I

Introduction

A Purpose

The objectives of this forecast update are to:

- Identify the business and technological issues and trends driving the use of information services within the business services sector
- Forecast user expenditures on information services during the next five years for the business services sector
- Discuss the competitive environment and profileleading vendors in the business services sector

The emphases of this report are on updating INPUT's 1994 forecasts and forecast assumptions for the business services industry sector and on identifying changes in forces impacting this market over the last fifteen months. The report provides readers with insights and information that will help:

- Review forces shaping the market
- Develop internal corporate financial projections
- Identify new markets and product and services opportunities
- Assess competitive trends
- Determine potential market directions
- Assist in prioritizing investments

B
Sector Definition

The business services sector contains a wide variety of businesses that provide services for a fee or on a contractual basis, instead of manufactured products or goods. Another common characteristic is these businesses are participating in a massive transition in the U.S.—from an industrial to a service-oriented economy. Exhibit I-1 shows the sector components covered in this report.

Exhibit I-1

Industry Sectors Covered in this Report

SIC	Subsector	No. of Establishments (Thousands)
65	Real Estate	217.0
70	Hotels, Other Lodging Places	50.6
72	Personal Services	186.1
73	Business Services	292.3
75	Automotive Repair, Services, Parking	156.6
76	Miscellaneous Repair Services	67.4
78, 79, 84	Amusement and Recreation, including Motion Pictures and Museums	113.1
81	Legal Services	142.4
83	Social Services	115.6
86	Membership Organizations	218.2
87	Engineering, Accounting, Research Management and Related Services	201.1
	Total	1,760.4

Source: U.S. Bureau of the Census, 1990 County Business Patterns

The business services sector includes a broad range of activities. Each of the categories in Exhibit I-1 can be further broken down, as shown in Exhibit II-2.

Exhibit I-2

Detailed Industry Descriptions by SIC Code

SIC	Group Description
65	Real Estate Operators and Lessors; Real Estate Agents and Managers; Title Offices; Land Subdividers and Developers
70	Hotels and Motels; Rooming and Boarding Houses; Camps and Recreational Vehicle Parks; Organization Hotels and Lodging Houses on a Membership basis
72	Laundry, Cleaning and Garment Services; Photographic Studios; Portrait; Beauty Shops; Barber Shops; Shoe Repair and Shoeshine Parlors; Funeral Services; and Miscellaneous Personal Services
73	Advertising, Consumer Credit and Mercantile Reporting Agencies; Adjustment and Collection Agencies; Mailing; Reproduction; Commercial Art and Photography; Stenographic Services; Services to Dwellings; Miscellaneous Equipment Rental and Leasing; Personnel Supply; Computer Programming; Data Processing and other Computer-Related Services; and Miscellaneous Business Services
75	Automotive Rental and Leasing, Without Drivers; Automobile Parking; Automotive Repair Shops; and other Automotive Services
76	Electrical Repair Shops; Watch, Clock and Jewelry Repair; Reupholstery and Furniture Repair; and Miscellaneous Repair Shops
78	Motion Picture Production; Distribution and Allied Services; Theaters; and Video Tape Rental
79	Dance Studios, Schools and Halls; Theatrical Producers; Bands, Orchestras, and Entertainers; Bowling Centers; Commercial Sports; and Miscellaneous Amusements and Recreation Sports
81	Legal Services
83	Individual and Family Social Services; Job Training and Vocational Rehabilitation Services; Child Care Services; and Residential Care Services
84	Museums and Art Galleries; and Aboreta and Botanical Or Zoological Gardens
86	Businesses Associations; Professional Membership Organizations; Labor Unions and Similar Labor Organizations; Civic, Social, and Fraternal Organizations; Political Organizations; Religious Organizations; and other Membership Organizations
87	Engineering, Architectural, and Surveying Services; Accounting, Auditing, and Bookkeeping Services; Research, Development, and Testing Services; Management and Public Relations Services
89	Services Not Elsewhere Classified

Source: U.S. Bureau of the Census, 1990 County Business Patterns

Most of the categories can be further segmented into still smaller categories. There are specific computing services aimed at many of these individual categories. Melson Technologies, a value-added reseller (VAR), offers a product called Skyline software which allows users in the real estate business to compute monthly and percentage rents and taxes, print

statements, invoices, late notices and tenant histories for commercial retail and residential real estate holdings. Apian Software makes a software product called Survey Pro, a program for designing survey questionnaires and tabulating resulting data in a bundled database.

The vast majority of firms in the business services market are quite small, what one might describe as "mom-and-pop" operations. In legal services, for example, among many thousands of law firms, fewer than 3% have 25 or more lawyers, and fewer than 1,200 firms have 60 lawyers or more. Of the roughly 39,000 firms in the engineering, architectural and surveying segments, fewer than 110 of them employ more than 500 people, and three-quarters employ fewer than 20.

A fundamental reason for this high degree of fragmentation is that services are typically provided by local firms to local customers. For example, even a very large law firm must limit its operations to the state in which the majority of its partners and associates are members of the bar. Thus, the vendor must have a presence in the city, county, state or region where the customers are located. Fragmentation is further encouraged by relatively low impediments to market entry, the diversity of business service requirements, and the competitive focus within this market on unique, specialized services to the customer.

C
Key Issues

The issues discussed in this report remain consistent with the status of business services noted in the 1993 and 1994 reports. They include:

- The continuing trend in American business to control operating costs, including those for business services and demands that vendors provide competitively priced, effective services.
- The competitive climate in the market continues to require that vendors devise innovative products and marketing strategies to serve customers and achieve success in the business services sector.
- Business services companies are still under internal pressure to streamline their own operations and control costs to remain competitive. Client/server computing and outsourcing are two of the most popular technological ways for business services vendors to develop new products, support existing products and satisfy customer needs.
- Moderate instability in the U.S. economy during the last two years has encouraged the cost-cutting trends in American business, thus creating opportunities for business services companies. In addition, the growing

need for, and use of, technology in such service segments as hotels, automobile rentals and real estate presents opportunities for business services companies which did not exist in the early 1990s. Since INPUT's 1994 report, the U.S. economy has continued its rocky recovery from recession, creating a favorable atmosphere for information services spending.

D
Organization

In addition to this introductory chapter, this report contains analyses of the business services market as described below:

- Chapter II, *Trends, Events and Issues*—discusses changes, market issues and activities, and competitive factors in the business services sector that have an impact on present and future information services use in the market.
- Chapter III, *Information Services Market Forecast*—presents an analysis of information services expenditures for the business services applications market by product/service market and subsector.
- Appendix A, *Forecast Database*—presents a detailed forecast by product/service market and subsector for the business services cross-industry market. A reconciliation of the 1994-1999 forecast is also provided.

E
Methodology

Much of the data that this report is based on has been gathered during the second quarter of 1995 as part of INPUT's ongoing Market Analysis Program. Trends, market sizes and growth rates are based upon INPUT's research on both the users in the business services cross-industry market and the information services vendors serving this market. INPUT maintains ongoing relationships with many users and vendors in this market and keeps track of their activities in a database.

In addition, INPUT made extensive use of its corporate library located in Mountain View, California. The resources of this library include on-line periodical databases; subscriptions to a broad range of computer and general business periodicals; continually updated files on more than 3,000 information services vendors; and the most up-to-date U.S. Department of Commerce publications available on industry issues.

In regard to vendor-related information and analysis, INPUT must note that some vendors may be unwilling or unable to provide detailed revenue breakdowns by product/service market or industry. Also, vendors often use different categories for industries and industry segments, or may place their services in different product/service markets than the ones INPUT uses. Therefore, INPUT must estimate revenues in these categories on a best-effort basis. For these reasons, readers must regard the product/service market and individual segment forecasts as indicators of general patterns and trends rather than as specific, detailed estimates for individual years.

F
Related Reports

INPUT has published the following reports that may be of interest to the reader:

Current INPUT resports as applicable, with updated titles -DR

II

Trends, Events and Issues

The diverse nature of the establishments in the business services sector makes it challenging to identify and track common trends. The services these firms provide are myriad; therefore, the issues and requirements have few elements in common with other vertical markets. INPUT has summarized key business trends that impact most business services firms, as shown in Exhibit II-1. These trends have become evident over the last several years and should continue through the forecast period.

Exhibit II-1

Key Business Trends

- Cost-control pressure
- Innovative marketing of services
- Competition drives vendor cost control
- Improved economic outlook

Source: INPUT

The transition from an industrial to a service-oriented economy continues in the U.S. As a result, companies still scrutinize their operating costs and expenditures, looking for practical ways to trim overhead or operate in more cost-effective ways. As more companies cut back on their nonstrategically focused departments, the demand increases for outside business services providers.

In general, services firms are less sensitive than nonservice firms to economic conditions because they lack heavy fixed costs. As a result of the economic slowdown during 1992 and 1993, external business services remain a preferred way of cutting internal costs, a trend held over from a lean economy. The good news is that as the U.S. economy continues the recovery begun during late 1993, slowed somewhat in 1994, and now aggressively pursued in 1995, business service use will increase, particularly

in leisure-related industries which benefit from improved consumer spending due to a healthier disposable-income base.

