

Gartner Predicts 2002: Top 10 Predictions

David W. McCoy, Diane Morello, Dan Miklovic, Annemarie Earley, Mark Nicolett, Roger Fulton, Lisa Stone

Out of nearly 200 predictions from across Gartner, 10 predictions rose to the top. We urge you to bring these predictions into your 2002 planning process.

ANALYSIS

Across industries, geographies and businesses, the use of IT as an engine for efficiency, growth and opportunity will remain undiminished in 2002, although it will be accompanied by healthy skepticism and smarter planning. Our analysis reveals 10 predictions in three crucial areas that will shape business investment in IT:

External Forces

- The IT industry will remain challenged, facing accelerated job losses and significant vendor consolidation.
- Safeguarding people, knowledge, systems and nations will take priority.
- Consumers will go online, finally, with the number using online account management doubling by 2005.

Business Behavior

- Short-term focus on expenses will squeeze IS organizations in 2002 as business demand for IT increases.
- Outsourcing and trusted suppliers will take more control as capital spending reduces in favor of operating budgets.
- Through 2004, businesses will continue to view the discipline of CRM as a critical component of corporate strategy.

Applications and Technology Trends

- During 2002, despite budget restraints, operational IT infrastructure will still need to anticipate and fulfill critical IT initiatives.
- More than 50 percent of mobile applications deployed at the start of 2002 will be obsolete by the end of 2002.
- By 2004, Web services will dominate deployment of new application solutions for Fortune 2000 companies.
- During 2002, leading-edge businesses will exploit application integration to generate business innovation.

External Forces

Large-scale economic, social and political shifts will shape the way enterprises and vendors view IT in 2002. Although economic caution has already devastated budgets, not all external forces are negative. The challenge will be to have a balanced response that streamlines, but that does not weaken, IT and business capabilities.

The IT Industry Will Remain Challenged: From Intel to AT&T, the entire IT industry will be challenged in 2002 by major market discontinuities as buyer behavior becomes permanently more prudent and sophisticated. 2001 was a difficult year: Spending on IT was static. Many discretionary purchases were put on hold. Falling hardware revenues hit the semiconductor industry badly. And software saw zero growth in new licenses. The prospects for 2002 are not pretty: First, the IT industry faces accelerated job losses and vendor consolidation that will last through 2002 and beyond 2003. Second, as many as half of all IT suppliers that existed in early

2001 will disappear from the competitive landscape by the end of 2003, as they are acquired or go out of business. To put this chilling prediction in context, in the previous three boom years of 1998 to 2000, 28 percent of the leading global software vendors were merged or acquired. On the bright side, many Asia/Pacific countries will increase their share of global IT spending as they shift toward IT services. The following are the key success factors for IT industry players in 2002:

- Watch for new competitors from nontraditional segments.
- Prepare for business recovery now.
- Innovate with repeatable solutions for new technology areas.
- Don't rely on past successes in the challenging new future.

Safeguarding People, Knowledge, Systems and Nations Will Take Priority: Governments, military institutions, private-sector businesses and public-sector organizations will use 2002 to assess and guard against risks in security, privacy and safety. Leading the charge will be defense, intelligence and homeland security agencies, which will spur intense R&D around information exploitation, innovations from which will fuel a business activity boom by the middle of the decade (see "Side Effects of Military Spending: Innovations Through 2010," SPA-14-9383). Inside businesses, sponsors of security, privacy and business continuity programs will practically "write their own ticket" for funding and resources, possibly siphoning off investment funds from other areas. Be wary, however: Beneath the "busy-ness" surrounding security, privacy and business continuity will be deep-seated concerns for personal safety and well-being. Those concerns will drive many people to reduce business travel and to increase their demand for remote-work options. Businesses must respond with a robust infrastructure for communication, collaboration and information sharing.

Consumers Will Go Online, Finally: Between 2002 and 2005, the number of consumers using online account management will more than double, reaching 45 percent of the U.S. adult population. Online account management is seen as a good surrogate for online activity in general. Growth here mirrors growth of online consumer activity across many fronts. Consumer e-billing, which finally took off in 2001, will climb out of the "Trough of Disillusionment" on Gartner's Hype Cycle in 2002 and up the "Slope of Enlightenment," with most adoption occurring in next-generation e-billing applications (i.e., online account management). Holiday shopping in late 2001 demonstrated the strength in online purchasing and e-billing adoption that will carry into 2002. Overwhelmingly, the credit card industry has been successful with its billing strategies. In 2001, 26.7 million U.S. cardholders used Web-based applications offered by card issuers. Issuers will build on that success in 2002, taking online account management to a higher level than just monthly bill presentment. With online account management, card balances can often be updated daily, charges can be disputed and adjusted online, transactions can be sorted and organized, and consumers can access more-responsive online customer service. All of these ingredients have created a strong billing and account management model that customers have adopted. Gartner estimates that, by 2005, 97.5 million U.S. users will adopt e-billing and online account management.

Business Behavior

How enterprises tune their business strategies to respond to events will determine their appetite for IT. Too much caution and short-term focus will hamper IS organizations' ability to respond to recovery.

