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EXCERPT

Worldwide Enterprise Application 2007 - 2011 Forecast Update and 2006 Vendor Share

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IN THIS EXCERPT

This excerpt is taken from the Worldwide Enterprise Applications 2007-2011 Forecast Update and 2006 Vendor Shares. It includes the following: IDC Opinion, Situation Overview, Revenue of Top 5 Vendors, Market Forecast summary with regional revenue outlook, Oracle's 50 billion Challenge to Reshape the Market.

IDC OPINION

Revenue for the worldwide enterprise applications market grew 9.1% to hit $81.8 billion in 2006, surpassing earlier projections and reviving hopes of a repeat performance of accelerated corporate IT spending in the 1990s. Despite the optimism, the future of the enterprise applications market is expected to be shaped by the following forces:

- Rising interest rates around the world, anchored by the twin effects of the U.S. housing slump and soaring energy costs, could dampen corporate and consumer spending over the next several years. Such economic uncertainties will force enterprises to put greater emphasis on rapid implementations, predictable returns, and business process improvements when investing in enterprise applications.

- As the three-year-running consolidation wave in the enterprise applications market enters its next phase, with acquisitive vendors carrying bigger debt loads, bulging product portfolios, and rising service and support demands, the hard work begins for both vendors and customers to determine how best they can correctly align one another's expectations on such issues as total cost of ownership, feature request, and Web services enablement.

- Despite relentless consolidation in the software industry, best-of-breed enterprise applications vendors appear to have no trouble competing with multibrand technology providers. By marrying easy-to-use products with domain expertise, continuous innovation, and low-cost delivery for customers of all sizes and industry sectors, these best-of-breed vendors will win deals at the expense of their larger rivals, whose products continue to fall short of customer expectations, especially in terms of usability.

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- Market stalwarts such as Microsoft, Oracle, and SAP will exert considerable influence in the enterprise applications market because of their perceived value, deep-pocket resources, and thriving ecosystems, but their future will be largely defined by their ability to win over business users by addressing their pain points and helping them achieve common corporate goals, rather than simply catering to the tactical needs of their traditional constituents on the IT side.

- Customers in Asia/Pacific, Eastern Europe, Latin America, and the Middle East will propel the growth of enterprise applications vendors as companies in these fast-growing regions start replicating their Western counterparts by reengineering their business processes and optimizing their ability to manage people, assets, and global risks in their bids to become world-class organizations.

SITUATION OVERVIEW

The enterprise applications market rose 9.1% in 2006 to reach $81.8 billion in license, maintenance, and subscription revenue, a better-than-expected performance compared with that of the previous year, when it grew 6.8%. Reasons behind the robust results include the following:

- Sustainable growth was achieved by tier 1 vendors, such as Oracle, which have created significant cross-selling and upselling opportunities following a string of acquisitions.

- Deal sizes and frequencies have increased among software as a service (SaaS) vendors as large enterprises begin to embrace the delivery model for enterprise applications utilization, rather than traditional in-house implementations. That shift has resulted in a sharp increase in revenue for a growing number of SaaS vendors, which have also bolstered their offerings in order to fetch bigger deals.

- Globalization in the enterprise applications market has enabled many vendors to boost their revenue in fast-growing regions in South Africa, oil-producing countries, and industrial hubs in different parts of China, offsetting sluggish demand or even declines in developed countries such as the United States. Even in mature markets such as Western Europe, enterprise applications vendors have been able to post above-average growth rates by launching a pan-European strategy to follow in the footsteps of their customers, which have made it their priority to sell and market products and services consistently throughout the continent.

- Human capital management (HCM) applications have enjoyed a warm reception among enterprise users as a combination of factors, including talent shortages, demographic changes, and job mobility demands, have forced companies to use technology as a means to enhance employee productivity as well as their hiring and retention practices. Additionally, the lines that separate tactical HR operations and strategic HCM components such as erecruiting and performance management are blurring, a distinction that has sent HR executives searching for more integrated solutions to advance corporate goals.

- Financial management applications vendors such as i-flex (now majority owned by Oracle), Kamakura, Murex, and Sophis posted above-average growth rates in 2006; some of these companies managed to more than double their revenue last year because of their ability to meet the voracious appetite for sophisticated technologies from financial services companies and fast-growing enterprises in China, India, Japan, and elsewhere. These implementations share similar traits to reengineer customer operations by improving bank account management through better workflow, automating bidding processes for letters of credit and bank guarantees, and generating a single view of 100% of their global cash position.

Table 1 details the 2006 shares of major enterprise applications vendors and their performance between 2004 and last year.

