Market Analysis

Americas: Consulting and Systems Integration Market, 2002-2006

Abstract: Gartner Dataquest anticipates an IT spending recovery in late 2003, signaled by increased business confidence and leading to accelerated growth in IT services from 2004 through 2006.

By Michele Cantara

Strategic Market Statements

Through 2003, the consulting and systems integration markets in the Americas will continue to be more negatively affected by the U.S. economic downturn compared with other IT services market segments.

From 2002 through 2004, integration services will enjoy the highest growth rates among service segments in this market, fueled by enterprise demand for optimizing established systems.
Marketplace Description

This document summarizes the 2002-through-2006 market size and forecast for the consulting and systems integration (SI) services markets in North America and Latin America. More detailed segmentation of these forecast summaries are available from the Gartner Dataquest November 2002 MarketView Enterprise Solutions Worldwide Forecast Database (ITES-WW-DB-DA01).

Although IT services are somewhat less affected by economic downturns than other parts of the IT sector, growth in IT services in the Americas has been hampered by reductions in IT budgets, deferred projects and smaller projects. Service segments with a heavy concentration of discrete project services, such as consulting and SI, have been more negatively affected by the IT spending slowdown than have annuity services such as IT outsourcing and business process outsourcing (BPO).

Gartner Dataquest continues to see a cautious approach to IT spending for the near future as users examine IT investments far more critically than in the past. Gartner Dataquest anticipates an IT spending recovery in late 2003, signaled by increased business confidence and leading to accelerated growth in IT services from 2004 through 2006 (see Table 1).

Table 1
Worldwide IT Services Market Size and Forecast, 2002-2006

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%) 2002-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$M</td>
<td>556,830</td>
<td>591,404</td>
<td>633,518</td>
<td>682,674</td>
<td>736,552</td>
<td>-</td>
</tr>
<tr>
<td>AGR (%)</td>
<td>2.8</td>
<td>6.2</td>
<td>7.1</td>
<td>7.8</td>
<td>7.9</td>
<td>7.2</td>
</tr>
</tbody>
</table>

Note: AGR = annual growth rate
Source: Gartner Dataquest IT Services (December 2002)

IT Professional Services Market

Gartner Dataquest uses the term “segment” to refer to specific markets. Gartner Dataquest segments IT services market by the type of skills that are employed to deliver the service. Gartner Dataquest divides the IT services market into two major core segments: product support services and professional services. Professional services represent 78 percent of the worldwide IT services market and includes consulting, development and integration services, IT management services, and business process and transaction management services. Table 2 shows the worldwide market size and forecast for IT professional services.

Table 2
Worldwide IT Professional Services Market Size and Forecast, 2002-2006

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%) 2002-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$M</td>
<td>435,373</td>
<td>465,462</td>
<td>502,342</td>
<td>545,477</td>
<td>592,959</td>
<td>-</td>
</tr>
<tr>
<td>AGR (%)</td>
<td>3.1</td>
<td>6.9</td>
<td>7.9</td>
<td>8.6</td>
<td>8.7</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Note: AGR = annual growth rate
Source: Gartner Dataquest (December 2002)
Managed services in the form of IT management and process management services (formerly known as business process and transaction management services) constitute 48 percent of the IT professional services market (see Figure 1).

This document principally addresses the North America and Latin America geographies. Figure 2 shows the geographic composition of the IT professional services market.

**Figure 1**  
**Worldwide IT Professional Services Market Composition, 2002**
Figure 2
Geographic Composition of the IT Professional Services Market, 2002

North America (49%)
Western Europe (27%)
Asia/Pacific (5%)
Latin America (4%)
Rest of World (15%)

Total Market = US$556 Billion

Source: Gartner Dataquest (December 2002)

Tables 3 and 4 shows the IT professional services market size and forecasts for each of these regions.

Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%) 2002-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$M</td>
<td>219,297</td>
<td>234,568</td>
<td>253,453</td>
<td>273,714</td>
<td>295,859</td>
<td>-</td>
</tr>
<tr>
<td>AGR (%)</td>
<td>3.0</td>
<td>7.0</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Note: AGR = annual growth rate
Source: Gartner Dataquest (December 2002)

Table 4
Latin America: IT Professional Services Market Size and Forecast, 2002-2006

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%) 2002-2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>US$M</td>
<td>15,139</td>
<td>15,890</td>
<td>17,147</td>
<td>18,915</td>
<td>20,877</td>
<td>-</td>
</tr>
<tr>
<td>AGR (%)</td>
<td>2.8</td>
<td>5.0</td>
<td>7.9</td>
<td>10.3</td>
<td>10.4</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Note: AGR = annual growth rate
Source: Gartner Dataquest (December 2002)

Consulting and SI Market
The consulting and development and integration segments covered by Gartner Dataquest are roughly synonymous with the colloquial use of the term "consulting and systems integration."
Consulting Services
Consulting services are advisory services to help companies analyze and improve the efficacy of business operations and technology strategies. Consulting services include the following two subsegments:

- Business consulting services — Business consulting services are advisory services that influence the adoption of IT. Business consulting includes corporate strategy, review of business plans, business process analysis or re-engineering, and business requirements analysis, as well as change-management and organizational consulting pertaining to the adoption of IT solutions.