Short-Term Focus on Expenses Will Squeeze IS Organizations: Shell-shocked from 2001, businesses will approach 2002 conservatively, focusing on short-term return on investment (ROI), acquiring quick-payback products and services, and cutting back substantially on new IT

spending. As businesses prepare for economic recovery — most likely in the second half of 2002 — they will again look toward IT as a growth engine into the next business cycle. *One caveat lies in wait: When recovery begins, rising demand for IT will outstrip the IT budgets set during leaner times.* Unless business and IT executives strike a balance between growth-targeted IT investment requirements and constrained IT budgets, many IT-powered business initiatives will falter or fail when the economy turns positive.

Outsourcing and Trusted Suppliers Will Take Control: Significant shifts in spending on IT services began surfacing after Sept. 11 and will continue to manifest themselves in 2002. Enterprises will shift their spending away from capital budgets to operating budgets, leading to an increase in the outsourcing of commodity and utility services. Unlike the case with other areas of IT services, outsourcing expenditures will increase in 2002 over 2001 as businesses choose outsourcing as a way to transfer assets, forgo capital expenditures and reduce costs. During 2002, businesses and their top executives will not tolerate failure. They will expect service providers to deliver ROI within required time frames and with expected functions, and they will turn to "trusted suppliers," particularly those with a strong heritage in their industry sector. Those service providers will be well-capitalized, have significant global or niche market brand awareness, and offer contract structures that ensure delivery of the intended business outcomes.

Customer Relationship Management (CRM) Stumbles, but Will Remain Important: Many businesses enter 2002 having lived through CRM implementations that failed to meet expectations. In 2002, CRM will be the business application area that demands considerable attention from CIOs, many of whom will have to balance inflated expectations with more-realistic benefits. Through 2004, businesses will continue to view the discipline of CRM as a critical component of corporate strategy, but their disillusionment over early investments in CRM systems will cause them to retreat from enterprisewide CRM investments. Instead, they will increase the likelihood of future CRM success by concentrating in 2002 on change management, skill sets, streamlined processes and team selling strategies.

Applications and Technology Trends

Innovation continues. Some technologies and applications have strong potential in good times and in bad, and some efforts are too important to be derailed.

IT Infrastructure Will Be Pulled in Two Directions: During 2002, two opposing forces will challenge the realm of IT operations, project activity and IT infrastructure: 1) the need to follow through on cost reduction initiatives that began in 2001, and 2) the need to anticipate and fulfill critical IT initiatives. To minimize new investments in IT infrastructure, many organizations will identify and redeploy underutilized server and storage resources — actions that will drive targeted demand for capacity analysis tools and asset management software. Continuing security concerns will drive business continuity and disaster recovery projects, which will require data replication, clustering and load-balancing technology to improve application resiliency. The build-out of wireless LAN (WLAN) infrastructure will continue, and network services will be in high demand, as will be secure, redundant and distributed networks. Meanwhile, large-scale and long-term projects around enterprise systems management will go unfunded, and the telecommunications equipment market will feel stress. Buyers' focus on tactical spending rather than on innovative new technology will have a major impact on vendors of servers, PCs, storage hardware, telecommunications and systems management software. Enterprises will use low-cost, Intel-based server technology wherever possible and use life cycle management as the primary driver for PC acquisitions.

Mobile and Wireless Applications Will See Demand and Volatility: The complexity of mobile and wireless applications, combined with a lack of standards, will continue to make mobile and wireless an area of overdue innovation. Risk remains: More than 50 percent of mobile applications deployed at the start of 2002 will be obsolete by the end of 2002. The lack of

sufficiently useful and usable applications will be the biggest barrier to "always-on" consumer acceptance in 2002. More than 25 percent of U.S. and European organizations will experience tension between traditional workers and always-on early adopters. In Europe, which expects relatively high mobile Internet connectivity, aggressive carriers will position themselves to compete heavily with banks for mobile payment control, particularly in the low-value payments. "Smart" portable technologies will begin to proliferate in 2002 (see "Things Tactical and Practical: The E-Workplace in 2002," SPA-14-9708), driving mobile and wireless applications for virtual team collaboration, media content management, voice portals, geospatial information management and personal knowledge management.

Web Services Will Gain Strength: Web services — Internet-accessible software components — will capture substantial attention in 2002. Web services represent an extension of what Gartner has called a services-oriented architecture (SOA): More simply, by making software components available in a Web services model, enterprises can make agile use of custom software functions (i.e., Web services), each designed to perform and optimize a specific piece of the business process. For many reasons, Web services are facing harsh criticism and user reassessment (see "Web Services: 2002 and Beyond," COM-15-0588). Periods of reassessment, however, are common for new technologies, and Web services will successfully weather the review. By 2003, more than 40 percent of all Internet-oriented interactions will leverage Web components from multiple enterprises, and, by 2004, Web services will dominate deployment of new application solutions for Fortune 2000 companies.