However, this sector remains prey to certain negative economic effects, which include the following:

- Transaction-based buying and selling firms, such as real-estate brokers, agents and credit-reporting agencies, will remain prey to decreases in transaction services demands if the economy weakens or destabilizes. This is particularly true for real estate, which is among the first, most negatively affected business segments in any economic downturn.

- The recession of the early 1990s had a crippling effect on the lodging industry in general. Hotel construction is still down compared with the 1980s, although revenues for larger chains, such as Marriot and Hyatt, have grown respectably over the last several years.

The consumer services segment of business services has become a prime motivator for firms seeking marketshare in the increasing business generated on the Internet. In the 1994 business services report, INPUT described the competition to establish an on-line pathway into the American home as a race. In 1995 it has become a heated battle. The strategic importance of on-line consumer services, combined with the recent de-regulation of the U.S. telecommunications industry, has put telephone companies in competition with cable TV providers in a mad scramble for on-line marketshare. Perhaps the most controversial player in this arena is Microsoft, which has bundled its own on-line service with its Windows '95 operating system, released in late August, 1995. With Microsoft's virtual monopoly in the PC operating system market, private sector competitors and Justice Department officials view the Windows '95 bundling strategy with anti-monopolistic rancor.

Profitability remains as important in the business services sector as in other industry sectors. Firms are still seeking more direct and innovative ways to market services and are grappling with questions, such as what they can do to improve marketing strategies and distinguish themselves from the competition. Consumer-focused products are currently considered a more profitable Internet development goal. However, there exists a growing market for third-party vendors that offer consumer and business access to the World Wide Web sector of the Internet. Vendors of this type also typically offer Web page design and maintenance services to small and medium-sized businesses. Ultimately, the implication for telecommunication and on-line business information services will radically alter American work processes.

The following paragraphs offer a selection of the trends and activities within business services as they relate to selected markets:

Real Estate

In the real estate market, VARs have discovered that property management systems are hot items in nearly every segment, including commercial, retail, industrial and residential real estate markets. As yet, client/server systems for this type of real estate activity are still new to many firms, yet users in this market are realizing the value of using technology to manage property portfolios to ensure the highest profit. Melson Technologies, as noted in Chapter 1, is a VAR achieving success in real estate. CTI Limited, Inc. offers its own property management system, called the CTI Real Estate System, which allows users to track financials such as rent, general ledger and accounts payable figures regardless of the size of a user's portfolio.

Large, integrated systems are not the only way real estate companies are improving performance with technology. For example, in 1994 William Raveis Real Estate, Inc. equipped 1,200 of its salespeople with notebook computers and contact-management software rather than upgrade the company's mainframe contact system. Using the notebooks as high-powered personal organizers, the firm's sales force improved productivity by nearly 40% after several months. Using the notebooks allowed William Reveis to more effectively mobilize its salespeople and reduce costs by avoiding a costly mainframe system overhaul.

Hotels

Business travelers and their unique needs have become a profitable focus within the hotel industry. Hyatt Hotels, for example, has developed Business Plan rooms which Hyatt has constructed in nearly 100 of its hotels. These special accomodations are redesigned suites which offer workstations, fax machines and two or more phone lines for business traveler use. In addition, Hyatt gives Business Plan customers access to printers, copiers and office supplies 24 hours per day. Hilton offers a comparable service, called BusinessSavers, at a cost of $10 to $20 more than the daily corporate rate. The Radisson hotel chain offers business guests dataport-equipped phones and lower telecommunications fees for modem use.

Interactive services are another opportunity in the hotel industry. By offering such services, like movies on-demand or in-room video games, a given hotel can increase its revenue per room by as much as 35%. Leaders in this interactive market include LodgeNet Entertainment Corporation and Comsat Video Enterprises. In the last year, LodgeNet has expanded the services offered to hotels by including Super Nintendo games on its interactive in-room service. The company has also successfully test-marketed in-room printers which can provide guests with sight-seeing maps and restaurant coupons on demand. Comsat has developed CityKey, an on-line vistor's guide developed with US West Communications, that gives hotel

guests interactive guidance to local restaurants, shopping centers and landmarks.

Auto Leasing and Rentals

Client/server technology has found a home in the automobile leasing and renting market. One company, Wheels, Inc., is a corporate fleet auto rental company which utilizes a three-tiered distributed architecture that has helped the company improve its customer service. Wheels maintains a fleet of 150,000 automobiles and manages them through eight regional sales offices. The system used for this has three parts: a business-logic layer; a presentation layer; and a data layer. With this system divided in this manner and operating cooperatively, Wheels can generate status and billing reports in greater detail to meet customer needs. Internally, the system gives employees faster and more accurate access to data, and has improved internal communications.

Enterprise Rent-a-Car has also implemented client/server technology, with a system based on IBM hardware and the OS/2 operating system. Enterprise's system consists of 1000 PS/2 machines running OS/2 connected to Token Ring LANs. These LANs are, in turn, connected to a satellite network of about 20 AS/400s, which allow employees to share data company-wide. Most applications reside on the wide-area network, improving compatibility and system performance.

Legal Profession

In the legal profession, the O.J. Simpson trial unfortunately provides no better example of how far computer hardware and software technology has permiated the practice of the law. Any televised or printed image of this trial shows a courtroom enerusted with PCs and other forms of computer technology. Computers have become a de facto standard tool in the presentation of evidence and the recording of testimony in courtrooms throughout the U.S. Lawyers in the Simpson case took an experimental approach regarding evidence when they used a graphics workstation and specialized forensic software to present a fully-rendered, three-dimensional computer simulation of how evidence suggested Simpson's ex-wife and her friend were slain. Although controversial, this "computer-aided evidence" (or "cyber-evidence") technique could become a mainstay for the law profession in the future.

For the most part, however, technological advances in the legal market are limited to the growing acceptance of personal computers, desktop applications software, and LANs. The primary reason for this is that practicing law is a very paper- and document-storage-intensive profession. What legal firms need are ways to manage the mounds of documents their businesses generate everyday. For this reason, document management and

imaging provide the best opportunities in this market. Los Angeles law firm Howrey & Simon, for example, uses scanners, optical character recognition (OCR) technology and a multi-user archival and retrieval system (MARS) to collect and manage legal documents and data. Through a Macintosh WAN and a series of T1 lines, the firm can collect and distribute text and data throughout its offices in L.A., Denver and Washington, D.C.

Entertainment

Even though the Internet is still a somewhat experimental medium for entertainment, it is becoming increasingly clear that the movie theater and the television are no longer the primary sources of amusement in our nation. While perusing the movie section of the local paper, you may find it more and more common to see a World Wide Web address printed somewhere in the advertisment for a movie you are thinking of seeing. Recent films like *Johnny Mnemonic*, *The Net* and *Congo* have utilized the novelty and increasing appeal of the Web to further their advertising campaigns and increase movie-related profits. These efforts could fall under the headings of advertising and public relations, two components of business services. Yet, when these components of a media campaign become interactive, entertaining and fun, placing them in a particular category becomes more difficult, and perhaps irrelevant.

Broadcasting companies are also taking their entertainment offerings to the next phase, the Web. In San Francisco, for example, four of the seven local network affiliates have Web pages. These affiliates include those of ABC, CBS, PBS and the United Paramount Network (UPN). ABC, CBS and NBC also provide on-line access through America Online and CompuServe. In an increasingly real sense, the computer a person uses at home, the office, or in an hotel room can take on the roles of movie house, television network, newsstand and any of myriad news, entertainment and intelligence gathering entities.

Many of the business services subsegments provide services that are difficult to differentiate. Enhanced service differentiation and, therefore, potentially higher profit margins may be achievable by increasing the added value of the business, as was noted previously in the narrative on real estate. For example, some accounting firms and tax preparation companies, like H&R Block, offer electronic submission of income tax documents to speed tax return processing and refunds to consumers.

Service providers—like companies in all industries—always seek information services and technology to boost profits or at least minimize losses. Although the U.S. economy is fairly stable, the North American Free Trade Agreement, the escalating battle with Japan over U.S. trade deficits and dissatisfaction with the Clinton Administration remain sources of trepidation for business services providers who have to continually improve

their own business processes to remain competitive. Information services that help to achieve the objectives of increased operating efficiencies, more efficient operations and more innovative marketing, are positively influenced by the trends and issues impacting services.

Improved service as a whole, particularly the ability to respond to requests for information before and during the sale, and for service during and after the sale, is a key business offering today. The trend is fueled to some extent by the established view of service as a product and the overall movement toward a service economy. As a result, information services that enhance availability of, and access to, information will experience healthy growth.

