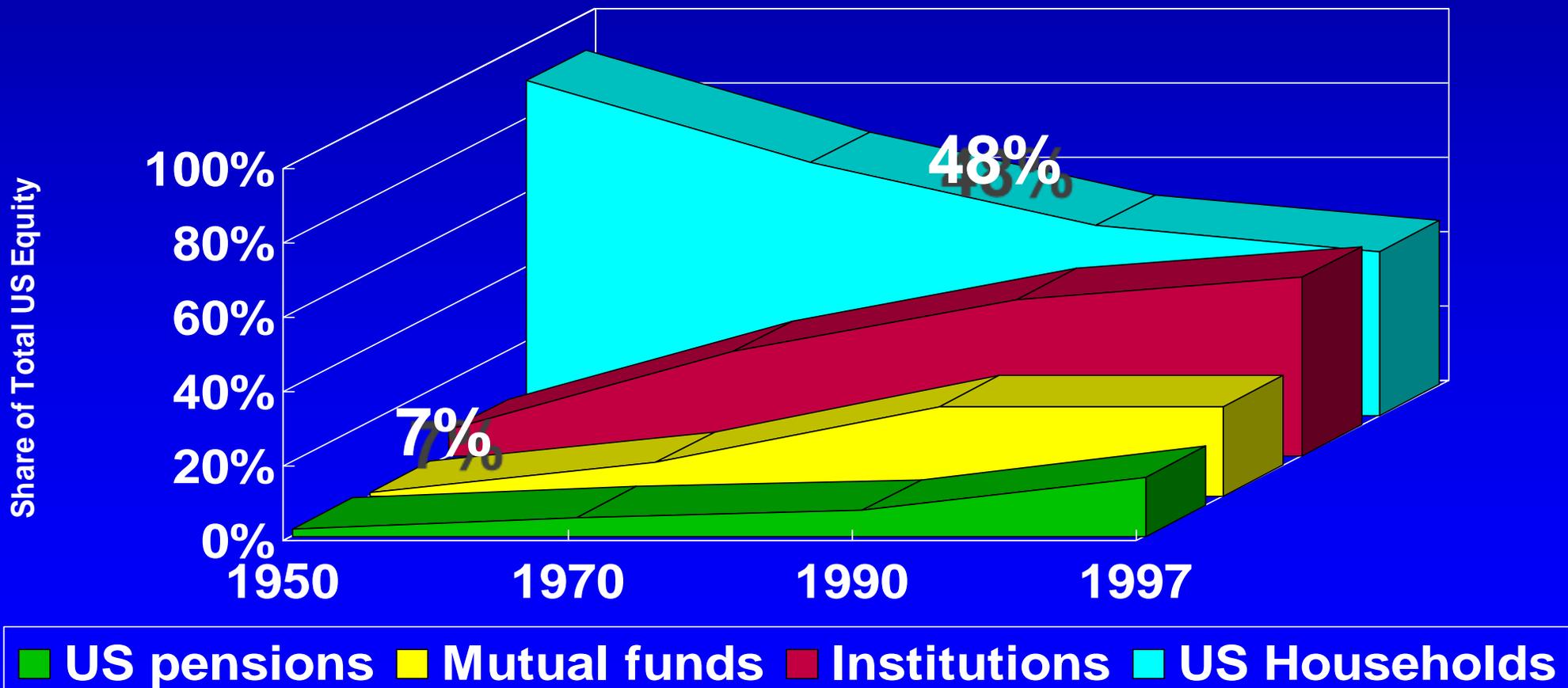
Soaking the Individual Taxpayer

Income tax burden shifted from corporations to individuals



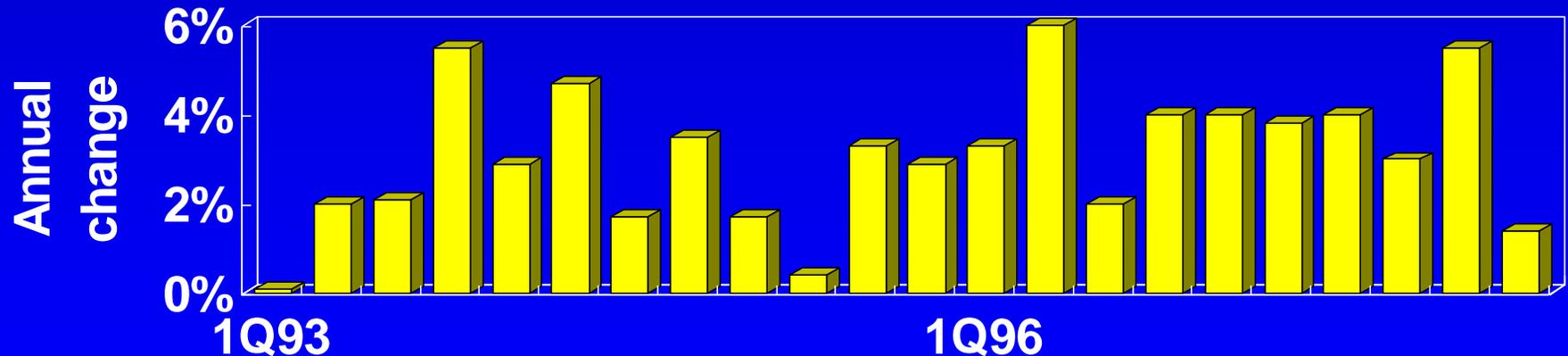
How Wall St. Got to Wag Main St.'S Tail

Pensions, bank trusts, mutual funds - boost inst



Exploding the Myth of Explosive U.S. Growth

