



**BroadVision Case 2000<sup>1</sup>**  
***Draft***  
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In his Q2 2000 conference call with investors, BroadVision's CEO Dr. Pehong Chen has explained the strategic direction for his company. During the seven years of its existence, a considerable internet age, BroadVision has moved from the development of rule-based personalization engines, to the development of e-business platform software, to, finally, the developed of packaged web application solutions. Chen said,

Businesses buy software to automate business processes, create efficiency, and solve problems. It is application software products that meet this need and solve these problems not the plumbing or platform products. Broadvision platform is the best in the industry, but it only represents 10% of our entire product stack. The other 90% of BroadVision's value proposition is in the application layers, where we currently have no direct competition -- certainly not in the same holistic sense. By the end of this year Broadvision will have 12 applications that sit on a common platform including for B2B and B2C commerce, e-billing, e-finance, e-procurement, knowledge management, e-publishing, m-commerce, global commerce, Enterprise Relationship Management, e-marketplace, and a number of other portal applications to serve corporate employees in the travel industry"

BroadVision's entrance into the web-applications market space has already generated some acknowledgement. In July 2000 two weeks before Chen's speech, IDC ranked Broadvision's as the number one eCRM (Customer Relationship Management) player.

**Overview**

On its way to becoming the SAP of the e-business world, in September 2000 BroadVision already had 7 E-business applications on the market covering B2C, B2B, B2E, B2B2B, and B2B2C spaces. BroadVision One-to-One Enterprise, which incorporates Broadvision's rule-based personalization engine, remained a common backbone technological platform for its applications. Pehong Chen, the CEO, repeatedly

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<sup>1</sup> This case was prepared by Natalia Levina (PhD 2001 - MIT Sloan School of Management) under the supervision of Prof. Erik Brynjolfsson of the MIT Sloan School of Management. The case is a follow up to the Broadvision Case 1999 prepared by Brynjolfsson, DeLay, and Charlet. The cases were developed as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Copyright ©2000 by the MIT Sloan School of Management. All rights reserved.

calls his new strategy the creation of “high yield enterprise e-business ecosystem solution space.” But, unlike SAP, BroadVision wants to be “one stop shop” for all customer needs, from procurement to marketing, rapidly spanning many vertical and horizontal markets. “It will be packaged solutions at the end of the day,” stated Chen. Chen believes that BroadVision can win in the e-business packaged application space due to its robust set of complete solutions and its deep knowledge of the customer.

### Financials

For BroadVision, Q2 of 2000 was the 17<sup>th</sup> consecutive successful quarter both in terms of surpassing previous quarter results and exceeding analysts’ expectations. It was also 10<sup>th</sup> profitable quarter.

Key financial results for the Q2 200 and comparisons versus prior quarters were as follows:

	Quarter ended Q2'00	Quarter ended Q2'99	Annual Growth	Quarter ended Q1'00	Sequential Growth
<b>Revenues</b>	\$95.3 million	\$23.5 million	306%	\$61.5 million	55%
<b>Operating Income</b> <i>(Pro Forma-Q2'00 only)</i>	\$13.5 million	\$2.9 million	366%	\$9.2 million	47%
<b>Net Income</b> <i>(Pro Forma-Q2'00 only)</i>	\$10.6 million	\$3.3 million	221%	\$10.0 million	6%
<b>Diluted EPS</b> <i>(Pro Forma-Q2'00 only)</i>	\$0.04	\$0.01	300%	\$0.04	0%

Key financial results for the first six months of 2000 as compared to the same period of 1999 were as follows:

	Q1-Q2'00	Q1-Q2'99	Annual Growth
<b>Revenues</b>	\$156.8 million	\$41.9 million	274%
<b>Operating Income</b> <i>(Pro Forma-Fiscal 2000 only)</i>	\$22.7 million	\$5.5 million	313%
<b>Net Income</b> <i>(Pro Forma-Fiscal 2000 only)</i>	\$20.7 million	\$6.3 million	229%
<b>Diluted EPS</b> <i>(Pro Forma-Fiscal 2000 only)</i>	\$0.07	\$0.02	250%

The steadiness in the Diluted EPS is actually a good sign as BroadVision expected it to decline due to the integration with its recent and biggest acquisition of Interleaf Inc. – a Massachusetts based company specializing in a content management solution called BladeRunner. The acquisitions cost BroadVision \$802 million in common stock shares.

Company considers the acquisition successful. About a third of the revenue for Q2 was attributable to the Interleaf's content management product. The new product that integrated BroadVision's and Interleaf's technologies was called "BroadVision Publishing" and accountable for 13% of the total licenses sold during Q2.