III

Information Services

INPUT has adjusted its 1995 forecast from the previous year to reflect user expenditures that were higher than predicted in 1994. Information in this chapter draws on the trends, events and issues presented in Chapter II. Section A, Overview, discusses the overall size and growth of user expenditures. Section B, Product/Service Market Analysis, provides discussions of factors affecting each sector on an individual basis.

A
Overview

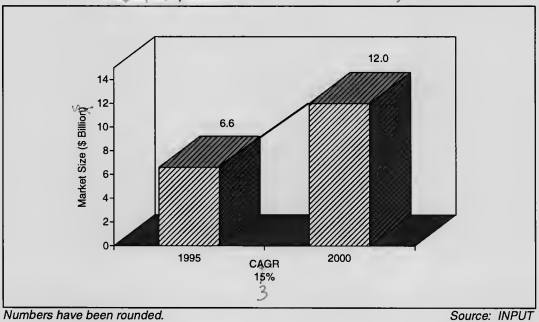
As noted in Chapter II, the pressure to operate more efficiently continues to fuel growth in the business services market. As more powerful hardware and software make it possible to automate businesses at lower and lower costs, penetration of smaller services firms will continue.

As many of the large services subsectors rely on providing expertise on demand, information services that continue to enhance easy access to information will maintain rapid growth. Information services products and services that keep market research people in touch with their markets and close to the needs of their clients are extremely important to the continued success and focus of many companies. Therefore, although needs are not sharply focused, there are continuing demands for dynamic networks and on-line services, such as databases, research libraries, government agencies and professional forums.

INPUT forecasts a 13% compound annual growth rate (CAGR) for the business services sector from 1995 to 2000. The forecast, provided in Exhibit III-1, reflects growth rates comparable, though slightly higher, to those in 1994, but at higher actual expenditures. Processing services and turnkey systems, for example, are predicted to maintain consistent growth but at a slightly higher expenditure levels.

Exhibit III-1

Business Services Markets, 1995-2000



Numbers have been rounded. *Source: INPUT*

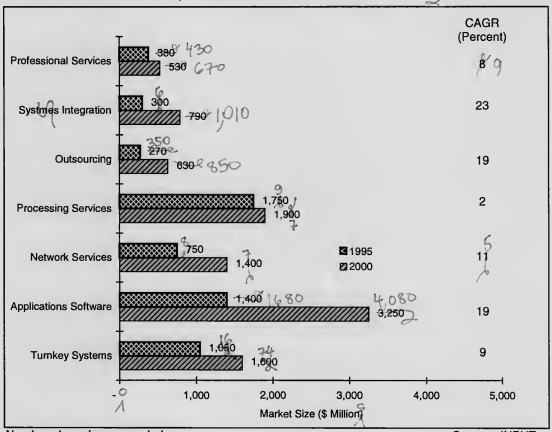
As noted in the 1994 report, the forecast reflects greater expenditures on workstation/PC-based applications software products than reported last year, while it shows falling levels of minicomputer and mainframe applications expenditures.

B
Product/Service Market Analysis

Exhibit III-2 provides forecasts of user expenditures by product/service market. Many businesses are showing increased willingness to purchase outsourcing, systems integration and professional services. However, because the business services sector is composed predominantly of small businesses, expenditures on these product/service markets are quite low compared to network services and applications software products.

Exhibit III-2

Information Services Market by Product/Service Market—1995-2000



Numbers have been rounded. *Source: INPUT*

The fastest growing product/service markets are outsourcing, systems integration and applications software. One reason for the high growth is that these product/service markets provide value to business services firms which use outsourcing to trim internal costs, system integration to update and integrate existing systems, and applications software to relatively inexpensively run desktop administrative tasks. Also, contracts, particularly for outsourcing, still tend to be long-term, thus, bolstering long-term market value.

Processing services is still the largest product/service market, although by 1996, expenditures on applications software products are expected to surpass the demand for processing services. By the year 2000, applications software will be the largest sector, at over twice the value of processing services.

1. Professional Services

The 1994 forecast for professional services for the business services sector has increased 11% from the 1994 forecast, with forecast growth rising from

7% to a 9% CAGR. Many of the market trends that fuel the growth in expenditures for professional services will continue over the next few years. These trends include the following:

- Companies like Andersen Consulting and Electronic Data Systems continue to seek and derive profit from business services consulting, which is still a viable subsector.

- Software development will continue fulfilling a need for the multitude of business services companies that provide specific and specialized services, such as automobile parts suppliers, electronic repair operations, and art museums. These are small markets that can rely more heavily on packaged application software products for most fundamental software needs.

2. Systems Integration

Even though the CAGR is 23%, the relatively low starting base of $362 million in 1995 will increase to just over $1 billion in 2000. Systems integration is a small but important category of the business services information services market. Forecasted growth represents prospects in business services for the PC/workstation platform and specialized applications software integration. The professional services component, as the largest subsector, $211 million in 1995, represents the canopy, under which many systems integration services are offered.

Systems integration expenditures typically represent large contracts only. INPUT assumes that only the large business services companies will use systems integrators over the forecast period. However, as small businesses grow, or merge with other firms to form larger companies, integration services demand will likely increase. This trend is already evident in the legal market, and, to some extent, with business services vendors specializing in on-line services.

3. Outsourcing

Outsourcing, a relatively newer service sector in business services, will grow at a CAGR of 19% between 1995 and 2000 from a base of $355 million to $849 million in 2000.

Economic troubles faced by many firms in the last several years have inclined them toward using outsourcing as a strategic and economical measure. Even notable exceptions from past forecasts, such as hotel chains and large entertainment and amusement businesses, are concentrating on their core business technology in order to cost effectively re-engineer their own systems with outsourced solutions from companies like Timberline

Software and Mead Data Central. Additionally, the trend toward client/server computing solutions will cause a substantial increase in the desktop services subsector, while growth in platform operations will slow down as mainframe technology gets supplanted.

4. Processing Services

The business services sector is the third largest user of processing services of all of the industries examined by INPUT, surpassed only by banking and finance and transportation. Yet, for their large base of processing services expenditures, business services is one of the slowest growth industry sectors.

The largest single subsector using processing services is accounting firms—for tax preparation. This market continues to remain strong although it is feeling erosion from increasing purchases of inexpensive PC-based tax preparation software, from vendors such as Intuit and Peachtree. Other sectors using processing services include hotels for reservation systems and regular business services, which include consumer credit and mercantile reporting agencies as well as collection agencies.

Even small companies that a few years ago were purchasing processing services now prefer to purchase PC-based applications software products. To bolster sales, processing services firms have expanded their provision of remote transaction processing and printing services, thereby allowing customers to have more control over their own data entry and printout. Still, this sector is expected to grow very moderately from nearly $1.8 billion in 1995 to almost $2 billion in 2000, a CAGR of 2%.

5. Network Services

Network services is expected to have an overall growth rate of about 15%, with network applications subsector higher at 26% growth over the next five years. Network services expenditures are expected to grow from about $850 million in 1995 to reach $1.7 billion by 2000. This forecasted CAGR is four points higher than INPUT's 1993 forecast.

The majority of network services expenditures is for electronic information services, on-line information services and commercial e-mail, as opposed to network applications such as electronic data interchange (EDI). Many of the business-oriented services firms, particularly accounting and law offices, require constant access to information. Databases and directories that best lend themselves to on-line distribution require frequent updating and other services involving transactions. Alternative in-house paper-based systems are more costly and, in many cases, literally impossible to maintain.

New variations and specialized information that suit the fragmented nature of the business services sector will become increasingly available and fuel growth for this product/service market. As noted earlier, the growing use of the Internet and the World Wide Web is a result of business services companies, and those in other industries, utilizing a new medium to develop innovative ways of marketing products and services.

6. Applications Software Products

The applications software products market will be a massive market over the forecast period, with growth from over $1.6 billion in 1995 to over $4 billion in 2000, a CAGR of 19%.

Nearly 80% of expenditures are for PC and workstation-based applications software products. Minicomputer- and mainframe-based software growth is expected to generally level out as companies transition to networked PCs, or acquire new, PC-only systems. By 1999, the market for workstation/PC-based products is expected to be more than five times the market for mainframe- and minicomputer-based products combined. Companies such as Microsoft, Lotus, Intuit, Peachtree and NetScape continue to enjoy healthy growth in this business services segment.

7. Turnkey Systems

Turnkey systems are still the niche businesses' answer to outsourcing and systems integration needs. However, increasing numbers of large business services firms are using integrators and applications development tools.

Expenditures on this product/service market are forecast to grow steadily at 9% compounded annually. The highest growth will be in the professional services segment, which will grow 11% annually through the end of the forecast period. The primary growth promoter is that the business services sector will continue to contain specialized businesses, which still require turnkey systems as a form of off-the-shelf product offering. Examples of these types of businesses include motion picture production companies, engineering firms, architectural firms and real estate companies.

Forecast Database and Reconciliation

INPUT has increased its overall forecast slightly for this report. Exhibit A-1 presents INPUT's business services cross-industry sector user expenditure forecast for 1995-2000. Exhibit A-2 presents a reconciliation of the 1994-1999 forecast.