- IT consulting services — IT consulting services are advisory services that help clients assess different technology strategies and, in doing so, align their technology strategy with their business or process strategy. These services support customers' IT initiatives by providing strategic, architectural, operational and implementation planning.

Development and Integration Services
Development and integration services customize or develop IT solutions, assets, and processes, and then integrate these solutions, assets, and processes with established infrastructure and processes. Development and integration services implement solution designs. Development and integration services include the following three subsegments:

- Application development services — These services create new functionality for custom-developed or packaged applications. They may include conversion applications to run on different platforms or architectures.

- Integration services — These are detailed design, implementation, and management services to link applications (custom or prepackaged) to each other or with the established or planned IT infrastructure. Specific activities might include project planning, project management, detailed design, and implementation of application programming interfaces.

- Deployment services — Deployment services support the implementation and rollout of new applications and/or infrastructure. Activities may include the following
  - Hardware and software procurement
  - Configuration
  - Tuning
  - Staging
  - Installation
  - Interoperability testing

Deployment services also include post-implementation training services...
Methodology and Assumptions

The IT services forecast was developed through the application of two approaches. One effort built a bottom-up forecast by service line based on vendor revenue. The other process developed a market size and forecast estimate through a bottom-up process that focused on Gartner Dataquest's IT services vertical market forecast of end-user spending. The results from these two approaches were subjected to analyst peer review, and demand side-and supply-side perspectives were reconciled.

Changes to Forecast Methodology

Previously, Gartner Dataquest tracked change management and post-project training and education in a separate educational and training segment. Beginning with this forecast, these types of education-and-training services are no longer forecast separately and have been included in the market size and forecast for the deployment services segment.

Consulting and SI Market Drivers and Inhibitors

The following market drivers and inhibitors apply across North America and Latin America.

Market Drivers

- Trend toward optimization of current environments sustains some growth in integration and IT consulting. Cost-reduction initiatives such as server consolidation will remain popular through 2003.
- Demand to align business objectives with IT and produce return on investment (ROI)
- Availability of cost-effective IT services resources from offshore vendors
- Investigation of new technologies such as Web services that leads to increased technology pilots in late 2003 and 2004
- Public sector spending, fueled by e-government initiatives and homeland security

Market Inhibitors

- The economic slowdown in the U.S. diminishes IT spending in the Americas through much of 2003.
- Layoffs in the technology sector produce an oversupply of skilled labor that allows enterprises to hire their own IT resources and forgo working with an external services provider (ESP).
- There are reductions in IT budgets resulting in deferred and smaller projects
- There is an industry downturn in financial services, high technology, and telecommunications, typically the bastions of IT services spending
- Fees from offshore services vendors are subject to downward pressure.
- The downturn in enterprise applications software market reduces the market for implementations.
The need for cost reductions and predictable IT expenses is causing enterprises to move toward managed services rather than consulting and SI projects.

Large software vendors and SIs are giving away business consulting services and using them as sales support techniques to gain sales during lean economic times.

Consulting and SI in North America

Gartner Dataquest anticipates tepid growth in consulting and SI in North America in 2003, followed by a modest recovery in 2004 (see Table 5). Within the United States, there are some SI projects out there, but they are fewer, smaller and more highly competitive than ever. Landing a project requires the SI to make a thoroughly convincing case for ROI during the sales cycle and to deliver target ROI in under six months to be considered for future phases of the project.

Pragmatism is in, as is an incremental approach to solutions. Enterprises are buying far fewer enterprise application software licenses, and pureplay SIs that are solely focused on large package application implementations will find life difficult in 2003. There is a great deal of enterprise-application-related work for SIs, but it is more focused on integration than deployment or implementation.

Table 5

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting (US$M)</td>
<td>26,892</td>
<td>27,544</td>
<td>28,948</td>
<td>30,830</td>
<td>32,875</td>
<td>5.2</td>
</tr>
<tr>
<td>Consulting AGR (%)</td>
<td>-2.7</td>
<td>2.4</td>
<td>5.1</td>
<td>6.5</td>
<td>6.6</td>
<td></td>
</tr>
<tr>
<td>Development and Integration (US$M)</td>
<td>81,460</td>
<td>84,435</td>
<td>88,979</td>
<td>95,146</td>
<td>101,528</td>
<td>5.7</td>
</tr>
<tr>
<td>Development and Integration AGR (%)</td>
<td>-1.2</td>
<td>3.7</td>
<td>5.4</td>
<td>6.9</td>
<td>6.7</td>
<td></td>
</tr>
</tbody>
</table>

AGR = annual growth rate

Source: Gartner Dataquest (December 2002)

The Canadian consulting and SI market represents 5.4 percent of the North America market. Although the U.S. economic downturn has affected the Canadian economy, Canada's weaker dollar has insulated it from feeling the full brunt of the U.S. economic woes. Canadian exports have remained high, and the country has become a new focus of near-shore IT service centers. The jobs created from these service centers help sustain consumer spending.