BroadVision overall growth since it went public is captured in the following table:

<b>Selected Figures</b>	<b>Q1, Q2 1999</b>	<b>1999</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>Acquire Interleaf</b>	4/14/2000				
<b>IPO date</b>					12/15/96
<b>Revenue</b>	\$156,8000,000 (for 6 months)	\$115,514,000	\$50,911,000	\$27,105,000	\$10,882,000
<b>Net Profit (Loss)</b>	\$20,700,000 (for 6 months)	\$18,809,000	\$4,039,000	(\$7,373,000)	(\$10,145,000)
<b># of employees</b>	1,517	602	235	177	120
<b># of customers</b>	920	538	274	153	49
<b># of partners</b>	156	123	70	not known	not known
<b># of foreign offices</b>	22	16	10	not known	not known

During Q2 2000, BroadVision has considerably increased its professional services arm, which became 3 times larger than it was in Q1, totaling about 700 people. This part of the business has been taking larger and larger percentages of total revenue (35% in 1999) as BroadVision realizes that its customers and partners are lacking expertise in using their products. BroadVision plans to train 13,000 internal and external consultants in the use of their product by the end of 2000.

Its financial results are getting Broadvision much recognition on Wall Street. In 1999, it has been named to Fortune's e-50 list and included in NASDAQ's 100 index.

### **Products**

BroadVision's One-to-One Enterprise technology platform includes cross-industry functionality, customer profiling, content management, adapters to third-party systems, algorithms, and matching technologies.

Currently offered products include:

<b>Solution</b>	<b>Purpose</b>	<b>Added in</b>
BroadVision Billing	automates bill management and harvest personal info from bills	Q3 2000
BroadVision Business Commerce	manages channel relationships including inventory, pricing, contracts	
BroadVision Finance	specialized e-business solution for online banking and brokerage	Q3 2000
BroadVision Knowledge	intranets and extranets to portals based on internal data sources	
BroadVision Procurement	internet and wireless procurement solution	
BroadVision Publishing	content management solution based on the Interleaf's BladeRunner that allows to publish from MS Office.	
BroadVision Tools	a collection of content management tool to help non-technical people publish on the web.	
BroadVision Market-Maker	supports internet marketplaces with emphasis on customer communities	Q3 2000
BroadVision Retailer	Specialized e-business solution for retailers	Q3 2000

Figure 1 depicts Broadvision's product architecture.

This set of application is responsible for the following revenue breakdown

<b>License Used For</b>	<b>Percent of Product Revenues</b>
B2C	40%
B2B	39%
B2E <sup>2</sup>	21%

By the end of Q2 2000 Broadband technologies powered 384 live sites.

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<sup>2</sup> B2E refers to the "Business to Employee" segment