Bob
see Exhibs.
A-1
A-2
from backup
(marked w/ Post-its)

Exhibit A-1

Business Services Sector—Market Forecast by Product/Service Category 1994-2000

Product/Service Markets	1994 ($M)	Growth 94-99 (%)	1995 ($)	1996 ($)	1997 ($)	1998 ($)	1999 ($)	2000 ($)	CAGR 95-00 (%)
Sector Total	2,050	12	2,290	2,559	2,866	3,211	3,611	4,064	12
Professional Services	98	12	110	121	134	146	161	178	10
- IS Consulting	26	15	30	33	39	42	48	55	13
- Education and Training	15	13	17	19	21	23	25	27	10
- Software Development	57	11	63	69	74	81	88	96	9
Systems Integration	121	16	140	165	198	231	266	305	17
- Equipment	41	17	48	56	67	79	91	105	17
- Software Products	10	10	11	13	16	19	22	25	18
- Professional Services	68	15	78	93	111	129	148	170	17
- Other	2	50	3	3	4	4	5	5	11
Outsourcing	281	16	326	379	441	525	619	730	17
- Platform Operations	194	15	223	255	240	346	408	483	17
- Applications Operations	76	18	90	109	134	159	187	220	20
- Desktop Services	4	25	5	6	6	7	8	9	12
- Network Management	7	28	8	9	11	13	16	18	18
Processing Services	206	3	212	217	220	224	229	233	2
- Transaction Processing	206	3	212	217	220	224	229	233	2
Network Services	254	17	298	348	404	469	547	638	16
- Electronic Information Svcs	163	18	192	225	263	307	359	420	17
- Network Applications	91	16	106	123	141	162	188	218	16
Applications Software	828	12	927	1,034	1,154	1,282	1,430	1,595	11
- Mainframe	85	1	86	88	88	89	90	89	1
- Minicomputer	195	8	211	226	239	250	266	283	6
- Workstation/PC	548	15	630	720	827	943	1,074	1,223	14
Turnkey Systems	262	6	277	295	315	334	359	385	7
- Equipment	120	6	127	135	143	150	160	171	6
- Software Products	100	5	105	112	120	129	140	152	8
- Professional Services	42	7	45	48	52	55	59	62	7

Source: INPUT

Exhibit A-2

Business Services Sector, 1994 MAP Database Reconciliation

Product/ Service Market	1993 Market				1998 Market				93-98 CAGR	93-98 CAGR
	1993 Market (Forecast) ($M)	1994 Report (Actual) ($M)	Variance From 1993 Forecast ($M)	Variance From 1993 Forecast (%)	1993 Market (Forecast) ($M)	1994 Report (Forecast) ($M)	Variance From 1993 Forecast ($M)	Variance From 1993 Forecast (%)	per data '93 Rpt (%)	per data '94 Rpt (%)
Total	2,043	2,050	7	0	3,650	3,611	-39	-1	12	12
Professional Services	98	98	0	0	162	161	-1	-1	11	10
Systems Integration	121	121	0	0	269	266	-3	-1	17	17
Outsourcing	280	281	1	0	625	619	-6	-1	17	17
Processing Services	205	206	1	0	231	229	-2	-1	2	2
Network Services	253	254	1	0	553	547	-6	-1	17	17
Applications Software	825	828	3	0	1,447	1,430	-17	-1	12	12
Turnkey Systems	261	262	1	0	363	359	-4	-1	7	7

Overall, the small differences between the 1994 and 1995 forecasts show a fairly robust market which continues to show healthy growth, competitiveness and technology usage. For past forecasts, the U.S. economy has been a major concern for users, who looked to business services as a means of curbing internal costs in lean times. The habits established during the recession continue, although the economy is less uncertain than in past reports. Recovery continues, even in the hotel and real estate industries, which have historically been the most heavily damaged by poor economic conditions.

The percentage differences in the 1998 forecast for outsourcing reflects this spending inclination. Yet, even though the outsourcing segment will continue growing, INPUT underestimated its future growth based because outsourcing grew significantly due to internal cost pressures caused by the 1992-1993 recession. The 1998 market reflects another forecast underestimation, and INPUT expects outsourcing to gain popularity through the end of the decade.

Demand for network services continues to grow, particularly on-line services, and expenditures for this service sector have been upgraded to reflect the users' increasing demand for these services. Network services will continue to experience double-digit growth as on-line, industry-specific services gain wider use and the Internet's capacity grows.

As for applications software, INPUT believes the average business services company will drive the demand for workstation- and PC-based software solutions at about the same rate as previously predicted but at higher expenditure levels. In addition, PC-based local-area network (LAN) systems have gained more popularity in the real estate and legal sectors, for example, further driving demand for applications in this area.

Table of Contents

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List of Exhibits

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EXHIBIT A
(ADM450)

INPUT EDITING CHECKLIST

ck report type:

USA	WASH. D.C.	UK
☐ EDEDI	☐ FISSP	☐ CECSP
☑ MAMAP	☐ SISIP	☐ IEMAP
☐ UIISP	☐ SOSOP	☐ OEOSP
☐ YNGEN–NJ	☐ YVGEN	☐ SESIP
☐ YWGEN–CA	☐ XVGEN	☐ NENSP
☐ WNGEN–NJ		☐ XEGEN
☐ WMGEN–Reg		☐ YEGEN
☐ YRGEN–Reg		
	JAPAN—	☐ JJGEN
	OTHER—	☐ _____

Project Code MVZ5

1st Draft Editor Anna Reynolds Tobacco

2nd/Final Draft Editor _____

Final Corrections _____

Executive Overview _____

First Draft Editing

- ☑ Check TOC[1] outline against text
- ☑ Check LOE[1] against exhibit titles
- ☑ Check headers and footers[2]
  - ✓ Correct name on top I suppose?
  - ✓ Correct code on bottom or marked for correction
  - ✓ Correct © year—No copyright on custom reports
- ☑ Proofread and edit text—**always check against author draft**
  - Correct grammar, diction, and punctuation problems
  - Check for consistency in company/product names, etc.
  - Exhibits must have exhibit references in text
  - Textual description of exhibit must match exhibit contents
- ☑ Proofread and edit exhibits—**always check against author draft**
  - Proofread and edit text and title—title must accurately describe exhibit content
  - Similar exhibits must have similar wording and punctuation
  - Check monetary units and labeling carefully—be sure labels match those in author's draft
  - Similar exhibits must have same numerical scale[2]
  - Check for *x*- and *y*-axis labels[2]
  - Changes to the numbers in exhibits must agree with text.
  - Changes to exhibit names must agree with LOE[1].
- ☑ Mark formatting problems (problems with bold or italic words, font size irregularities, chapter heading and subheading problems, etc.)
- ☑ Discuss all queries with the author, either in person or over the phone, and make the necessary corrections to the text.
  - If there is no abstract in the report, ask author to submit one ASAP (possible exceptions: U.S. MAP vertical-industry reports, some CSP reports, some custom reports). Author's employee number and program year go above project code.
  - No unanswered questions should remain when you submit report to graphics. If the author cannot answer a query within a *reasonable* time, submit report to graphics with a note explaining that the author will respond shortly.
  - If any portion of a report is missing, such as an exhibit or a profile, procure missing item from the author before the report goes back to graphics. When the author specifies appendix(es) are *standard*, be sure that the author has specified the exact appendix . "Standard Appendix A" is insufficient. "Standard Appendix A from report MATKY" is exact.
- ☑ If the report has recurring errors, such as an incorrectly spelled company name, request that the graphics department do a global change. On a query slip, indicate the incorrect word and how to change it, and place the slip on the blue sheet.
- ☑ Submit report/disk to graphics.[3]

First-Draft Editing On-Line

Use same checklist as above; make corrections directly to the document on disk. Flag, highlight, or note questions on the hard copy and discuss with the author. Run spell-checker when finished.[3]

- ☐ Return edited PC disk to program manager (after graphics has a copy to process)

1. When INPUT implements Table of Contents and List of Exhibits automated procedures, omit this step until final.
2. Not in on-line editing.
3. If you edit on-line *before* senior QC, print a clean hard copy—submit hard copy to senior QC.

