

## **Predicts 2003: Gartner View for Sellers of IT and IT Services**

**Ben Pring, Lorrie Scardino, Roger Fulton**

IT sellers will continue to grapple, in 2003, with the changing nature of buyer demands as enterprises scrutinize the value-add of each investment.

## ANALYSIS

---

For the past two years, the entire IT industry has been coming to terms with dramatic changes in buying behavior. Although this new mood may signal a new norm for the industry, Gartner does not expect any sense of market normality to return for at least another two years, as vendors struggle to adapt and IT decision makers continue to put the value-add of investments under the microscope.

In 2003, six big trends will impact sellers:

- The new norm: Continued prudent spending behavior will drive market consolidation and shakeout
- Spending on safety: U.S. focus on homeland security will have IT suppliers swarming
- Wireless chips: The next generation of system-on-a-chip technology will create new network applications
- Vital networks: Telecommunications regulation will compete with the economic downturn as a growth inhibitor
- IT-as-utility: The switch from custom-built server networks to external utility computing services will accelerate
- Asia/Pacific rising: A shift in solution demand and product/skills supply toward developing economies in Asia/Pacific

Given these trends, Gartner anticipates the following:

### The New Norm

**Prediction: Product outlook will remain gloomy with few bright spots — shakeouts will continue.**

Through 2004 low business and consumer confidence in the value of IT will continue to be a drag on growth in the overall IT business. However, that same lack of confidence will stimulate cost-reduction decisions, such as the use of free Linux operating software. Linux-based server shipments will double in 2003 to 800,000. End-of-life issues, rather than technology innovation, will be the major PC growth driver in 2003. Gartner expects PC growth in 2003 to recover to 7 percent. We also expect the same need, to invest in replacements, to dominate most other product sales' upturns.

In many markets, vendors will achieve growth by winning share from competitors and bypassing channel partners, rather than through increased customer spending. Gartner expects that, by the end of 2004, half of all worldwide software product vendors from 2000 will merge, be acquired or go out of business. In a longer-term trend, 40 percent of today's semiconductor vendors will no longer be shipping silicon by 2012. There are only two options for semiconductor vendors: become much larger or prepare to exit the business.

### Impact in 2003

- Vendors should assume that competitive conditions and user buying behavior have been fundamentally altered during this downturn. Customers will continue to be prudent and carefully evaluate a product's contribution to business performance.

- If the anticipated upturn in the economy occurs in the second half of 2003, then the IT upturn will occur three to six months later. Vendors should therefore be ready for nine to 12 months of continued tightness.

## **Spending on Safety**

### **Prediction: Terror threat will be the biggest source of healthy IT spending in the United States.**

Many enterprises have cut back on security spending. During the next 12 to 18 months, the U.S. Department of Homeland Security will create one of the few catalysts for IT spending. The new department — forged from established departments and the creation of new initiatives — will require huge integration, technology refresh and external services support for short-term effectiveness.

The homeland security department should have considerable momentum. Few people question the need for speed and the new department has a budget that, if unused, will be subject to political and media scrutiny. Therefore, technology vendors will likely find open doors for projects that address the problems of interdepartment and interagency cooperation that terrorist activity revealed in 2001.

Another consequence of the attacks of Sept. 11 will be the increasing role of biometrics in security screening. By 2006, Gartner believes that all U.S. workers in sensitive locations or occupations will have government-issued, biometrically-encoded ID cards for facility access and location tracking.

### **Impact in 2003**

- Vendors must expect intense competition for significant new sales, with much marketing activity targeted at winning new business from the U.S. government.
- Vendors without established customer relationships must carefully consider alliances with other vendors that have established sales channels.
- Despite the urgency of the U.S. government's reorganization, vendors must still prepare for the long sales cycles typical of federal procurement.

## **Wireless Chips**

### **Prediction: Single-chip wireless solutions will drive next-generation growth.**

System-on-chip technology is beginning to provide single-chip wireless products. Embedding wireless connectivity into a wide variety of products in almost any environment will extend the use of current applications and ultimately enable a range of new applications that will spur another round of growth in the wireless markets. The first products are Bluetooth devices, which developers promise to make available, in volume, during early 2003.

The years through 2007 will be the trial phase for embedded wireless applications. These applications will likely be one of the growth engines for the second half of the decade as entrepreneurs see the possibilities and economics of embedded wireless devices.

**Impact in 2003:** Software and electronic appliance vendors must team with semiconductor suppliers that are developing single-chip embedded wireless solutions to provide system solutions for new applications. It is unlikely that a single "killer app" will drive market demand.

## **Vital Networks**

### **Prediction: Regulation will hold telecommunications hostage through 2003.**

Regulation has competed with the economic downturn as a prime inhibitor of telecommunications advancement, broadband advanced networks in particular, in many leading national markets. Regulation will continue to have a dramatic impact on service providers as revenue stagnates. More importantly, vendors will continue to suffer catastrophic consequences as carriers and enterprises cut back on nonessential network investment. Several major players are vulnerable to collapse.

Forward-looking regulatory relief can address the ills caused by the economy and regulation. We calculate that by enacting such regulation around a specific broadband vision, the U.S. government would give an immense boost to the gross national product. This boost would scale from submarket (for example urban) to the national level.

**Impact in 2003:** Carriers and vendors in all global regions must become involved in crucial regulatory issues of the day, such as interconnection, rate rebalancing, number portability and facilities-based vs. resale competition. Most regulators are seeking guidance. The consequences of allowing either one's competitors or those who are uninformed to strongly influence decisions would be catastrophic.

### **IT-as-Utility**

#### **Prediction: IT-as-utility prepares for widespread adoption.**

By 2006, subscription to IT utilities as a safe and cost-effective alternative to conventional system ownership will rise from 15 percent today to more than 30 percent of enterprises. This move to IT-as-utility will force changes in the relationships between different types of infrastructure vendors: IT product manufacturers, resellers, support and other outsourced service providers. All of these vendors must carefully evaluate the consolidation that will likely occur as the systems vendors package their products as utility services. Traditional channel players are particularly threatened when the offerings being sold and delivered are not assets, but instead are access to a limited number of provider-owned-and-operated subscription services.

**Impact in 2003:** IT infrastructure-based manufacturers, resellers and other channel companies must identify new opportunities and new roles to ensure their survival. For example, they must seek to improve their IT-as-utility product support and maintenance needs and look for new ways to add value in the IT services value chain.

### **Asia/Pacific Rising**

#### **Prediction: Major U.S. buyers and suppliers will accelerate offshore sourcing.**

Through 2006, strong competitive pressures to reduce costs will accelerate U.S. companies' export of IT research, development, production and product or systems support capabilities. Many countries are seeking to emulate India's success as a source of English-speaking, skilled IT staff and management. The balance of high-tech investment is shifting faster than it has during the last five years from Europe and the United States to Asia/Pacific. China's ambitions potentially have the most impact, ranging from semiconductor fabrication and design to products and services. The strength of demand within China is further fueling its ambition to be a stronger global IT source.

**Impact in 2003:** As India and China build their competencies in the worldwide IT value network, other global vendors in Asia/Pacific must review their future role as these new competitors challenge their market share. IT vendors in Europe and the United States must re-establish what on-shore (local) competencies are core to their competitive advantage and can readily be enhanced, for example, business process customization or outsourcing capabilities.

## Gartner Predicts 2003 Spotlights

"Predicts 2003: Hardware & Systems/Hardware Platforms"

"Predicts 2003: IT Services"

"Predicts 2003: Software"

"Predicts 2003: Sourcing"

"Predicts 2003: Telecommunications"

## 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