**U.S. Gross Domestic Product
2Q98: Sharp drop understates even deeper
weaknes**

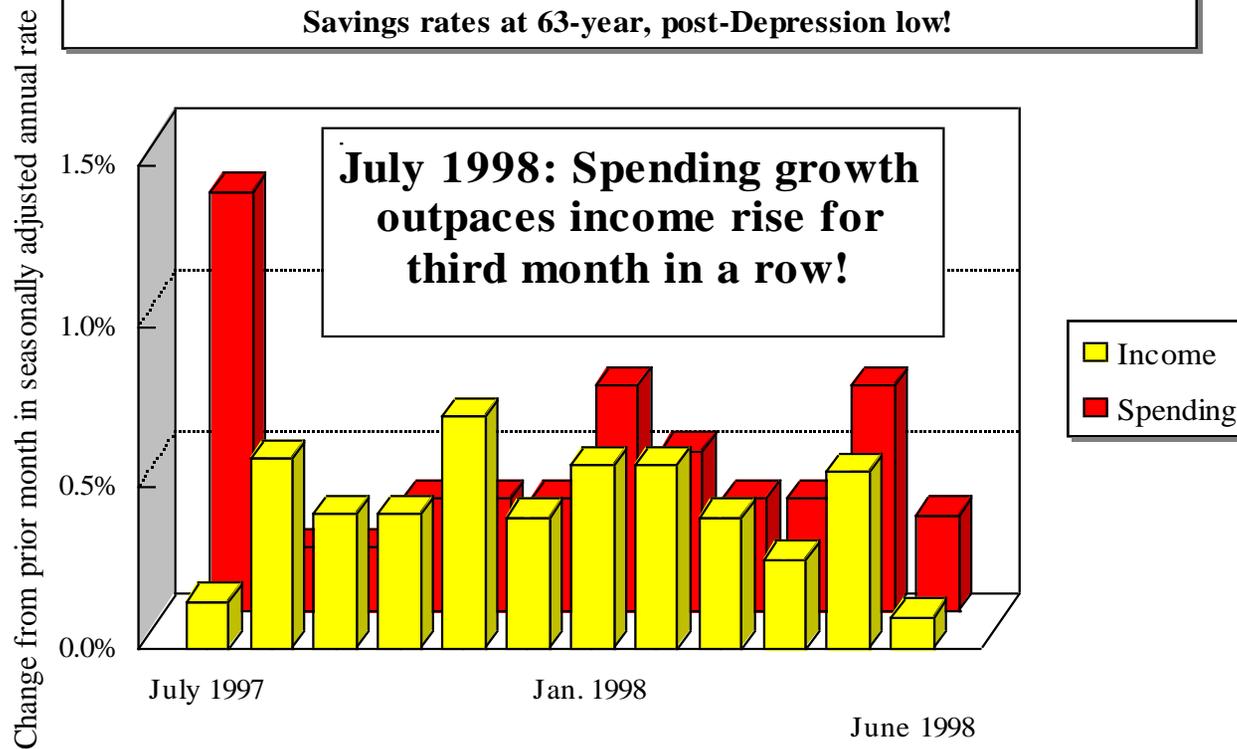


Baby Boomers Spending Themselves Out of House and Home



U.S. Spending Climbs Faster Than Income

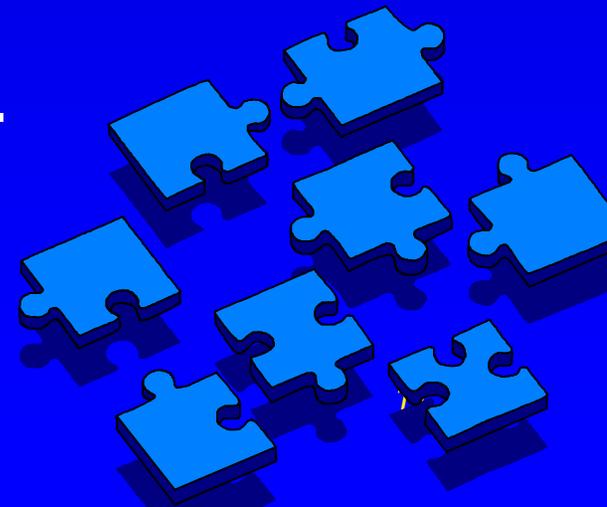
Savings rates at 63-year, post-Depression low!



