

## >: IBM vs. Microsoft

Wednesday, January 24, 2007 / Wayne Mulligan

I'm not sure if you remember, but one of the very first articles I ever wrote for *The Tycoon Report* was about social networking ? the concept of ?6 degrees of separation? displayed on the web.

Even though that was only a year and a half ago, the social networking sector has come a long way. I originally wrote on the topic shortly after Rupert Murdoch?s News Corp. (NYSE: NWS) acquired the wildly popular ? and arguably the most visited site on the web ? MySpace.com site.

At the time, there were only a few major players in the social networking space.

We had MySpace of course ? which, interestingly enough, wasn?t the first social network.

We also had Friendster.com ? which was probably the first popular social network but quickly lost its lead to MySpace.

And we had the fledgling, but rapidly growing, Facebook.com ? which is now one of the largest and most well funded social networks on the web.

But, just like any popular technology/sector, many new competitors have come and gone in that time.

We saw networks that tried to specialize in particular interests or markets ? *Dogster*, for example, is a social network for people with pets.

We also had a ton of copy-cats out there that swore they would be the ?next MySpace? ? I cringe when I hear that as a business strategy ? TagWorld is a perfect example of a lot of hype that never really gained the type of traction that it claimed it would.

So, after a number of start-ups and shut-downs, the landscape for consumer social networks looks pretty much the same as it did two years ago.

But now, we?re starting to see corporations jump into the mix . Up until now, we?ve had small independent vendors for corporate social networking software (and Facebook.com provides a method to set up a network based on corporate e-mail addresses.)

But, as of this week, IBM (NYSE: IBM) has thrown its hat into the ring and is looking to be the primary provider of social networking software and infrastructure for large corporations.

IBM held a meeting for its Lotus customers earlier this week where it unveiled a new suite of features that includes the ability to create profiles, share bookmarks (favorite web sites,) publish personal blogs and a number of other features that have gained a lot of traction in the consumer space.

This was in direct response to Microsoft?s (Nasdaq: MSFT) recent social networking software addition to its SharePoint product ? which already boasts 85 million users.

This will definitely be a new front for Microsoft and IBM to compete on ? Lotus and Microsoft?s Office/Backoffice products have been going head to head for years.

This software package is vastly different, though. Instead of requiring the software to be installed on every machine in the office, this product simply gets installed on a server somewhere else and is then delivered via a regular web page.

This should help IBM roll out its product more quickly and reduce the amount of resistance most corporate buyers typically display toward new software products.

While IBM won?t provide any pricing or sales forecasts, I?d imagine that this product will give its Lotus unit?s revenue a boost.

The other thing I?m sure it?ll do is invoke a response from the start-up community who might see this as a great opportunity to take a technology that?s typically given away for free and to monetize it.

While I don?t love the valuation of the company, SalesForce.com (NYSE: CRM) did the same thing with CRM software. Once the company

showed that software could be served and used via the web, it turned itself into a multi-billion dollar company in a very short period of time.

So be on the lookout for existing web companies trying to work themselves into the action a bit ? Salesforce.com would actually be an ideal candidate to launch its own corporate social networking product.

For a smaller company like Salesforce, this could be a huge boost to its business model, revenue and profits.

Have a great week!

A handwritten signature in black ink that reads "Wayne Mulligan". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Wayne Mulligan  
Chief Investment Officer

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