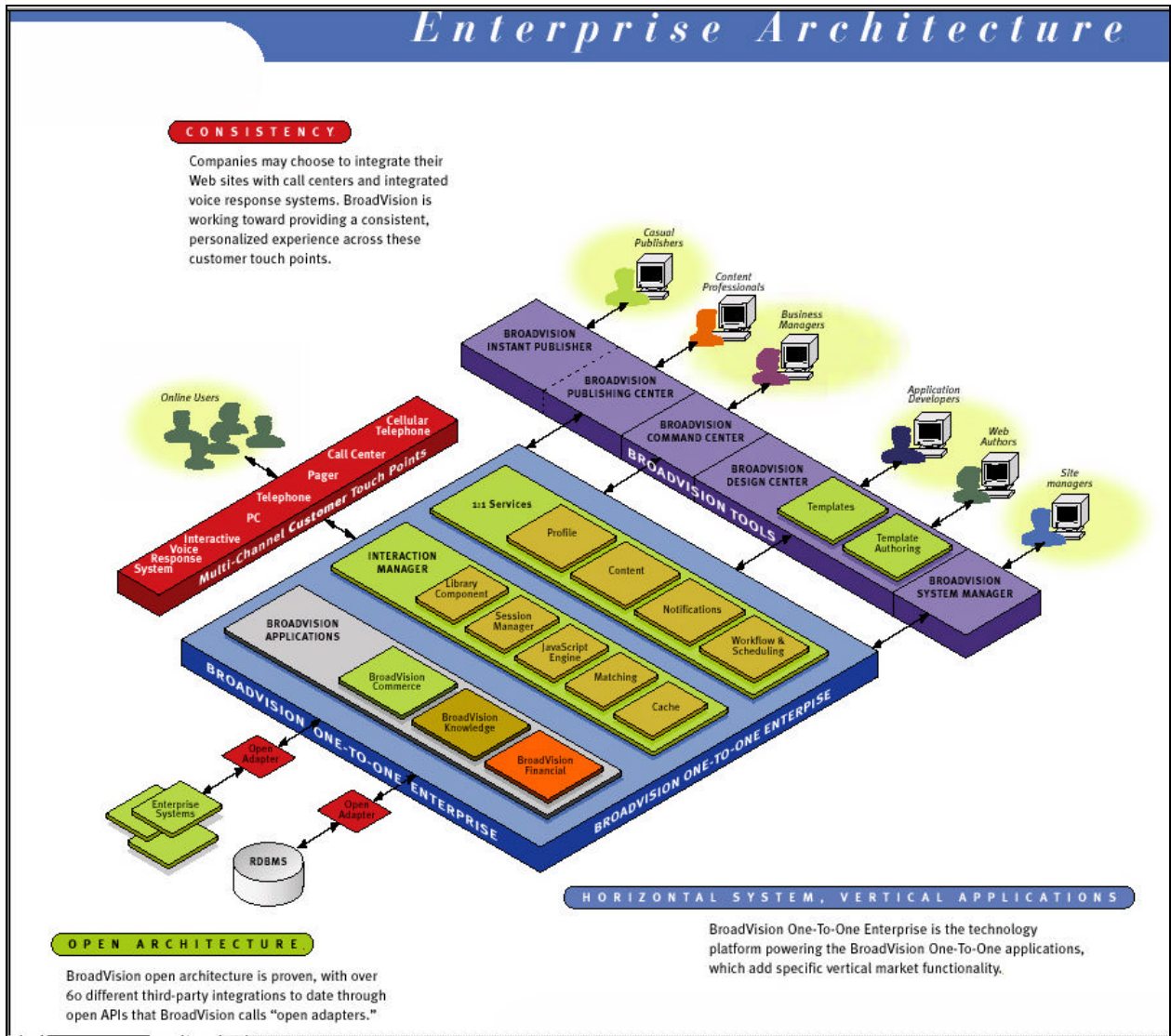


Figure 1

## Technologies

BroadVision is a strong believer in providing robust multi-platform solutions based on open standards. Current solutions are supporting XML, and throughout 2000 the products will integrate various wireless protocols (WAP, WML, BlueTooth, etc.), XML, XSL, JAVA, J2EE, EJBs.

Pehong Chen in his Q2 2000 report said that in 2000 BroadVision is putting emphasis on the development in J2EE, XML, and XSL – which will provide more platform independence. The development of wireless applications that are based on XSL was considered as “probably the biggest opportunity we have ever seen.” Much of this work is leveraging Interleaf’s content management technology recently acquired. Given the size of the opportunity, on September 5<sup>th</sup>, 2000, BroadVision announced a joint venture with H&Q Asia Pacific, a leading private equity investor in Asia, to create a new

company, a Business Services Provider (BSP) to deliver B2B mobile commerce (m-commerce) services to the worldwide wireless market. The tentative name for the company is “B-mobile.”

Broadvision products are “truly multilingual” in that they run on both NT and Unix platforms and are compatible with COM, CORBA, EJB, J3EE, and various JAVA servers and applets. They are also integrated with many CRM and ERP back office relying heavily on third-party middleware.

The latest suite of application is integrated with Dreamweaver software to ease of graphical user interface development.

According to the CEO, BroadVision software is fully backward compatible so that customers should incur no conversion costs.

### **Partnering.**

BroadVision pursues strategy of extensive partnerships or, as Chen puts it, “of getting the biggest footprint.” 66 out of 820 new licenses sold in Q2 2000 came from its partners.

#### *Consulting Partners.*

BroadVision has partnerships with Big Five consulting firms. In fact, consulting using BroadVision products was the second largest e-business consulting segment for Andersen (*Siebel* products was #1). It also partners with mid size system integrators like iXL, March1st, Viant, Sapient, Organic, Inc, and others.

#### *Technical Partners.*

On September 8<sup>th</sup>, 2000 BroadVision has announced its partnership with IBM to integrate its full suite of one-to-one application with IBM’s performance RS/6000 servers. This adds to BroadVision strategic partnership with HP and Sun to develop and co-market software for their servers.

BroadVision aims at providing seamless integration with its customers’ current internal and external applications. For this purpose it partners with Enterprise Application Integrators (EAIs or middleware) such as STC, NEON, BEA and Tibco.

Other technical partners involve customer analytics product producers like E.piphany, which help clients analyze customer data that BroadVision software gathers.

Many recent partnerships involved specialists in the wireless domain such as Ericsson. BroadVision plans to put its presentation independent software that will be fully developed in XSL into Ericsson’s wireless devices.

