

INPUT[®]

Research Bulletin

Route to:

A Publication from INPUT's Information Services Market Analysis Programme—Europe

Growth Expectations Fall in Europe— Systems Operations the Exception

The economic downturn across nearly all countries in Europe continues to threaten healthy growth in computer software and services markets. Strong user management focus on cost reduction is severely limiting demand for contract staff, is limiting the scope of IT projects and shortening project timescales, but is fuelling more rapid growth in the market for outsourced systems operations.

This bulletin reviews the changes in INPUT's predictions for growth during 1993 between the time it was first forecast in 1988 and the latest forecast in 1993. Over this period user spending expectations, as reflected in INPUT's forecasts, changed very significantly.

In 1988 users and vendors were experiencing a growth in spending on software and services of over 20% per year and expected similar growth for the next five years. The confidence in market growth that resulted from this, undoubtedly led to many vendors reporting losses during 1992. Vendors continued to plan for a high growth market while in fact they could only achieve high growth themselves by taking market share from their competitors—to some extent a new phenomenon in the software and services industry.

The exhibits in this bulletin show how these expectations have been moderated year by year for all of the eight software and service market segments monitored by INPUT, with one exception: the systems operations market.

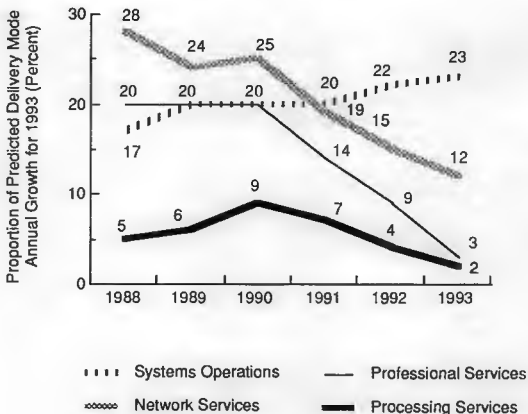
In the *systems operations market* customers sub-contract the running and support of their computer centre, their applications team, their network management or their desktop systems management. This has become a widely accepted business practice which can bring financial benefit to organisations suffering economic, cost-cutting or business re-engineering pressures. Exhibit 1 shows that the growth predictions for systems operations for 1993 increased from 17% p.a. five years ago to 23% p.a. today. Such outsourcing is now an accepted business practice in the U.K., France, Scandinavia and the Benelux. It is expected to become well established in the more conservative business environments of Italy, Germany and its neighbours as recession takes a hold and vendors establish a capability to serve these markets more effectively. The entry of the system equipment vendors into this market may stimulate still greater demand rather than just threaten the market leaders, CGS and EDS.

The *network services market*—this segment includes both electronic information services (e.g. on-line database services) and value added network services such as EMail and EDI—has matured from a prediction of 28% p.a. growth made in 1988 to an expectation of 12% p.a. today. Most of the reduction derives from the electronic information services market, led by Reuters, which grew very dramatically in the mid-1980s particularly in the finance sector, but is now growing at less than 10% p.a. per year.

The *professional services market*—encompasses IS consulting, education & training, software development projects, contract staff, and applications management. From a consistent 1993 expectation of 20% p.a. growth from 1988 to 1990 this segment has fallen very rapidly in the last three years to an all time low prediction of 3% growth this year. This implies no real growth in this market area.

Exhibit 1

Evolution of Growth Rates Forecast for 1993



Source: INPUT

IS consulting has suffered from severe spending cuts as clients postpone or cancel such work, causing staff lay-offs in, amongst others, some leading management consultancies such as Coopers & Lybrand and Price Waterhouse.

Education and training services have also suffered from users' spending cuts. Reducing staff turnover has also reduced demand for training for new recruits. The switch to seeking business justification for training rather than focus on the development of individual employees has also caused market growth to slow.

Demand for contract staff has fallen very rapidly over the last two years, as this is one of the most obvious ways for IS departments to cut costs.

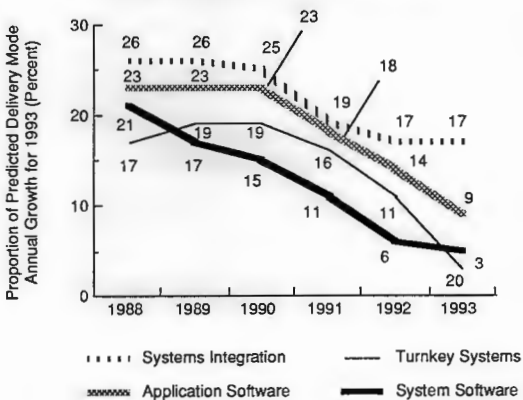
The market focus for custom software development has moved to fixed specification and fixed price

project contracts, with many leading professional service vendors now reporting over 50% of their revenue as being derived from fixed price contracts. INPUT reports on the larger multi-vendor projects under the systems integration delivery mode.

Processing services—representing the transaction processing, utility processing services and other services offered by computer services firms—is a shrinking market. Growth for 1993 is predicted at only 2% for Europe as a whole. The bright spots in this sector are the growth in Germany of services based on the SAP application suites R2 and R3, and the demand for off-site back-up and recovery services for data centres (fuelled by a few well publicised disasters as users become increasingly aware of the vulnerability of their systems).

