Research Brief

Titans Continue to Gain Market Share Through 2005

Abstract: During the last eight quarters, on average, the titans have clearly gained market share over the pure-play vendors in the aggregate software industry.

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Recommendations

- Software vendor product strategies through 2004 must focus on allowing customers to gain efficiencies and provide strong business value from their IT (BVIT).

- End users must continue to perform financial due diligence before vendor selection to ensure vendor longevity and product stability.

- End users and the investment community should not base decisions on viability alone, as the business value of IT will be a key component to success; so continue to search for true return on investment (ROI) and BVIT metrics in potential target products and suppliers.
Titans Continue Market Momentum

The continued sluggishness of the worldwide economy has forced technology purchasers to get by with smaller IT budgets, limiting purchases to those with the least risk and apparent quick ROI. The buyer focus is on narrowly defined tactical business needs, with expansion capabilities into strategic functionality. The vendor short list is becoming shorter, based on viability issues, which cuts out many vendors early in the selection process. ROI is now based on low risk, low cost and minimal investment levels with the ability to add functionality or capability later while maintaining the initial investment.

While the continued tightening of budgets hinders short-term software license revenue, it is good news for some titans. Titans are large vendors that offer products in more than one software market segment by offering a diversified and often an integrated line of software products with tactical benefits offering strategic growth later. Most titans have greater viability because of their diversity than those vendors that solely focus on a smaller scope of functionality. Pure-play vendors are those that offer a single or narrow functional product across the software industry spectrum.

During the last eight quarters, on average, the 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. Figure 1 shows the software new license revenue growth between the titans and the pure-play software vendors.

Continued Decline in Software Spending

Over the past two years, the effect of the U.S. economic downturn and the potential military action on the global economy has been dramatic. Renewed fears of the U.S. government’s ability to stimulate an economic recovery are holding back growth in many sectors. In the worldwide software market, there has been a sharp deceleration in spending for the majority of enterprise software products. Economic conditions as well as historically induced buyer experience are working against IT spending. Faint signs indicate that the economic conditions have started to stabilize, spending is still cautious for most enterprisewide projects, which could last well into 2004, as the world waits for stronger signs of an economic rebound and other global issues to settle.

The realities of the current economic conditions continue to shift the competitive advantage from pure plays to 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 ROI perspective.
Figure 1
Market Share Shifts to Titans in a Still-Shrinking Market

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 other market dynamics that contribute to the shift in market share from the pure-play vendors to the titans, please see the Gartner Dataquest Perspective "Consolidation Continues: Titans vs. Pure-Play Vendors" (SOFT-WW-DP-0103).

Gartner Dataquest Perspective

Turning Point Will Be 2005
Through 2003 and 2004, Gartner Dataquest believes that enterprises will continue to invest primarily in technologies that drive business process cost efficiencies from their existing investments. BVIT will become a major factor in decision making. For enterprises to make new software investments, it will be critical for simultaneous investment in new technologies (hardware, wireless and Web services) that will help achieve immediate ROI.
Reducing the enterprise's ongoing total cost of ownership (TCO) while gaining true business value of the software investment will be key.

In the battle of the titans vs. the pure plays, the turning point will be 2005, when new business rules will be defined and new market leaders will start to emerge.

- The software market’s consolidation will extend well into 2004, with some 50 percent of the worldwide software product vendors from 2000 being the subject of merger, acquisition, divestiture or demise.

- Buyer behavior will continue to stay cautious and more focused on the bottom line for the near future.

Titans will continue to take advantage of their position of strength during this time and look to partner with or acquire pure-play vendors that can fill functionality gaps in their solution offering or bring access to new customers and revenue streams. By the end of 2006, when economies are forecast to show renewed vigor, the flow of new entrants will begin again, and the pace of innovation will increase as the titans once again face nimble new competitors attacking their markets. Over a few years, this natural adjustment in the software industry will eventually drive better solutions for buyers and create new opportunities for investors.

**Key Issue**

**How is the competitive landscape for this market going to change?**

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