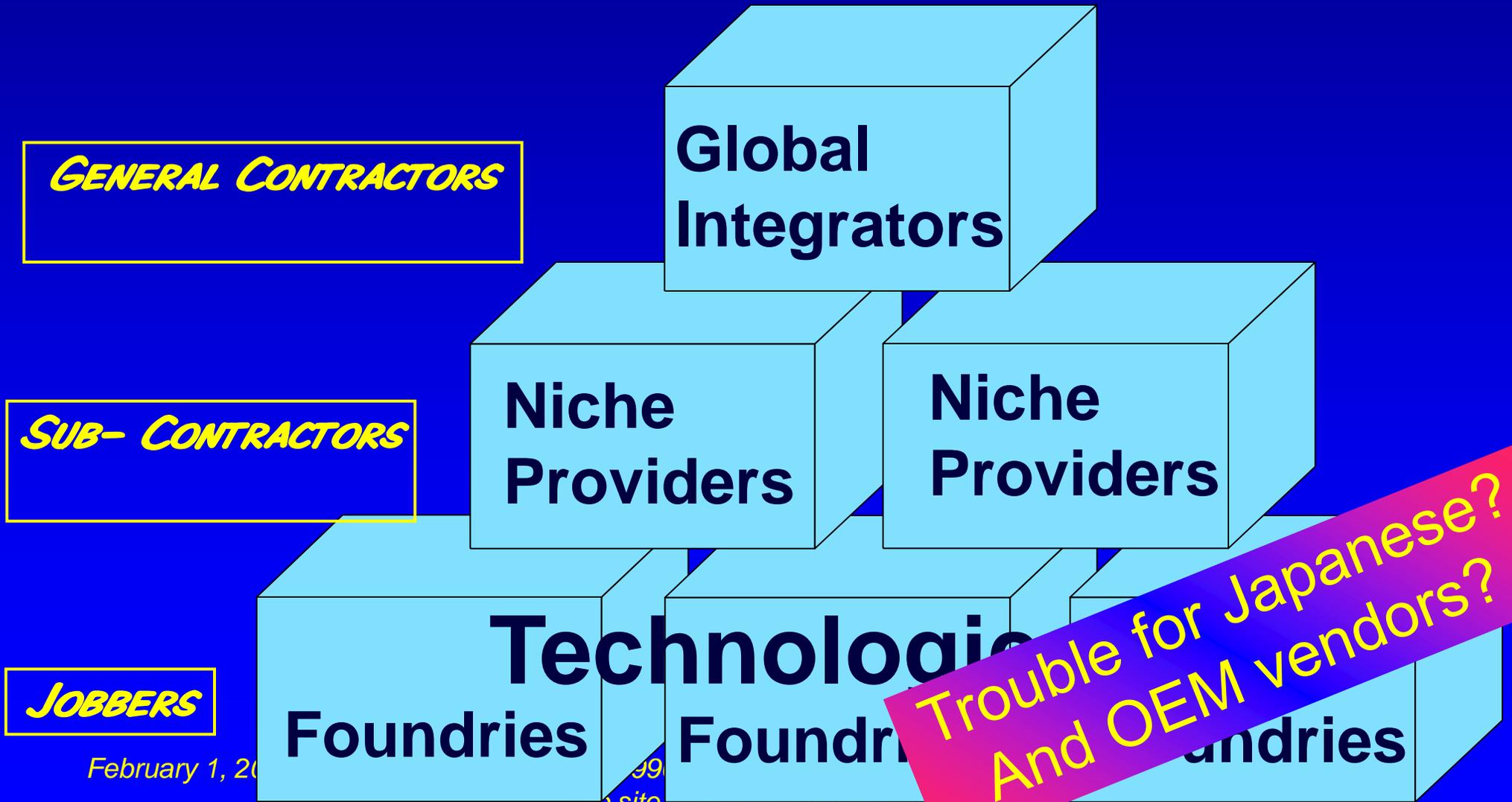
Source: Annex Research
(based on Commerce Dept. data)

IT Industry Stratification

- First identified in March 1990
- Bundling of global solutions
- End of "box"-type pricing
- New value-based pricing:
 - *Transfer of wealth from hard to soft assets*
 - *Slowdown in overall price/performance*
 - *Customers' preference for leasing*
 - *New breed of applic.-savvy lessors*
- "New World Order" of IT to ensue...



Industry Stratification: Mfg. Sliding Down Food Chain



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