Second/Final Draft

- ☐ Check implementation of first-draft text and exhibit changes.
- ☐ Check headers and footers (if not done in first draft)
  - Correct name on top
  - Correct code on bottom
  - Correct © year—No copyright on custom reports
- ☐ Do a light rereading of the text to catch errors previously overlooked.
- ☐ Proofread chapter divider pages.
- ☐ Make sure that exhibits appear appropriately in-text.
- ☐ Make sure exhibit numbers in text are sequential by chapter (e.g., II-1, II-2, etc.).
- ☐ Recheck that TOC and LOE names match report/exhibit headings[1]—change TOC or LOE if there is a discrepancy—not the report/exhibit heading.
- ☐ Check that page numbers in TOC and LOE correspond exactly to report pagination.
- ☐ Proofread title page—current month and year at top of page; address at bottom for office where report originated (CA; VA; U.K. reports use all 3 European office addresses); no ©.
- ☐ Proof copyright page—no copyright page in custom reports
  - Check report title, program name, and program acronym (not internal program code)—no acronym for U.K. reports.
  - U.K. reports say "Researched in the U.K." etc. if published in the U.S.
  - Check report code, author's employee number, program year (year written for) and copyright year (when actually published).
  - Check header and footer.
- ☐ Make sure all elements of the report are present
  - Title page
  - Copyright page
  - Abstract (only a few reports don't require an abstract). Back of abstract is blank
  - TOC/LOE
  - Chapter dividers
  - All chapters
  - Appendix(es)
- ☐ Check pagination throughout the report. Each chapter starts with page 1 and ends on an even numbered page. The numbers begin with the Roman numeral of the chapter (i.e., page 3 of chapter 4 is IV-3).
- ☐ If you mark few corrections, flag these pages with query slips for the graphics staff.

Final Corrections

- ☐ Check implementation of all second-draft corrections.
- ☐ Use query slips to flag final changes. Flags are very important. Graphics staff will assume there are no additional corrections to be made if no pages are flagged.

Executive Overview

Most reports have an *Executive Overview* (chapter 2 of the report) printed as a separate document. The *Executive Overview* consists of the following elements:

- Cover
- "To our clients" page (inside cover)
- Abstract (from the report)
- Overview Contents
- Executive Overview chapter from the report (usually chapter 2)
- TOC (from the report)
- LOE (from the report)
- Program description
- About INPUT

What to proofread:

- ☐ Cover page—title.
- ☐ "To our clients" page—completely
  - U.K. reports read "Programme—Europe"
- ■ Abstract is pulled directly from the report
- ☐ Overview Contents—completely
  - U.K. overviews will read "Programme Description"
- ■ Report Table of Contents and Exhibit list are pulled directly from the report.
- ☐ Program description—page numbers (consecutive after list of Exhibits).
- ☐ About INPUT[4]—U.S. or U.K. version as appropriate

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[4]*About INPUT* is a one-page description of INPUT and a list of INPUT offices. It is used in publications as follows;

- Hard-Velobound: inside front cover—bindery
- Soft-Velobound: back page
- Softbound/Executive Overview: back cover
- Binders: back of pre-printed title page

Table of Contents

Exhibits

Chapter I - Introduction

A. Purpose

The objectives of this forecast update are to:

- Identify the business and technological issues and trends driving the use of information services within the business services sector
- Forecast user expenditures on information services during the next five years for the business services sector
- Discuss the competitive environment and profile leading vendors in the business services sector

The emphases of this report are on updating INPUT's 1994 forecasts and forecast assumptions for the business services industry sector and on noting changes in forces impacting this market over the last fifteen months. The report provides readers with insights and information that will help:

- Review forces shaping the market
- Develop internal corporate financial projections
- Identify new markets and product and services opportunities
- Assess competitive trends
- Determine potential market directions
- Assist in prioritizing investments

B. Sector Definition

The business services sector contains a wide variety of businesses that provide services for a fee or on a contractual basis, instead of manufactured products or goods. Another common characteristic is these businesses are participating in a massive transition in the U.S.—from an industrial to a service-oriented economy. Exhibit I-1 shows the sector components covered in this report.

Exhibit I-1

INDUSTRY SECTORS COVERED IN THIS REPORT

SIC	Subsector	No. of Establishments (Thousands)
65	Real Estate	217.0
70	Hotels, Other Lodging Places	50.6
72	Personal Services	186.1
73	Business Services	292.3
75	Automotive Repair, Services, Parking	156.6
76	Miscellaneous Repair Services	67.4
78,79,84	Amusement and Recreation, including Motion Pictures and Museums	113.1
81	Legal Services	142.4
83	Social Services	115.6
86	Membership Organizations	218.2
87	Engineering, Accounting, Research Management and Related Services	201.1
	Total	1,760.4

Source: U.S. Bureau of the Census, 1990 County Business Patterns → Footnote Text X

The business services sector includes a broad range of activities. Each of the categories in Exhibit I-1 can be further broken down, as shown in Exhibit II-2.

Exhibit I-2 Detailed Industry Description by SIC Code

SIC	Group Description
65	Real Estate Operators and Lessors; Real Estate Agents and Managers; Title Offices; Land Subdividers and Developers
70	Hotels and Motels; Rooming and Boarding Houses; Camps and Recreational Vehicle Parks; Organization Hotels and Lodging Houses on a Membership basis
72	Laundry, Cleaning, and Garment Services; Photographic Studios; Portrait; Beauty Shops; Barber Shops; Shoe Repair and Shoeshine Parlors; Funeral Services; and Miscellaneous Personal Services
73	Advertising, Consumer Credit, and Mercantile Reporting Agencies; Adjustment and Collection Agencies; Mailing; Reproduction; Commercial Art and Photography; Stenographic Services; Services to Dwellings; Miscellaneous Equipment Rental and Leasing; Personnel Supply; Computer Programming; Data Processing and other Computer-Related Services; and Miscellaneous Business Services
75	Automotive Rental and Leasing, Without Drivers; Automobile Parking; Repair Shops; and other Automotive Services
76	Electrical Repair Shops; Watch, Clock and Jewelry Repair; Reupholstery and Furniture Repair; and Miscellaneous Repair Shops
78	Motion Picture Production; Distribution and Allied Services; Theaters; and Video Tape Rental
79	Dance Studios, Schools and Halls; Theatrical Producers; Bands, Orchestras, and Entertainers; Bowling Centers; Commercial Sports; and Miscellaneous Amusements and Recreation Sports
81	Legal Services
83	Individual and Family Social Services; Job Training and Vocational Rehabilitation Services; Child Care Services; and Residential Care Services
84	Museums and Art Galleries; and Aboreta and Botanical Or Zoological Gardens
86	Businesses Associations; Professional Membership Organizations; Labor Unions and Similar Labor Organizations; Civic, Social, and Fraternal Organizations; Political Organizations; Religious Organizations; and other Membership Organizations

Tab → Automotive

EXHIBIT 2 (CONT)

87	Engineering, Architectural, and Surveying Services; Accounting, Auditing, and Bookkeeping Services; Research, Development, and Testing Services; Management and Public Relations Services
89	Services Not Elsewhere Classified

SOURCE: U.S. BUREAU OF THE CENSUS, 1992 COUNTY BUSINESS PATTERNS

Most of the categories can be further segmented into still smaller categories. There are specific computing services aimed at many of these individual categories. Melson Technologies, a value-added reseller (VAR), offers a product called Skyline software which allows users in the real estate business to compute monthly and percentage rents and taxes, print statements, invoices, late notices and tenant histories for commercial retail and residential real estate holdings. Apian Software makes a software product called Survey Pro, a program for designing survey questionnaires and tabulating resulting data in a bundled database.

The vast majority of firms in the business services market are quite small, what one might describe as "mom-and-pop" operations. In legal services, for example, among many thousands of law firms, fewer than 3% have 25 or more lawyers, and fewer than 1,200 firms have 60 lawyers or more. Of the roughly 39,000 firms in the engineering, architectural and surveying segments, fewer than 110 of them employ more than 500 people, and three quarters employ fewer than 20.

A fundamental reason for this high degree of fragmentation is that services are typically provided by local firms to local customers. For example, even a very large law firm must limit its operations to the state in which the majority of its partners and associates are members of the bar. Thus, the vendor must have a presence in the city, county, state or region where the customers are located. Fragmentation is further encouraged by relatively low impediments to market entry, the diversity of business service requirements, and the competitive focus within this market on unique, specialized services to the customer.

C. Key Issues

The issues discussed in this report remain consistent with the status of business services noted in the 1993 and 1994 reports. They include:

- The continuing trend in American business to control operating costs, including those for business services, demands that vendors provide competively-priced, effective services.

- The competitive climate in the market continues to require that vendors devise innovative products and marketing strategies to serve customers and achieve success in the business services sector.
- Business services companies are still under internal pressure to streamline their own operations and control costs to remain competitive. Client/server computing and outsourcing are two of the most popular technological ways for business services vendors to develop new products, support existing products and satisfy customer needs.
- Moderate instability in the U.S. economy during the last two years has encouraged the cost-cutting trends in American business, thus creating opportunities for business services companies. In addition, the growing need for, and use of, technology in such service segments as hotels, automobile rentals and real estate presents opportunties for business services companies which did not exist in the early 1990s. Since INPUT's 1994 report, the U.S. economy has continued its rocky recovery from recession, creating a favorable atmosphere for information services spending.

D. Organization

In addition to this introductory chapter, this report contains analyses of the business services market as described below:

- Chapter II, Trends, Events, and Issues—discusses changes, market issues and activities, and competitive factors in the business services sector that have an impact on present and future information services use in the market.
- Chapter III, Information Services Market Forecast—presents an analysis of information services expenditures for the business services applications market by product/service market and subsector.
- Appendix A, Forecast Database—presents a detailed forecast by product/service market and subsector for the business services cross-industry market. A reconciliation of the 1994-1999 forecast is also provided.

