



## **>: What Makes a Technology Profitable?**

*Wednesday, October 25, 2006 / Wayne Mulligan*

I guess my article from last week got everybody a little excited ? the responses I received were tremendous!

● ~~Wednesday, February 11, 2004 10:00 AM~~ ● ~~Microsoft is not a technology company. It is a software company. In order to do that effectively we need to know the impact of other technologies. For instance, it would've been impossible for Linux to have been created unless the Internet was around.~~

So what I wanted to do today was reply to one of the most frequently asked questions I got last week.

Actually, it would be pretty fun to do this every single week. What I think you should do is write down your questions and comments as you read this week's article.

At the end, you can click the link at the bottom to leave me some feedback ? please include what you thought of the article as well as overall questions and comments.

What I'll do is go through everything at the end of the week. Based on the feedback you give, I'll craft next week's article.

So, please, have fun with this! I'm giving you the opportunity to choose what you read in the Tycoon Report, so I hope you take full advantage of it!

Now onto the biggest question I received last week?

Q: Wayne, one of the things I noticed is that you always talk about ?how good a company's technology is vs. its competitors? ? so how do you actually tell if one company's technology is better than another's?

A: Now that's a tough question! But certainly a good one and one that everybody should've asked themselves at some point.

What makes one technology superior to another? And even *more importantly* -

How will that translate into financial success for a company? Because at the end of the day, a ?great technology? doesn't always mean a ?great business.?

?This was a ?tough question?? is actually the understatement of the year ? this really is the *million dollar* question!

This is the question venture capitalists (VC's) ? those super-wealthy investors that invested in Google before you and I ever heard of the word ? ask themselves every single day.

And the ones that can answer it stand to make millions!

So I'll do my best to put on my ?Venture Capital Hat? and explain the process I go through when evaluating a technology. The approach is slightly different from one that a VC would take because as investors in the stock market, we also have to take short-term (less than 5 years) trends into account as well.

I, for one, am not a big proponent of investing in a technology 10 years before everybody else if it's in the public equity markets. I'm looking for a slightly quicker turn around time on my investment ? just like you

So let me get down to it ?

When we check out a technology, we have to look at it and see if it possesses any or all of the following three characteristics:

So what does

Let me explain ?

## 1. Basically, is this technology fundamentally different from anything else currently out there AND is it difficult to duplicate?

Because in the world of technology, being different just isn't enough. If all it takes is two kids in a basement to copy what you've just invested millions to create, then the technology itself isn't where the value is.

Let me give you an example ...

In the early days of the Microsoft (Nasdaq: MSFT) Windows Operating System, we had a piece of software that cost millions of dollars and thousands of man hours to create. This was also before the Internet, and it was, therefore, almost impossible to get a bunch of ?open source? programmers together to create a competing product like Linux.

So, at the time, Microsoft certainly had a technology that was different *and* difficult to duplicate.

Now, the story has changed quite a bit. We have competition from a FREE Operating System known as Linux and with the number of web-based software applications being launched, Microsoft is in serious trouble.

This illustrates two important points:

## 2. Does the technology benefit from economies of scale?

Basically, this means does it get cheaper to produce the technology or does the technology get fundamentally better with more people having bought or used it?

This is actually much simpler than it sounds, so let me give you an example that I'm sure you can easily relate to ?

Google (Nasdaq: GOOG) has a technology that benefits from more people using it. Now, most folks think Google is just a way to find information on the web ? in fact, it's probably the most accurate way to find information on the web.