#### *Application Service Providers (ASP)*

ASPs such as Corio provide packaged functional area solution to enterprises. They often use BroadVision platforms.

### **International Reach**

BroadVision continues its international expansion. In September of 2000 it had 22 foreign offices. In 1999 it got listed on Neuer Market in Germany. Through its network of partners BroadVision has reach into more than 34 countries. The following table reflects international revenue breakdown.

<b>Region</b>	<b>Percent of Revenue</b>
North and South America	67%
Europe and Middle East	23%
Asia/Pacific/Japan	10%

Companies CEO believes that Broavision's expansion into the wireless market will require close cooperation with its Europe's and Asian partners where wireless services are more widely spread.

### **Competition**

In its web solutions providers market, Vignette, ATG (Dynamo), and IBM (WebSphere) are considered to be among BroadVision's top competitors. The market is still very fragmented with no competitor owning more than 15% of the market. Unlike BroadVision's rule-based personalization engine, Vignette, its biggest competitor, uses collaborative filtering technology and puts emphasis on front end over back end transactions automation. ATG like BroadVision uses rule-based personalization. BroadVision has settled a lawsuit with ATG, which accused ATG of copyright violation. As a result of the settlement ATG has been paying BroadVision significant licensing fees. IBM's Websphere personalization engine has both collaborative filtering and rule-based components. As part of the September 2000 agreement with IBM, IBM consulting will provide full support for BroadVision services and IBM will work on integration between BroadVision's products and IBM's WebSphere.

In Q3 Broadvision has entered into a direct competition with its former partners providing eCRM solutions like Siebel and B2B marketplace platforms like Ariba and CommerceOne. It also competes with content management systems likes Blue Martini and InterWorld, Calico, and others. Some of these companies have huge marketcaps and entered the market much earlier than BroadVision did. Siebel, for example, also aims at becoming SAP of the e-world; while it lacks personalization capabilities it is a strong leader in the eCRM space. Yet, Pehong Chen is optimistic about Broadvision's advantage through superior technical approach, comprehensiveness of its solution, and attention to its customers.

Despite the expansion of its Professional Services business, Broadvision doesn't see itself competing with its consulting partners. 90% of its accounts are partner lead when it comes to the execution. Professional services business is seen more as a help for partners than as their replacement.

## Clients

BroadVision puts emphasis on building relationship with its existing customers. About 50% of the business was repeat business in both 1999 and 2000. It also prefers to have a larger deal size averaging about \$180,000. Unlike some of its competitors (ATG), Broadvision insists on talking to top executives as apposed to E-commerce tzars and IT managers. As a result of these policies, the company leaves smaller market segments, which need customized solutions to its competition. "If they have 10000 men-years in 3-6 months internet time frame [to customize their products], let them do it. The quality is questionable," said Chen.

Broadvision has achieved significant penetration in retail industry. Six of the largest Fortune 500 retailers in the United States use Broadvision's applications for e-business.

<b>Retailer</b>	<b>Fortune 500 Ranking</b>	<b>1999 Revenue</b>
Wal-Mart Stores	3	\$139 billion
Sears Roebuck & Co.	15	\$41 billion
The Home Depot	32	\$30 billion
Federated Stores (Fingerhut)	95	\$15 billion
Circuit City	182	\$10 billion
Office Max	358	\$5 billion

Also, at the end of 1999 BroadVision products were used by more than 50 financial firms.

A sampling out of 161 new licenses added in Q2 2000 includes B2B digital marketplaces (Ecomm Systems), Financial Services (Barlays B2B.com), Retail (Sams Club), Manufacturing (Fujitsu), Media/Entertainment (PlayNet), Professional Services (PWC Unifi.com), Travel and Tourism (Japan Airlines), Healthcare (Baxter).

On July 7<sup>th</sup>, 2000, Broadvision lost 30% of its marketcap due to the announcement that its prior customer AMR's American Airlines has decided to switch to ATG's Dynamo. The contract loss was attributed by the press to Broadvision lack of leadership in JAVA products, which will be addressed with January 2001 new version release. Despite the fact that no one customer accounts for more than 10% of the business, Wall Street's reaction was quite violent.

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Pehong Chen received many congratulations from analysts on successful Q2 2000. He is a frequent invitee to investor and industry events. Everywhere he goes he talks about the great financial success of his company. Indeed, Broadvision has been showing incredible performance. Over the years, his description of the competitive advantage of the company has shifted from being the #1 personalized marketing platform, which Broadvision has arguably achieved, to being the #1 web application. This is a much more ambitious goal. Chen is certain Broadvision can do it.