E. Methodology

Much of the data this report is based on has been gathered during the second quarter of 1995 as part of INPUT's ongoing market analysis program. Trends, market sizes and growth rates are based upon INPUT's research about both the users in the business services cross-industry market and the information services vendors serving this market. INPUT maintains ongoing relationships with many users and vendors in this market and keeps track of their activities in a database.

In addition, INPUT made extensive use of its corporate library located in Mountain View, California. The resources of this library include: on-line periodical databases; subscriptions to a broad range of computer and general business periodicals; continually updated files on more than 3,000 information services vendors; and the most up-to-date U.S. Department of Commerce publications available on industry issues.

In regard to vendor-related information and analysis, INPUT must note that some vendors may be unwilling or unable to provide detailed revenue breakdowns by product/service market or industry. Also, vendors often use different categories for industries and industry segments, or may place their services in different product/service markets than the ones INPUT uses. Therefore, INPUT must estimate revenues in these categories on a best-effort basis. For these reasons, readers must regard the product/service market and individual segment forecasts as indicators of general patterns and trends rather than as specific, detailed estimates for individual years.

F. Related Reports

Related reports of interest to the reader follow:

Current INPUT resports as applicable, with updated titles -DR

Chapter II Trends, Events and Issues

The diverse nature of the establishments in the business services sector makes it challenging to identify and track common trends. The services these firms provide are myriad; therefore, the issues and requirements have few elements in common with other vertical markets. INPUT has summarized key business trends that impact most business services firms, as shown in Exhibit II-1. These trends have become evident over the last several years and should continue through the forecast period.

Exhibit II-1

KEY BUSINESS TRENDS

- Cost-control pressure
- Innovative marketing of services
- Competition drives vendor cost-control
- Improved economic outlook

The transition from an industrial to a service-oriented economy continues in the U.S. As a result, companies still scrutinize their operating costs and expenditures, looking for practical ways to trim overhead or operate in more cost-effective ways. As more companies cut back on their nonstrategically focused departments, the demand increases for outside business services providers.

In general, services firms are less sensitive than nonservice firms to economic conditions because they lack heavy fixed-costs. As a result of the economic slow-down during 1992 and 1993, external business services remain a preferred way of cutting internal costs, a trend held over from a lean economy. The good news is that as the U.S. economy continues the recovery begun during late 1993, business service use will increase, particularly in leisure-related industries which benefit from improved consumer spending due to a healthier disposable-income base.

SLOWED SOMEWHAT IN 1994, AND ADD INCREASED PURSUED IN 1995,

However, this sector remains prey to certain negative economic effects, which include the following:

- Transaction-based buying and selling firms, such as real-estate brokers, agents and credit-reporting agencies, will remain prey to decreases in transaction services demands if the economy weakens or destabilizes. This is particularly true for real estate, which is among the first, most negatively affected business segments in any economic downturn.

- The recession of the early 1990s had a crippling effect on the lodging industry in general. Hotel construction is still down compared with the 1980s although revenues for larger chains, such as Marriot and Hyatt, have grown respectably over the last several years.

The consumer services segment of business services has become a prime motivator for firms seeking marketshare in the increasing business generated on the Internet. In the 1994 business services report, INPUT described the competition to establish an on-line pathway into the American home as a race. In 1995 it has become a heated battle. The strategic importance of on-line consumer services, combined with the recent de-regulation of the U.S. telecommunications industry, has put telephone companies in competition with cable TV providers in a mad scramble for on-line marketshare. Perhaps the most controversial player in this arena is Microsoft, which ~~plans to~~ HAS bundle its own on-line service with its Windows '95 operating system, ~~to be~~ released in late August, 1995. With Microsoft's virtual monopoly in the PC operating system market, private sector competitors and Justice Department officials view the Windows '95 bundling strategy with anti-monopolistic rancor.

Profitability remains as important in the business services sector as in other industry sectors. Firms are still seeking more direct and innovative ways to market services and are grappling with questions, such as what they can do to improve marketing strategies and distinguish themselves from the competition. Consumer-focused products are currently considered a more profitable Internet development goal. However, there exists a growing market for third-party vendors that offer consumer and business access to the World Wide Web sector of the Internet. Vendors of this type also typically offer Web page design and maintenance services to small- and medium-sized businesses. Ultimately, the implication for telecommunication and on-line business informational services will radically alter American work processes.

The following paragraphs offer ~~a glimpse~~ A SELECTION of the trends and activities within business services as they relate to selected markets:

(TOPICS) → REAL ESTATE –

- In the real estate market, VARs have discovered that property management systems are hot items in nearly every segment, including commercial, retail, industrial and residential real estate markets. As yet, client/server systems for this type of real estate activity are still new to many firms, yet users in this market are realizing the value of using technology to manage property portfolios to ensure the highest profit. Melson Technologies, as noted in Chapter 1, is a VAR achieving success in real estate. CTI Limited, Inc. offers its own property management system, called the CTI Real Estate System, which allows users to track financials such as rent, general ledger and accounts payable figures regardless of the size of a user's portfolio.

Large, integrated systems are not the only ways real estate companies are improving performance with technology. For example, in 1994 William Raveis Real Estate, Inc. equipped 1,200 of its salespeople with notebook computers and contact-management software rather than upgrade the company's mainframe contact system. Using the notebooks as high-powered personal organizers, the firm's sales force improved productivity by nearly 40% after several months. Using the notebooks allowed William Reveis to more effectively mobilize its salespeople and reduce costs by avoiding a costly mainframe system overhaul.

ITALIC → HOTELS —

- Business travelers and their unique needs have become a profitable focus within the hotel industry. Hyatt Hotels, for example, has developed Business Plan rooms which Hyatt has constructed in nearly 100 of its hotels. These special accomodations are redesigned suites which offer workstations, fax machines and two or more phone lines for business traveler use. In addition, Hyatt gives Business Plan customers access to printers, copiers and office supplies 24 hours per day. Hilton offers a comparable service, called BusinessSavers, at a cost of $10 to $20 more than the daily corporate rate. The Radisson hotel chain offers business guests dataport-equipped phones and lower telecommunications fees for modem use.

  Interactive services are another opportunity in the hotel industry. By offering such services, like movies on-demand or in-room video games, ~~INPUT research indicates that~~ a given hotel can increase its reveue per room by as much as 35%. Leaders in this interactive market include LodgeNet Entertainment Corporation and Comsat Video Enterprises. In the last year, LodgeNet has expanded the services offered to hotels by including Super Nintendo games on its interactive in-room service. The company has also successfully test-marketed in-room printers which can provide guests with sight-seeing maps and restaurant coupons on demand. Comsat has developed CityKey, an on-line vistor's guide developed with US West Communications, that gives hotel guests interactive guidance to local restaurants, shopping centers and landmarks.

AUTO LEASING AND RENTAL —

- Client/server technology has found a home in the automobile leasing and renting market. One company, Wheels, Inc. is a corporate fleet auto rental company which utilizes a three-tiered distributed architecture that has helped the company improve its customer service. Wheels maintains a fleet of 150,000 automobiles and manages them through eight regional sales offices. The system used for this has three parts: a business-logic layer; a presentation layer; and a data layer. With this system divided in this manner and operating cooperatively, Wheels can generated status and billing reports in greater detail to meet customer needs. Internally, the system gives employees faster and more accurate access to data, and has improved interal communications.

  Enterprise Rent-a-Car has also implemented client/server technology, with a system based on IBM hardware and the OS/2 operating system. Enterprise's system consists

of 1000 PS/2 machines running OS/2 connected to Token Ring LANs. These LANs are, in turn, connected to a satellite network of about 20 AS/400s, which allows employees to share data company-wide. Most applications reside on the wide-area network, improving compatibility and system performance.

- In the legal profession, the O.J. Simpson trial unfortunately provides no better example of how far computer hardware and software technology has permiated the practice of the law. Any televised or printed image of this trial shows a courtroom encrusted with PC s and other forms of computer technology. Computers have become a de facto standard tool in the presentation of evidence and the recording of testimony in courtrooms throughout the U.S. Lawyers in the Simpson case took an experimental approach regarding evidence when they used a graphics workstation and specialized forensic software to present a fully-rendered, three-dimensional computer simulation of how evidence suggested Simpson's ex-wife and her friend were slain. Although controversial, this "computer-aided evidence" (or "cyber-evidence") technique could become a mainstay for the law profession in the future.

  For the most part, however, technological advances in the legal market are limited to the growing acceptance of personal computers, desktop applications software, and LANs. The primary reason for this is that practicing law is a very paper- and document-storage-intensive profession. What legal firms need are ways to manage the mounds of documents their businesses generate everyday. For this reason, document management and imaging provide the best opportunities in this market. Los Angeles law firm Howrey & Simon, for example, uses scanners, optical character recognition (OCR) technology and a multi-user archival and retrieval system (MARS) to collect and manage legal documents and data. Through a Macintosh WAN and a series of T1 lines, the firm can collect and distribute text and data throughout its offices in L.A., Denver and Washington, D.C.

