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A Publication from INPUT's Downsizing Information Systems Program

## Downsizing—New Challenges and Opportunities for Vendors

The impact of downsizing on software and services firms will be just as profound as the impact on the management of information systems within user firms. It will create challenges and opportunities, and may fundamentally change the channel structure, pricing strategies and organization of the industry on a permanent basis. This bulletin, drawn on information from INPUT's soon to be published *The Impacts of Downsizing on Information Technology Vendors*, examines the challenges and opportunities that downsizing is creating for information services vendors.

The two underlying motivations that will change the shape of the information technology (IT) industry over the next 5 years are: the continued migration of buying authority to the end user, and the on-going evolution of client/server (C/S) technology.

### End-User Buying Impacts

- As end users continue to take charge of their destiny, the current trend to solution buying will be accelerated. End users, even in post-downsized environments, are more interested in purchasing a solution that meets their needs than they are in building their own. Furthermore, it is unlikely that end users will retain the level of full development staffs that central IS functions have traditionally maintained. Thus, as a focal point for buying shifts, vendors will increasingly need to demonstrate their ability to deliver total solutions.

- Selling to end users has a number of other characteristics that will necessitate changes in vendor strategy. End user executive management is seldom enamored with the razzle dazzle of technology. The primary credibility test for vendors will become their ability to discuss the business issues and solutions that are relevant to the buying executive's area of interest.

- There will be a lot more buyers in any situation. As individual operating units assume responsibility for the bulk of their systems activities, the number of contact points for a vendor in a given firm will grow. Likewise, the coordination and political problems associated in dealing with these diverse interests and priorities will need to be managed on multiple fronts.
- Finally, end users' interests will be focused on results. Methodologies, processes and techniques, although necessary and appreciated, will not take the place of timely delivery of results. End users also will expect vendors to carry more of the responsibility for the delivery of results than has traditionally been the case when vendors dealt primarily with central IS.

## Client/Server Technology

Today, no single vendor appears to provide a complete package in terms of the client/server environment. Some promote hardware, others operating systems, and still others focus on user interfaces. Unfortunately, obtaining a meaningful business solution in the downsized C/S environment requires the successful integration of these "pieces" of technology with effective applications software. Furthermore, vendors (with some exceptions), which have been on the leading edge with some of these technologies, tend to be smaller, under funded and not nearly as well organized on a geographic and marketing basis as they need to be in order to handle the global requirements of supporting decentralized systems for a major corporation.

Whether small or large, all vendors share some common problems brought on by the adoption of C/S architectures.

- Professionals who understand the effective application and integration of these technologies to deliver total solutions are scarce.
- The investment required to move their existing infrastructures and/or products to support the C/S environment is likely to be significant.

## Challenges and Opportunities

The forces described above will impact various market segments in different ways. Systems integrators will be impacted differently than, say, network services companies. Let's take a brief look at how four groupings of vendors are likely to be affected:

- Systems integrators and professional services firms
- Outsourcers (traditional systems operations companies)
- Software products and turnkey systems companies
- Network and processing services firms

## Systems Integrators and Professional Services Firms

The biggest challenge facing these firms will be the acquisition and/or retraining of personnel in the technologies and disciplines required to deliver downsized solutions. The job will not be made any easier by the fact that downsized environments tend to be heterogeneous with few industry accepted standards. Also, the demand for the limited pool of already qualified professionals will come from user organizations as well as other information services vendors.

On the other hand, with the exception of pure "body shops," most professional services firms traditionally have a vertical market focus, which should be leverageable when selling to end users—many also have significant expertise in specific applications. Retooling these capabilities to deal with C/S architecture should provide significant opportunities.

## Outsourcers

To the extent that outsourcers are involved in SI and professional services activities, either as part of their normal business, or stand-alone contracts, they confront the same problems as SI and professional services firms. However, they face some other unique challenges as well.

- Downsizing will gnaw away at the number and size of "glass houses" available as outsourcing targets.
- As users turn to outsourcers to manage their traditional environments while they downsize, outsourcers will be confronted with contracts that forecast decreasing requirements for mainframe cycles and storage over the contract life. This is exactly the opposite of their normal business situation, and works against the outsourcer's traditional business model of leverage through constantly increasing economy of scale.

Nevertheless, some significant opportunities exist:

- By carefully orchestrating packaging and pricing, outsourcers should be able to make a big market in "transitional" outsourcing as users downsize.
- Downsized environments will provide new opportunities for desktop services as well as the outsourcing of applications management.