Exhibit 2

More Changes in Growth Forecasts for 1993



Source: INPUT

Exhibit 2 continues the illustration of the markets' 1993 growth expectations over the past five years. Exhibit 3 provides a tabular summary of the data used.

The systems integration market—large multi-vendor projects with significant prime contractor responsibility - continues to be an area of fast growth. Growth expectations have fallen from 26% in 1988 to 17% per annum in 1993. This market is driven by the increasing complexity of

large IT projects and the ability of the larger vendors to absorb the financial risks involved in managing such projects to a successful conclusion. However a strong trend to fragment or modularise such projects and shorten the pay-back timescales has reduced growth expectations. Only in the telecommunications and government sectors are customers still investing in very large long-term systems integration and software development projects.

Exhibit 3

Delivery Mode Growth Expectations for 1993 by Forecast Year

Delivery Modes	Proportion of Predicted Growth in 1993 (Percent) by Year of Forecast					
	1988	1989	1990	1991	1992	1993
Processing Services	5	6	9	7	4	2
Turnkey Systems	17	19	19	16	11	3
Application Software	23	23	23	18	14	9
System Software	21	17	15	11	6	5
Professional Services	20	20	20	14	9	3
Network Services	28	24	25	19	14	12
Systems Operations	17	20	20	20	22	23
Systems Integration	26	26	25	19	17	17

Source: INPUT

The *applications software market*—including product licences and bundled support contracts—is forecast to grow at only 9% during 1993. Falling prices hide the anticipated increase in product volumes in these figures as users in all sectors move to buying function-rich off-the-shelf packages in preference to custom developed software.

The *turnkey systems sector*—complete ready-made packaged systems of hardware, software and services—have followed the decline of the hardware market. The preference shown by larger enterprises to buy hardware in bulk further limits the demand for complete system packages.

The *systems software market*—across all types of hardware platform—is also following the decline in hardware sales and becoming more concentrated among the brand leaders. However, demand is still growing for innovative software platforms and tools, especially for client/server architecture systems.

Much of the fall in overall European growth rates results from the poor economic outlook in Germany. Since mid-1992 vendors and users have been revising their ambitions down—often to a zero or negative growth scenario for 1993 and 1994.

As confidence returns for IS customers INPUT anticipates that growth rates will start rising again over the next five years. However, services vendors need to appreciate that users will have learnt many lessons about achieving value for money from software and services during this period of overall economic stagnation.

This Research Bulletin is issued as part of INPUT's Information Services Market Analysis Programme for the information services industry. If you have any questions or comments on this bulletin, please call your local INPUT organisation or Peter Lines at INPUT, 17 Hill Street, Mayfair, London W1X 7FB England. (071) 493 9335, Fax (071) 629 0179

ABOUT INPUT

Since 1974, information technology (IT) users and vendors throughout the world have relied on INPUT for data, objective analysis, and insightful opinions to support their plans, market assessments and technology directions particularly in computer software and services. Clients make informed decisions more quickly and save on the cost of internal research by using INPUT's services.

Call us today to learn how your company can use INPUT's knowledge and experience to grow and profit in the revolutionary IT world of the 1990s.

ANNUAL SUBSCRIPTION PROGRAMS

EUROPEAN AND NORTH AMERICAN MARKET ANALYSIS

*Analysis of Information Services, Software and Systems Maintenance Markets
5-year Forecasts, Competitive and Trend Analysis*

- 15 Vertical Markets
- 9 Categories of Software and Services
- 7 Cross-Industry Markets
- The Worldwide Market (30 countries)

— EUROPEAN —

- Outsourcing
- Systems Integration
- Customer Services

— U.S. —

- Outsourcing
- Client/Server
- Systems Integration
- IT Vendor Analysis
- EDI / Electronic Commerce
- U.S. Federal Government IT Procurements

CUSTOM CONSULTING

Many vendors leverage INPUT's proprietary data and industry knowledge by contracting for custom consulting projects to address questions about their specific market strategies, new product/service ideas, customer satisfaction levels, competitive positions and merger/acquisition options.

INPUT advises users on a variety of IT planning and implementation issues. Clients retain INPUT to assess the effectiveness of outsourcing their IT operations, assist in the vendor selection process and in contract negotiation/implementation. INPUT has also evaluated users' plans for systems and applications downsizing.

INPUT WORLDWIDE

London—17 Hill Street
London W1X 7FB, England
Tel. +71 493-9335 Fax +71 629-0179

Paris—24, avenue du Recteur Poincaré
75016 Paris, France
Tel. +1 46 47 65 65 Fax +1 46 47 69 50

Frankfurt—Sudetenstrasse 9
D-35428 Langgöns-Niederkleen, Germany
Tel. +6447-7229 Fax +6447-7327

San Francisco—1280 Villa Street
Mountain View, CA 94041-1194
Tel. (415) 961-3300 Fax (415) 961-3966

New York—400 Frank W. Burr Blvd.
Teaneck, NJ 07666
Tel. (201) 801-0050 Fax (201) 801-0441

Washington, D.C.—1953 Gallows Rd., Ste. 560
Vienna, VA 22182
Tel. (703) 847-6870 Fax (703) 847-6872

Tokyo—Saida Building, 4-6, Kanda Sakuma-cho
Chiyoda-ku, Tokyo 101, Japan
Tel. +3 3864-0531 Fax +3 3864-4114