- Even though the Internet is still a somewhat experimental medium for entertainment, it is becoming increasingly clear that the movie theater and the television are no longer the primary sources of amusement in our nation. While perusing the movie section of the local paper, you may find it more and more common to see a World Wide Web address printed somewhere in the advertisment for a movie you are thinking of seeing. Recent films like *Johnny Mnemonic, The Net* and *Congo* have utilized the novelty and increasing appeal of the Web to further their advertising campaigns and increase movie-related profits. These efforts could fall under the headings of advertising and public relations, two components of business services. Yet, when these components of a media campaign become interactive, entertaining and fun, placing them in a particular category becomes more difficult, and perhaps irrelevant.

  Broadcasting companies are also taking their entertainment offerings to the next phase, the Web. In San Francisco, for example, four of the seven local network

affilliates have Web pages. These affilliates include those of ABC, CBS, PBS and the United Paramount Network (UPN). ABC, CBS and NBC also provide on-line access through America Online and CompuServe. In an increasingly real sense, the computer a person uses at home, the office, or in an hotel room can take on the roles of movie house, television network, newsstand and any of myriad news, entertainment and intelligence gathering entities.

Many of the business services subsegments provide services that are difficult to differentiate. Enhanced service differentiation and, therefore, potentially higher profit margins, may be achievable by increasing the added value of the business, as was noted previously in the narrative on real estate. For example, some accounting firms and tax preparation companies, like H&R Block, offer electronic submission of income tax documents to speed tax return processing and refunds to consumers.

Service providers—like companies in all industries—always seek information services and technology to boost profits or at least minimize losses. Although the U.S. economy is fairly stable, the North American Free Trade Agreement, the escalating battle with Japan over U.S. trade deficits and dissatisfaction with the Clinton Administration remain sources of trepidation for business services providers who have to continually improve their own business processes to remain competitive. Information services that help to achieve the objectives of increased operating efficiencies, more efficient operations and more innovative marketing, are positively influenced by the trends and issues impacting services.

Improved service as a whole, particularly the ability to respond to requests for information before and during the sale, and for service during and after the sale, is a key business offering today. The trend is fueled to some extent by the established view of service as a product and the overall movement toward a service economy. As a result, information services that enhance availability of, and access to, information will experience healthy growth.

Chapter III Information Services Market Forecast

INPUT has adjusted its 1995 forecast from the previous year to reflect user expenditures that were higher than predicted in 1994. Information in this chapter draws on the trends, events and issues presented in Chapter II. Section A: Overview—discusses the overall size and growth of user expenditures. Section B: Product/Service Market Analysis—provides discussions of factors affecting each sector on an individual basis.

A. Overview

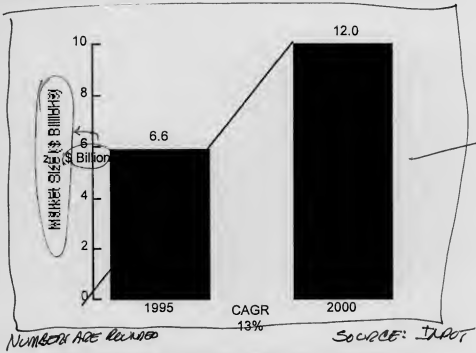
As noted in Chapter II, the pressure to operate more efficiently continues to fuel growth in the business services market. As more powerful hardware and software make it possible to automate businesses at lower and lower costs, penetration of smaller services firms will continue.

As many of the largest services subsectors rely on providing expertise on demand, information services that continue to enhance easy access to information will maintain rapid growth. Information services products and services that keep market research people in touch with their markets and close to the needs of their clients are extremely important to the continued success and focus of many companies. Therefore, although needs are not sharply focused, there are continuing demands for dynamic networks and on-line services, such as databases, research libraries, government agencies and professional forums.

INPUT forecasts a 13% compound annual growth rate (CAGR) for the business services sector from 1995 to 2000. The forecast, provided in Exhibit III-1, reflects growth rates comparable, though slightly higher, to those in 1994, but at higher actual expenditures. Processing services and turnkey systems, for example, are predicted to maintain consistent growth but at a slightly higher expenditure levels.

Exhibit III-1

move over to next page!



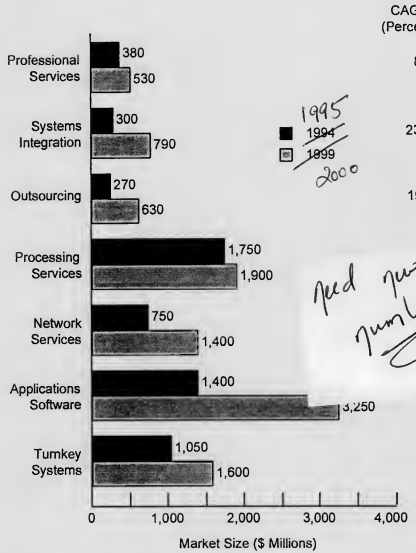
Note: Amounts, CAGR and Years ONLY modified --DR

As noted in the 1994 report, the forecast reflects greater expenditures on workstation/PC-based applications software products than reported last year, while it shows falling levels of minicomputer and mainframe applications expenditures.

B. Product/Service Market Analysis

Exhibit III-2 provides forecasts of user expenditures by product/service market. Many businesses are showing increased willingness to purchase outsourcing, systems integration and professional services. However, because the business services sector is composed predominantly of small businesses, expenditures on these product/service markets are quite low compared to network services and applications software products.

Exhibit III-2
TITLE → INFORMATION SERVICES MARKET BY PRODUCT/SERVICE MARKET
1995-2000
Tab over to next page.



Note: Numbers are rounded

NOTE: This graphic has NOT been modified ---DR

The fastest growing product/service markets, nonetheless, are outsourcing, systems integration and applications software. One reason for the high growth is that these product/service markets provide value to business services firms which use outsourcing to trim internal costs, system integration to update and integrate existing systems, and applications software to relatively inexpensively run desktop administrative tasks. Also, contracts, particularly for outsourcing, still tend to be long-term, thus, bolstering long-term market value.

Processing services is still the largest product/service market, although by 1996, expenditures on applications software products are expected to surpass the demand for processing services. By 2000, applications software will be the largest sector, at over twice the value of processing services.

1. Professional Services

The 1994 forecast for professional services for the business services sector has increased 11% from the 1994 forecast, with forecast growth rising from 7% to a 9% CAGR. Many of the market trends that fuel the growth in expenditures for professional services will continue over the next few years. These trends include the following:

- Companies like Andersen Consulting and Electronic Data Systems continue to seek and derive profit from business services consulting, which is still a viable subsector.
- Software development will continue fulfilling a need for the multitude of business services companies that provide specific and specialized services, such as automobile parts suppliers, electronic repair operations, and art museums. These are small markets that can rely more heavily on packaged application software products for most fundamental software needs.

2. Systems Integration

Even though the CAGR is 23%, the relatively low starting base of $362 million in 1995 will increase to just over $1 billion in 2000. Systems integration is a small but important category of the business services information services market. Forecasted growth represents prospects in business services for the PC/workstation platform and specialized applications software integration. The professional services component, as the largest subsector, $211 million in 1995, represents the canopy, under which many systems integration services are offered.

Systems integration expenditures typically represent large contracts only. INPUT assumes that only the large business services companies will use systems integrators over the forecast period. However, as small businesses grow, or merge with other firms to form larger companies, integration services demand will likely increase. This trend is already evident in the legal market, and, to some extent, with business services vendors specializing in on-line services.

3. Outsourcing

Outsourcing, a relatively newer service sector in business services, will grow at a CAGR of 19% between 1995 and 2000 from a base of $355 million to $849 million in 2000.

Economic troubles faced by many firms in the last several years have inclined them toward using outsourcing as a strategic and economical measure. Even notable exceptions from past forecasts, such as hotel chains and large entertainment and amusement

businesses, are concentrating on their core business technology in order to cost effectively re-engineer their own systems with outsourced solutions from companies like Timberline Software and Mead Data Central. Additionally, the trend toward client/server computing solutions will cause a substantial increase in the desktop services subsector, while growth in platform operations ~~growth slows~~ as mainframe technology gets supplanted.

Will slow down?

4. Processing Services

The business services sector is the third largest user of processing services of all of the industries examined by INPUT, surpassed only by banking and finance and transportation. Yet, for their large base of processing services expenditures, business services is one of the slowest growth industry sectors.

The largest single subsector using processing services is accounting firms—for tax preparation. This market continues to remain strong although it is feeling erosion from increasing purchases of inexpensive PC-based tax preparation software, from vendors such as Intuit and Peachtree. Other sectors using processing services include hotels for reservation systems and regular business services, which include consumer credit and mercantile reporting agencies as well as collection agencies.