During 2003, Gartner Dataquest expects growth in business consulting to be lower than growth in IT consulting, because of users' tendencies to favor technology expertise. Among application development, deployment, and integration services, Gartner Dataquest anticipates higher growth from integration services as a result of enterprises tendency to continue to
make do with what they have and to optimize the integration of their legacy systems. Gartner Dataquest expects growth in consulting, development and integration in North America to improve in late 2003 or early 2004. While year-over-year growth rates for this market in North America will improve, no return to the double-digit growth seen during the Y2K/e-business era is forecast for this period.

**Consulting and SI in Latin America**

Latin America is highly dependent on economic conditions in the United States and Western Europe. As a result, IT spending in Latin America also declined in 2002 as a result of the U.S. economic slowdown. As with North America, the negative economic outlook has most adversely affected the Latin America market segments with a preponderance of discrete project services, namely the consulting and development and integration segments. Gartner Dataquest expects IT spending in Latin America to recover about one to two quarters after recovery in the United States.

Enterprises in Latin America tend to be more cautious about adopting new technologies and upgrading to new releases of applications and systems. As a result, there is greater demand for complex legacy SI services and less demand for deployment and development services.

Nevertheless, because Latin America is still an emerging market for IT services and is growing from a smaller base, growth rates for Latin America IT services will outpace growth of similar segments in the United States. Table 6 shows the market size and forecast for consulting, development and integration in Latin America during the forecast period.

**Latin America Coverage**

Gartner Dataquest’s definition of Latin America includes the following countries: Anguilla, Antigua and Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Cayman Islands, Chile, Clipperton Island, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands (Islas Malvinas), French Guiana, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Navassa Island, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Tortola (British Virgin Islands), Trinidad and Tobago, Turks and Caicos Islands, Uruguay, Venezuela and Virgin Islands (St. John, St. Croix, and St. Thomas). Gartner Dataquest treats this region holistically and does not break down Latin America forecasts by country.
Table 6
Latin America: Consulting, Development and Integration Services Market Size and Forecast, 2002-2006

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consulting (US$M)</td>
<td>1,934</td>
<td>2,001</td>
<td>2,178</td>
<td>2,411</td>
<td>2,661</td>
<td>8.3</td>
</tr>
<tr>
<td>Consulting AGR (%)</td>
<td>0.2</td>
<td>3.5</td>
<td>8.8</td>
<td>10.7</td>
<td>10.4</td>
<td>8.3</td>
</tr>
<tr>
<td>Development and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9.2</td>
</tr>
<tr>
<td>Integration (US$M)</td>
<td>6,870</td>
<td>7,190</td>
<td>7,808</td>
<td>8,733</td>
<td>9,786</td>
<td></td>
</tr>
<tr>
<td>Development and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>9.2</td>
</tr>
<tr>
<td>Integration AGR (%)</td>
<td>1.6</td>
<td>4.7</td>
<td>8.6</td>
<td>11.8</td>
<td>12.1</td>
<td></td>
</tr>
</tbody>
</table>

AGR = annual growth rate
Source: Gartner Dataquest (December 2002)

Gartner Dataquest Perspective

The economic conditions in North America during 2001 and 2002 have resulted in a Darwinian winnowing of consulting and SI vendors, primarily through acquisition. Gartner Dataquest anticipates continued acquisition of beleaguered midtier vendors by larger, cash-rich IT services vendors through 2003.

Economic indicators suggest that the North American economy will recover in mid- to late 2003, with a commensurate uptick in the consulting and SI market occurring three to four quarters later. Accelerated growth in Latin America will follow two to three quarters after recovery in the United States.

Gartner Dataquest suggests that growth in these services segments will adhere to the following patterns:

- Business consulting will experience lower growth from 2003 through 2005 relative to other segments throughout the Americas because of end-users’ tendencies to purchase technology implementation services rather than business strategy or business requirements analysis services.

- IT consulting services will experience moderate growth from 2003 through 2005, fueled near-term by IT strategy and architecture services designed to improve current environments and longer term by experimentation with new technologies such as Web services.

- Application development services, the largest segment of this market, will also experience moderate growth from 2003 through 2005, as caution about the economy causes enterprises to defer new development and competition from offshore vendors holds down fees that on-shore vendors can charge.

- Deployment is inexorably linked to the software license market. The tendency to defer purchases will dampen growth in this segment through 2003, with a possible acceleration of growth in 2004 because of pent-up demand.
Related Documents

The following documents provide complementary information on the consulting and SI markets in the Americas:

"Americas: 2001 Consulting and SI Vendor Market Share Results" (ITSV-WW-DP-0430)

Enterprise Solutions Worldwide Final Market Share — Database (ITES-WW-DB-DATA)

November 2002 IT Services Market Size and Forecast MarketView — (ITES-WW-DB-DA01)

"2002 Consulting and Systems Integration Market in North America" (ITES-WW-UW-0110)

"2001 Market Shares of Consulting and Systems Integration Vendors in the Americas" (ITSV-WW-DP-0378)

Key Issue

What are the opportunities, trends and forecasts for the consulting and systems integration market?

This document has been published to the following Marketplace codes:

ITSV-WW-DP-0432