### Software Products—Turnkey Systems Firms

These vendors will face some of the biggest challenges over the next several years. To meet end user requirements for industrial strength applications, operating on C/S technology in distributed environments will require a complete restructuring of the software industry, its products, methods of delivery and pricing.

- Those firms that have focused on high-integrity applications for the "blue" environment, will need to downsize in order to avoid disaster.
- Firms producing workstation and PC software, traditionally focused on the individual user, will need to think work groups and enterprisewide.
- Everyone will need to think in terms of scalable technology for heterogeneous environments.

And, all this needs to happen in an environment in which development funding is scarce and margins are subject to increasing pressure.

Whereas the challenges are tough the opportunities are significant:

- The demand for industry specific and cross-industry applications software, which operate with integrity on downsized environments, is immense.
- Because few, if any, standards exist, the opportunity to develop (through alliances or

alone) distributed integrated platforms, which provide a standard applications development interface for applications software, presents a significant opportunity. These platforms could, in effect, become de facto industry standards.

### Network & Processing Services Firms

To some degree, network and processing services firms are less impacted than software and professional services companies by the downsizing trend. Nevertheless, they will be affected.

- For processing services vendors, downsizing poses some threats. As transaction processing costs drop in the face of continued price performance improvements on the desktop, processing services firms will need to be able to demonstrate more added value through application sophistication and functionality in order to compete with a downsized in-house solution.
- Network services companies offering applications will need to provide an increasing number of connect and protocol translation options to service customers with heterogeneous distributed environments.
- Network services companies in the business of providing information will need to consider alternate approaches to the delivery, packaging and pricing of information in the face of constantly decreasing prices for CD ROM and a growing interest in multimedia information systems.

Here again, however, there are some significant opportunities for the taking:

- Faced with more complex network design and management functions, users are likely to look outside for firms that can provide the required management of physical and logical networks.

Exhibit 1

## Downsizing Challenges and Opportunities for IS Vendors

Vendor Class	Challenges	Opportunities
SI and Professional Services Firms	<ul style="list-style-type: none"> <li>• Developing and maintaining in-house technical expertise</li> <li>• Lack of standardization</li> <li>• Geographic coverage</li> </ul>	<ul style="list-style-type: none"> <li>• Downsizing SI engagements</li> <li>• Downsizing methodologies</li> <li>• Distributed applications templates</li> </ul>
Outsourcers	<ul style="list-style-type: none"> <li>• Fewer/smaller mainframes as targets.</li> <li>• Economy of scale</li> </ul>	<ul style="list-style-type: none"> <li>• Industry specific offerings</li> <li>• Transitional outsourcing</li> <li>• Desktop services</li> </ul>
Software Products Turnkey Systems Firms	<ul style="list-style-type: none"> <li>• Existing product sets</li> <li>• Lack of platform standards</li> <li>• Industry fragmentation and capitalization</li> </ul>	<ul style="list-style-type: none"> <li>• C/S applications products</li> <li>• Distributed integrated platforms (DIP)</li> <li>• Network management software</li> </ul>
Network and Processing Services Firms	<ul style="list-style-type: none"> <li>• Decreasing transaction processing costs</li> <li>• New gateway, protocol bandwidth requirements</li> <li>• Delivery, packaging, pricing</li> </ul>	<ul style="list-style-type: none"> <li>• Network outsourcing</li> <li>• Network management</li> <li>• Specialized transaction processing</li> </ul>

Source: INPUT

- Some applications simply cannot be downsized. On-line reservations systems and large customer information files are good examples. Faced with keeping the mainframe to deal with these applications, or utilizing an outside vendor with mainframe processing capabilities, it's likely that users will choose the latter.

### Overall Assessment

It's all in your point of view. Whether the glass is half empty or half full will depend on how a particular vendor positions itself to address the challenges and leverage the opportunities. Exhibit 1 summarizes the challenges and

opportunities. INPUT believes that the opportunities outweigh the challenges.

- The downsizing revolution is stimulating the first major shift in computing architectures since the advent of the IBM 360, creating major opportunities for outside vendors.
- This shift in underlying architecture is stimulating a major re-engineering of applications suites.

These forces for change, coupled with a growing demand from end-user buyers, should drive more IT dollars into the information services market over the next several years, stimulating growth.

This Research Bulletin is issued as part of INPUT's Downsizing Information Systems Program. If you have questions or comments on this bulletin, please call your local INPUT organization or R. Dennis Wayson at INPUT, 1280 Villa Street, Mountain View, CA 94041-1194 (415) 961-3300