Even small companies that a few years ago were purchasing processing services, now prefer to purchase PC-based applications software products. To bolster sales, processing services firms have expanded their provision of remote transaction processing and printing services, thereby allowing customers to have more control over their own data entry and printout. Still, this sector is expected to grow very moderately from nearly $1.8 billion in 1995 to almost $2 billion in 2000, a CAGR of 2%.

5. Network Services

Network services is expected to have an overall growth rate of about 15%, with network applications subsector higher at 26% growth over the next five years. Network services expenditures are expected to grow from about $850 million in 1995 to reach ~~approximately~~ $1.7 billion by 2000. This forecasted CAGR is four points higher than INPUT's 1993 forecast.

The majority of network services expenditures is for electronic information services, on-line information services and commercial e-mail, as opposed to network applications such as electronic data interchange (EDI). Many of the business-oriented services firms, particularly accounting and law offices, require constant access to information. Databases and directories that best lend themselves to on-line distribution require frequent updating

and other services involving transactions. Alternative in-house paper-based systems are more costly and, in many cases, literally impossible to maintain.

New variations and specialized information that suit the fragmented nature of the business services sector will become increasingly available and fuel growth for this product/service market. As noted earlier, the growing use of the Internet and the World Wide Web is a result of business services companies, and those in other industries, utilizing a new medium to develop innovative ways of marketing products and services.

6. Applications Software Products

Applications software products market will be a massive market over the forecast period, with growth from over $1.6 billion in 1995 to over $4 billion in 2000, a CAGR of 19%, ~~as shown in Exhibit III-2.~~

Nearly 80% of expenditures are for PC and workstation-based applications software products. Minicomputer- and mainframe-based software growth is expected to generally level out as companies transition to networked PCs, or acquire new, PC-only systems. By 1999, the market for workstation/PC-based products is expected to be more than five times the market for mainframe- and minicomputer-based products combined. Companies such as Microsoft, Lotus, Intuit, Peachtree and NetScape continue to enjoy healthy growth in this business services segment.

7. Turnkey Systems

Turnkey systems are still the niche businesses' answer to outsourcing and systems integration needs. However, increasing numbers of large business services firms are using integrators and applications development tools. Expenditures on this product/service market are forecast to grow steadily at 9% compounded annually. The highest growth will be in the professional services segment, which will grow 11% annually through the end of the forecast period. The primary growth promoter is that the business services sector will continue to contain specialized businesses, which still require turnkey systems as a form of off-the-shelf product offering. Examples of these types of businesses include motion picture production companies, engineering firms, architectural firms and real estate companies.

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Appendix A - Forecast Database and Reconciliation

INPUT has increased its overall forecast slightly for this report. Exhibit A-1 presents INPUT's business services cross-industry sector user expenditure forecast for 1995-2000. Exhibit A-2 presents a reconciliation of the 1994-1999 forecast.

BUSINESS SERVICES

Market Size by Product/Service Categories, 1994-2000

($ Millions)

PRODUCT/SERVICE	1994	Growth 94-95	1995	1996	1997	1998	1999	2000	CAGR 95-00
CATEGORIES	($)	(%)	($)	($)	($)	($)	($)	($)	(%)
				12%	12%	12%	13%	14%	
INDUSTRY TOTAL	5983	11%	6628	7402	8304	9285	10505	12026	13%
				10%	11%	9%	8%	8%	
Professional Services	387	11%	430	474	525	572	619	670	9%
- IS Consulting	112	14%	128	144	160	176	191	206	10%
- Education & Training	55	9%	60	65	72	78	85	93	9%
- Software Development	220	10%	242	265	293	318	343	371	9%
				24%	23%	23%	22%	22%	
Systems Integration	296	22%	362	448	549	675	826	1008	23%
- Equipment	75	23%	92	113	138	167	201	239	21%
- Software Products	35	23%	43	55	68	84	101	121	23%
- Professional Services	173	22%	211	261	321	398	493	612	24%
- Other	13	23%	16	19	22	26	31	36	18%
				19%	20%	18%	19%	19%	
Outsourcing	296	20%	355	424	508	599	712	849	19%
- Platform Operations	66	17%	77	83	97	110	114	118	9%
- Applications Operations	138	20%	166	195	230	269	323	388	19%
- Desktop Services	36	31%	47	61	79	92	117	149	26%
- Network Management	33	12%	37	49	57	71	85	102	22%
- Application Management	12	17%	14	17	20	24	29	34	19%
- Business Operations	11	27%	14	19	25	33	44	58	33%
				2%	2%	2%	2%	2%	
Processing Services	1755	2%	1790	1820	1855	1883	1925	1970	2%
- Transaction Processing	1755	2%	1790	1820	1855	1883	1925	1970	2%
				11%	14%	15%	16%	17%	
Network Services	764	11%	848	945	1079	1245	1450	1700	15%
- Electronic Information Svcs	735	10%	810	897	1020	1170	1355	1580	14%
- Network Applications	29	31%	38	48	59	75	95	120	26%
				20%	19%	17%	19%	21%	
Applications Software	1416	19%	1685	2021	2408	2820	3368	4084	19%
- Mainframe	118	1%	119	121	123	125	127	128	1%
- Minicomputer	268	7%	286	320	350	375	396	421	8%
- Workstation/PC	1030	24%	1280	1580	1935	2320	2845	3535	23%
				10%	8%	8%	8%	9%	
Turnkey Systems	1069	8%	1158	1270	1380	1491	1605	1745	9%
- Equipment	352	7%	378	413	444	475	510	540	7%
- Software Products	355	8%	383	418	450	484	510	550	8%
- Professional Services	362	10%	397	439	486	532	585	655	11%

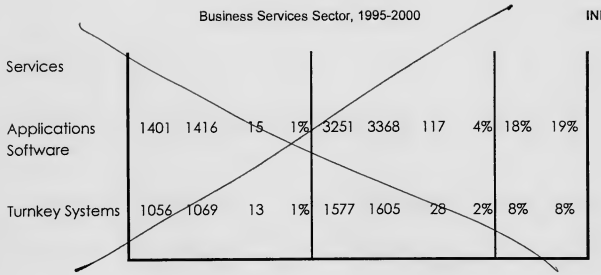
Use this data for 1995

A-2

BUSINESS SERVICES
1995 MAP Data Base Reconciliation
($ Millions)

	1994 Market				1999 Market				94-99	94-99
	1994	1995	Variance From		1994	1995	Variance From		CAGR	CAGR
	Market	Repart	1994 Forecast		Market	Report	1994 Forecast		per data	per data
	(Forecast)	(Actual)			(Forecast)	(Forecast)			'94 Rpt	'95 Rpt
DELIVERY MODES	($M)	($M)	($M)	(%)	($M)	($M)	($M)	(%)	(%)	(%)
Total	5916	5983	67	1%	10073	10505	432	4%	11%	12%
Professional Services	379	387	8	2%	527	619	92	17%	7%	10%
Systems Integration	297	296	-1	0%	794	826	32	4%	22%	23%
Outsourcing	267	296	29	11%	626	712	86	14%	19%	19%
Processing Services	1762	1755	-7	0%	1915	1925	10	1%	2%	2%
Network Services	754	764	10	1%	1383	1450	67	5%	13%	14%
Applicatians Saftware	1401	1416	15	1%	3251	3368	117	4%	18%	19%
Turnkey Systems	1056	1069	13	1%	1577	1605	28	2%	8%	8%

Use this data for 1995



Services										
Applications Software	1401	1416	15	1%	3251	3368	117	4%	18%	19%
Turnkey Systems	1056	1069	13	1%	1577	1605	28	2%	8%	8%

Overall, the small differences between the 1994 and 1995 forecasts show a fairly robust market which continues to show healthy growth, competitiveness and technology usage. For past forecasts, the U.S. economy has been a major concern for users, who looked to business services as a means of curbing internal costs in lean times. The habits established during the recession continue, although the economy is less uncertain than in past reports. Recovery continues, even in the hotel and real estate industries, which have historically been the most heavily damaged by poor economic conditions.

The percentage differences in the 1998 forecast for outsourcing reflects this spending inclination. Yet, even though the outsourcing segment will continue growing, INPUT underestimated its future growth based because outsourcing grew significantly due to internal cost pressures caused by the 1992-1993 recession. The 1998 market reflects another forecast underestimation, and INPUT expects outsourcing to gain popularity through the end of the decade.

Demand for network services continues to grow, particularly for on-line services, and expenditures for this service sector have been upgraded to reflect the users' increasing demand for these services. Network services will continue to experience double-digit growth as on-line, industry-specific services gain wider use and the Internet's capacity grows.

As for applications software, INPUT believes the average business services company will drive the demand for workstation- and PC-based software solutions at about the same rate as previously predicted but at higher expenditure levels. In addition, PC-based local-area network (LAN) systems have gained more popularity in the real estate and legal sectors, for example, further driving demand for applications in this area.