Application Integration Will Generate Business Innovation: Few enterprises can escape the need to integrate internal applications if they want to develop new business processes or exploit business-to-business trading-partner management. Yet many have failed to invest seriously in developing an application-level network that provides unifying connectivity among people, application systems and devices across locations and business units. That highly integrated application-level network is the prerequisite for quick-change systems for business agility, for composite applications and for such sophisticated initiatives as real-time business activity monitoring (BAM). During 2002, leading-edge businesses will form integration competency centers and intensively pursue integration of applications both inside and outside the enterprise. In so doing, they will build an "enterprise nervous system" that will serve as a backbone for BAM, agile response and operational effectiveness. Application integration is an enabler of innovation and underlies many of our predictions for 2002.

These 10 predictions are only part of the Gartner Predicts 2002 coverage. We complement the top 10 predictions with focused "roll-ups" that elaborate on predictions in seven related areas.

Features

"Predicts 2002: What's Ahead for the IT Industry" (COM-15-1667) The IT industry is experiencing a major market discontinuity, as recent events infect buying habits, putting financial and physical safety high on everyone's agenda. **By Roger Fulton**

"Predicts 2002: What's Ahead for Business Investment in IT" (COM-15-1847) Gartner discusses the most relevant forces and imperatives that will drive business investment in IT during 2002. **By Diane Tunick Morello**

"Predicts 2002: What's Ahead for Business Applications" (COM-15-1830) Application software is moving beyond domain-specific tools, toward becoming another level of IT infrastructure. **By Daniel Miklovic**

"Predicts 2002: What's Ahead for IT Infrastructure" (COM-15-1850) IT infrastructure projects will focus on cost reduction and tactical investments in technology, causing another year of turmoil in the hardware, software and telecommunications markets. **By Mark Nicolett**

"Predicts 2002: What's Ahead for Sourcing and IT Services" (COM-15-1848) Gartner discusses how the sourcing and IT services market will evolve in terms of overall market conditions, buyer behaviors and the service providers' response to those drivers. **By Lisa Stone**

"Predicts 2002: What's Ahead for Vertical Industries" (COM-15-1827) Although 2002 will be complex, difficult and risk-intensive, there will be considerable opportunity for enterprises that align and integrate people, systems and business needs. **By Annemarie Earley**

"Predicts 2002: What's Ahead for Software Infrastructure" (COM-15-1975) High-profile technologies will begin to regain their footing, and a heavy dose of application-integration-driven opportunities will thrive. **By David McCoy**

The list of authors whose predictions served as the basis for these roll-ups is indeed too large to list, and we encourage you to read the related Gartner research, where the individual predictions and their impact are discussed in much greater detail.

Gartner Predicts 2002 Spotlights

Gartner Predicts 2002: Application Integration & Middleware (see www.gartner.com/1_researchanalysis/focus/aim2002.html)

Gartner Predicts 2002: Business Intelligence & Data Warehousing (see www.gartner.com/1_researchanalysis/focus/bidw2002.html)

Gartner Predicts 2002: Business Management of IT (see www.gartner.com/1_researchanalysis/focus/bmit2002.html)

Gartner Predicts 2002: Customer Relationship Management (see www.gartner.com/1_researchanalysis/focus/crm2002.html)

Gartner Predicts 2002: E-Business (see www.gartner.com/1_researchanalysis/focus/ebus2002.html)

Gartner Predicts 2002: Emerging Trends & Technologies (see www.gartner.com/1_researchanalysis/focus/trends2002.html)

Gartner Predicts 2002: Enterprise Management (see www.gartner.com/1_researchanalysis/focus/entmgmt2002.html)

Gartner Predicts 2002: ERP II, HR, Supply Chain & Manufacturing (see www.gartner.com/1_researchanalysis/focus/erp2002.html)

Gartner Predicts 2002: Financial Services (see www.gartner.com/1_researchanalysis/focus/finsvc2002.html)

Gartner Predicts 2002: Government (see www.gartner.com/1_researchanalysis/focus/gov2002.html)

Gartner Predicts 2002: Hardware (see www.gartner.com/1_researchanalysis/focus/hwm2002.html or www.gartner.com/1_researchanalysis/focus/hwp2002.html)

Gartner Predicts 2002: Internet Platforms & Web Services (see www.gartner.com/1_researchanalysis/focus/ipws2002.html)

Gartner Predicts 2002: IT Services (see www.gartner.com/1_researchanalysis/focus/itsvc2002.html)

Gartner Predicts 2002: Knowledge & Content Mgmt., Collaboration & E-Learning (see www.gartner.com/1_researchanalysis/focus/know2002.html)

Gartner Predicts 2002: Security & Privacy (see www.gartner.com/1_researchanalysis/focus/security2002.html)

Gartner Predicts 2002: Software (see www.gartner.com/1_researchanalysis/focus/software120701.html)

Gartner Predicts 2002: Sourcing (see www.gartner.com/1_researchanalysis/focus/src112801.html)

Gartner Predicts 2002: Sourcing in Europe (see www.gartner.com/1_researchanalysis/focus/src20020111.html)

Gartner Predicts 2002: Telecommunications (see www.gartner.com/1_researchanalysis/focus/telecm2002.html)

This research is part of a set of related research pieces. See "Gartner's Predictions for 2002" for an overview.

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509