TABLE 1

Worldwide Enterprise Applications License, Maintenance, and Subscription Revenue by Vendor, 2004–2006 ($M)

	2004	2005	2006	2006 Share (%)
SAP	6,077.1	6,943.5	7,736.1	9.45
Oracle	4,612.7	4,146.4	4,803.1	5.87
Microsoft	1,686.7	1,800.8	1,978.1	2.42
Sage Group	1,625.0	1,710.0	1,860.2	2.27
Infor	1,352.2	1,466.3	1,556.7	1.90

Source: IDC, June 2007

FUTURE OUTLOOK

Forecast and Assumptions

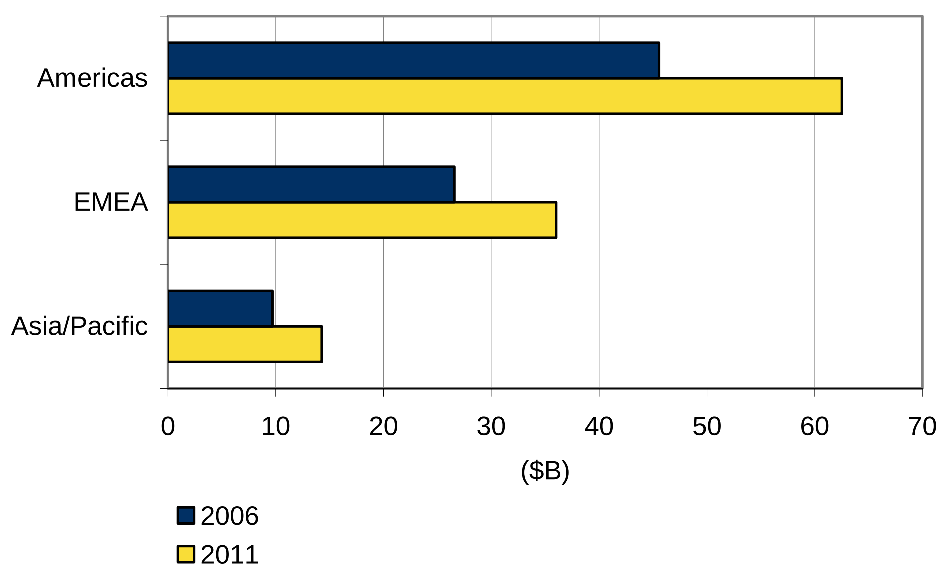
The enterprise applications market is expected to experience further growth of license, maintenance, and subscription revenue. It will top $112.8 billion at a compound annual growth rate (CAGR) of 6.6% over the next five years as user adoptions begin to spread throughout small and midsize organizations, across industries that have begun to reinvest in enterprise applications to become more competitive after years of staying on the sidelines, as well as across fast-growing regions where staying ahead of the game means taking a proactive approach to incorporating leading-edge applications technologies into business processes.

By Geographic Region

IDC analysts around the globe supplied regional input and insight into the enterprise applications market forecast. Figure 1 graphically depicts the growth of the enterprise applications market by geography. A granular view into the momentum of the enterprise applications vendors by region will be published in supplemental research documents from IDC country-level analysts.

FIGURE 1

Worldwide Enterprise Applications Revenue by Region, 2006 and 2011



Source: IDC, June 2007

Oracle's $50 Billion Challenge to Reshape the Market

Oracle CEO Larry Ellison recently threw a gauntlet in front of his salespeople by predicting a whopping increase in the company's revenue, indicating that perhaps it would reach $50 billion over the next five years. By contrast, the company was expected to reach $18 billion in revenue for its fiscal year 2007, ending May 30.

In order for that prediction to come true, Oracle would probably need to more than triple its enterprise applications revenue to hit at least $15 billion by 2011, compared with $5 billion in 2006. Implicitly, the prediction would mean surpassing SAP in the enterprise applications market if SAP posts a 10% annual increase in its product revenue through 2011. By comparison Oracle would have to grow its enterprise applications revenue 25% every year through 2011 to exceed $15 billion.

It's hard to see how else Oracle could achieve an organic growth of 25% year in and year out without making sizable acquisitions over the next five years. Suffice it to say that the investment banking community, which has already witnessed 550 deals in the enterprise applications space between 2004 and 2006, is hankering for more deals from Oracle as it continues to buy up its competitors, perhaps involving mass-market vendors such as Intuit and Sage or vertical sector leaders such as SS&C and SunGard in order to fulfill its vision. The overriding question is whether Oracle has the stomach to digest that many acquisitions in its quest for market dominance over the next five years.