

Software Market Stalled in Global Economy's Slow Engine

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The outlook for the software industry is a more stable crawl as the cautious global economy continues to restrict spending to cost-controlling or revenue-driving technology projects.

ANALYSIS

The global software industry is experiencing the combined effects of economic uncertainty and lower business confidence in software investments, which is severely constraining corporate spending. The climate has been very stormy for the past two years. As Gartner Dataquest forecast in September 2002, "The outlook for the third quarter is always worse than the second quarter, so we must wait at least until the fourth quarter is closed for any signs of better times." Well, the fourth-quarter signs are better, but not yet good, for the industry as a whole or for us to increase our forecast. That being said, on the demand side of the market, Gartner Dataquest surveys show CIOs are much more in tune with the realities of CEO-imposed spending restrictions than they were one year ago. They now predict flat software budgets for 2003.

On the supply side, many software vendors that have survived the turmoil of the last two years are demonstrating the strength of their expense control management. In a market of shrinking revenue, they are starting to report improved profitability once again. The supply side is showing signs of being back in control. The improved predictability on demand- and supply sides is reflected in market behavior Gartner Dataquest describes as more stable though still very cautious. For more information, please see the Gartner Dataquest Perspective "Global Software Market Shows Signs of Stability and Caution."

When looking at Gartner Dataquest's most likely scenario, it assumes that the real gross domestic product (GDP) growth ranges from 1.8 percent for 2002 and 2.8 percent for 2003 to 3.8 percent for 2004. The likely impact on the software market is a late burst of growth around the end of 2003 as some discretionary funds are released. The fear of pending war and conflict in the Middle East involving the United States and United Nations countries are also impeding growth and will continue to thwart growth well into 2004. Therefore, signs of recovery in demand growth are still elusive while additional strong indications of further discretionary budget constraints remain. Slow growth holds for our software license forecast. For more information, please see the Gartner Dataquest Perspective "1Q03 Software Forecast Update: Markets Still Struggling."

So, what does this mean for the market share and growth of software vendors? During the last eight quarters, on the average, the software titans have clearly gained market share over the pure-play vendors in the aggregate software industry. Gartner Dataquest estimates this gain to be more than 5 percent of the total software market. The realities of the current economy conditions continue to shift the competitive advantage from the pure plays to the titans. Some of the shift is because of the titans' business value proposition. However, most of the shift is based on reduced risk because of the pure financial viability of the vendor. Software titans have deeper pockets and can withstand the economic challenges much easier than many pure-play vendors, which have smaller revenue streams and cash reserves. This has caused struggling pure-play vendor solutions to be less desirable from a financial viability perspective, even though they might be a better solution to from a tactical, functional or return on investment (ROI) perspective. Loss of revenue partly because of such reluctance in the marketplace may indeed make bankruptcy or acquisition of a pure play a self-fulfilling prophecy. For more information, please see the Gartner Dataquest Perspective "Titans Continue to Gain Market Share Through 2005."

Uncertainty is riding high with a very restrained economic outlook and business confidence around the world. So, it can only be sensible to advise continued caution for the near future. Clearly, some sectors are seeing increasing demand — for example, application platforms. Other sectors are losing their share of the total. The most prudent planning assumption is that overall global demand for software licenses will remain as static as it is today, at least for the next 12 months.

Features

Global Software Market Shows Signs of Stability and Caution — While the market has slowed, the wild spending swings of growth and negative growth seem to be stabilizing. **By Roger Fulton**

1Q03 Software Forecast Update: Markets Still Struggling — Growth in the worldwide software market is predicted to range from 1.8 percent in 2002 to 3.8 percent in 2004. **By Thomas Topolinski, Joanne Correia and Roger Fulton**

Titans Continue to Gain Market Share Through 2005 — The software titans are taking market share away from the pure-play vendors in this stagnant market. **By Joanne Correia, Roger Fulton and Thomas Topolinski**

Sincerely,

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