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Research Bulletin

Route to:

A Publication from INPUT's U.S. Information Services Market Analysis Program

Network Services—A Hot Market! Processing Services—Still Ticking!

INPUT recently completed its preliminary consolidated U.S. Information Services market forecast. The final version of this forecast will be published in the Fall as INPUT's *U.S. Market Forecast Compendium*.

In addition to offering detailed financial projections for 15 SIC-defined industry markets and seven cross-industry (non-industry-specific) markets, the consolidated forecast also provides an early look at the eight major delivery modes through which information services and products are provided to American businesses. These are processing services, network services, turnkey systems, applications software, systems software, systems operations, systems integration, and professional services.

This research bulletin provides an overview of the markets for two of these delivery modes - network services and processing services.

U.S. Information Services Market Overview

The U.S. Information Services market will grow at a 12% compound annual rate (CAGR) from \$135 billion in 1993 to more than \$235 billion by 1998. The 12% rate is a continuation of the five-year growth rates forecast in 1991 and 1992, and reflects the lingering economic recession and the slow pace of recovery.

Of the eight information services modes tracked by INPUT, network services has the highest five-year compound annual growth rate (17% CAGR) and processing services has the lowest, (8% CAGR), shared with two other delivery modes. But appearances can be deceiving. Processing services, which some observers felt was a mature, even stagnant market, is now experiencing strong growth in an unexpected area—disaster recovery services. This is a market INPUT has consolidated into the processing services "Other" category.

The following section offers INPUT's definitions of the Processing Services and Network Services delivery categories.

Definitions

Processing Services - INPUT defines processing services to include transaction processing, utility processing, and "other" processing services. With transaction processing services, the client uses vendor-provided information systems at either the vendor or customer site to process specific applications and update client data bases - e.g., payroll services. Utility processing services include the basic production tools (software and machine resources) provided by a vendor so that a client can

develop or operate programs on the vendor's system. The "other" category includes data entry, laser printing, COM (computer output to microfilm) and backup, and disaster recovery services.

Network Services - These services are separated into two broad categories - electronic information services (EIS) and network applications services. EIS includes on-line data bases (e.g., securities, economic, and credit data) and on-line news services (e.g., bibliography and text). Network applications services include value-added networks (VANs), electronic data interchange (EDI) activities, and electronic mail and bulletin boards.

The Network Services Market

Market Size - As seen in Exhibit 1, the total 1993 U.S. market for network services will be \$12 billion, growing at a 17% compound annual rate to \$27 billion in 1998. Driving that increase will be impressive growth rates for both electronic information services (EIS) and network applications, as shown in Exhibit 2. The steady, continuing demand by businesses and consumers for data base information will support most of the growth in this market.

Growing at an annual rate of 17%, the EIS market will more than double in size over the next five years - going from \$9.5 billion in 1993 to more than \$20 billion in 1998. An even greater five-year CAGR—20%—will drive the network applications market from \$2.5 billion in 1993 to more than \$6 billion in 1998 - an increase of almost 150%.

Leading vendors in this sector include TRW (and Chilton), Dow Jones Telerate, Dun and Bradstreet, Mead Data General, and Equifax.

The Processing Services Market

Market Size - The U.S. processing services market, the *grand dame* of all information services, will grow from \$21 billion in 1993 to more than \$31 billion in 1998 - a five-year compound annual growth rate of 8%, as

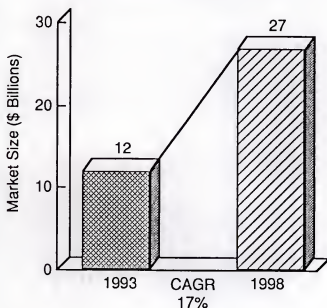
shown in Exhibit 3. Leading vendors include ADP, the powerhouse of payroll processing, First Financial Management, First Data Corporation, Covia and Ceredian.

Exhibit 4 indicates the size and growth patterns of the various processing services submodes. Transaction processing, one of the original processing services offerings (along with on-line utility processing) dating back to the early 1960s, is still a \$17 billion market in 1993, and although growing at only a 7% CAGR, will be almost \$23 billion in 1998. Utility processing, for which it seems there will always be some need, is only a \$1 billion market in 1993, and will grow at a modest 4% to \$1.3 billion in 1998.

The aggressive processing services growth area is "other" processing—a submode driven by the explosive growth in disaster recovery services. Fueled by increased business awareness resulting from the calamitous events of 1992 and 1993, such as the World Trade Center explosion, and Hurricane Andrew,

Exhibit 1

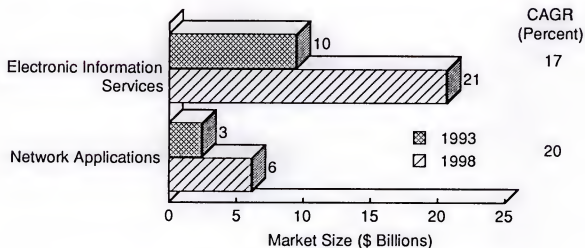
Network Services—U.S. Information Services Market, 1993-1998



Source: INPUT

Exhibit 2

Network Services—U.S. Information Services Market by Submode, 1993-1998



Source: INPUT

"other" processing will grow from a \$3.3 billion market in 1993, to more than \$7 billion in 1998, at a CAGR of 16%.

Conclusions

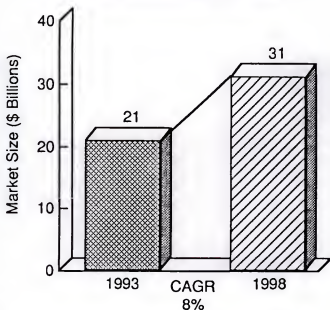
Network-based information services are the current focal point of most of the media enthusiasm and "hype" within the IT industry today. The intersections of cable, telephone, cellular and wireless, publishing, and entertainment industries along the information highway promise to generate major opportunities in the 1990s.

The recent surge in mergers and alliances between big name players shows how much interest this sector has attracted. It is far too early to pick any winners here; one key will be who can deliver the most attractive, cost-effective services to the American consumer at home. The combination of content, value, ease of access, and price will ultimately determine the outcome. INPUT plans to track this market closely through network services reporting and bulletins in the coming months.

The more mature processing services sector is fertile ground for established vendors, but

Exhibit 3

Processing Services U.S. Information Services Market, 1993-1998

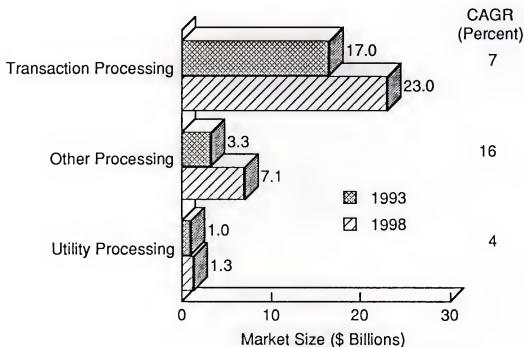


Source: INPUT

difficult for new players to enter; the renewed growth in disaster recovery services does provide room for near-term optimism on growth rates in that specialty.

Exhibit 4

Processing Services U.S. Information Services Market by Submode, 1993-1998



Source: INPUT

This Research Bulletin is issued as part of INPUT's Information Services Market Analysis Program. If you have questions or comments on this bulletin, please call your local INPUT organization or Robert L. Goodwin at INPUT, 1881 Landings Drive, Mountain View, CA 94043-0848, (415) 961-3300.