# TOP 10 PREDICTIONS

## IDC Predictions 2007: Prospering in an Era of Hyperdisruption

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## PREDICTIONS

2007 will be a year of intense "hyperdisruption" in the IT industry, with major structural changes taking place along different industry vectors at once — all interacting with each other and, more important, *accelerating* each other. In 2007, we'll see small business become big, more software become services, more services become software, business IT players become more "consumer-ish," and consumer players become more businesslike. These disruptions, and others, will force most market leaders out of their comfort zones and open up new opportunities to those that choose to surf with these disruptions rather than stand against them. Here are some of the key developments we'll see in 2007:

☒ Worldwide IT spending will grow 6.6% in 2007, up from 6.3% in 2006. This almost boringly moderate IT market growth will drive vendors in a relentless hunt for growth pockets and accelerate their adoption of disruptive business models.

☒ Regionally, the main story will continue to be about the great disrupter, globalization, continuing apace, as emerging markets continue to drive growth. Vendors will also step up their hunt for markets beyond Brazil, Russia, India, and China (the BRIC countries).

☒ The high proportion of small and medium-sized businesses (SMBs) in the high-growth, emerging markets will move reaching the "SMB Long Tail" to the top of the strategic agenda for many IT vendors, make the ability to "scale down" offerings critically important, and drive major software vendors, including SAP, IBM, and Microsoft, to accelerate their software-as-a-service (SaaS) initiatives into overdrive. salesforce.com will be a key acquisition target. "All-upside disrupters" — including offshore services players and consumer online services players — will make moves in this space that keep the pressure on the traditional players.

☒ Information is the last of the big dynamic IT "platforms" up for grabs, and easily the most important. A battle for leadership in solving enterprises' fragmented information access and management problems will intensify in 2007 with lots of acquisitions, including acquisitions by relative newcomer HP.

☒ The fast-spreading virtualization of IT infrastructure will create both negative impacts and new opportunities for hardware and infrastructure software vendors. One interesting opportunity will be to create simple, low-cost software appliances (or "AppPods").

☒ Under increasing pressure from offshore players, IT and BPO services players will accelerate their "services as software" transformations — to high-leverage, software-based delivery models that improve profitability and open up the SMB market. Offshore vendors will be among the fastest to adopt the new models.

☒ The consumer and telecom markets will, as usual, be full of convergence, competition, and creativity, with gaming sales skyrocketing, virtual worlds monetizing and mobilizing, and cable companies becoming more "telco-ish" while telcos become more "IT-ish" and Internet video becomes more "TV-ish."

# FUTURE OUTLOOK

## An IT Market in Hyperdisruption

Last year, our Top 10 Predictions document was subtitled *It's Gut-Check Time as Disruptive Business Models Gain Traction.* And was that ever true: Major application vendors launched SaaS models, Google and other consumer-oriented online players edged into the low end of the business market (with "free" models), offshore suppliers continued to expand their footprints and their ambitions, and consumer-driven Web 2.0 technologies continued to "invade" the enterprise and shape new offerings.

This year, the disruption theme continues — but this time on steroids. IDC believes 2007 will mark the beginning of an era of intense hyperdisruption in the IT industry. By *hyperdisruption,* we mean that we see an unprecedented number of disruptions taking place along different industry vectors at once — all interacting with each other and, more important, *accelerating* each other.

For 2007, the biggest epicenters of IT market disruption, and examples of how they are increasingly interlinked, include:

☑ **The growing availability and impact of emerging markets.** The expanding availability of the Internet is making emerging markets more available, and strategic, as sources and consumers of IT products and services.

☑ **The SMB long tail as a focal point of growth and innovation.** The growth offered by emerging markets is increasing the strategic importance of crafting successful SMB strategies, given the high proportion of companies in these markets that are SMBs.

☑ **Software (and business) as a service.** The increasing importance of SMB markets is accelerating the shift to SaaS and, much more important, business as a service (BaaS).

☑ **Service oriented architecture (SOA).** The shift toward SaaS is poised to finally accelerate the adoption of SOA, the foundation for next-generation IT and the business and consumer services that depend on it.

☑ **The development of innovation ecosystems and microverticalization.** SOA adoption and SaaS/BaaS are accelerating the growth of innovation communities/ecosystems, which will lead to a proliferation of new microvertical software and services.

☑ **Optimizing IP leverage as a core competence.** The growth of innovation ecosystems and microverticalization is accelerating the rapid development of new IP management roles and strategies to support greater innovation volume and velocity.

- **Services as software.** To gain the leverage needed to profitably serve the growing SMB opportunity (much of that in high-growth, emerging countries), services vendors are aggressively transforming more of their IP into software, taking advantage of SOA and online delivery models (SaaS/BaaS).

- **"IT inside" business services.** The flood of microvertical offerings for SMBs will predominantly come to market not as IT services but as business and consumer services — with IT bundled within. Bundling of IT within business (and consumer) solutions will bring in disruptive new players and business models, from the top (a new generation of BPO) and bottom (free, online business, and consumer services).

- **Invasion of Web 2.0, consumer technologies.** The growing variety of online business and consumer services is driving a proliferation of consumer-grade, "good enough" technologies into the enterprise IT market.

Note that each of these disruptions is both driven by and a driver of one or more of the others. This convergence, and mutual reinforcement, of disruptions is resulting in a growing momentum for each and every one of them. And this convergence of disruptions ensures that 2007 will be one of the most tumultuous years in IT history — sure to move most market leaders out of their comfort zones and open up new opportunities to those that choose to surf with these disruptions rather than stand against them.

Let's begin with the key trends and events we expect for this year of change, challenge, and opportunity starting at the top — with a look at overall IT market growth.

## 1. Worldwide IT Spending Will Be Marginally Higher in 2007, Driving Vendor Risk Taking

In the past two IDC Top 10 Predictions documents, we predicted mid-single-digit growth for the worldwide market as a whole. We'll see the same pattern in 2007: Worldwide IT spending will grow 6.6% in 2007, up from 6.3% in 2006. Below this top line, our predictions for spending in the three major product/service categories are as follows:

- **Software will lead growth again, with 8% spending growth in 2007.** Among the major software categories, infrastructure software will stand out with continued strength (over 9%).

- **Services will remain stable, with 6% growth.** Among the major services sectors, outsourcing will be particularly strong, accelerating to 7.5% growth.

- **Hardware will bounce back in 2007, where we predict 6.5% growth, up from about 6% growth in 2006.** Networking equipment (almost 7%), PCs (6.4%), and volume servers (6.5%) will be among the hot spots in the coming year. Part of the PC uplift will be due to the Vista delay, shifting some PC demand into 2007.

IDC's *Worldwide Black Book* team laid out more detail about the global IT market outlook for 2007 in *Worldwide IT Spending Update: 3Q06 Black Book Forecasts* (IDC #204354, November 2006), which can be found on idc.com.

Bottom line, we continue to be in a long-term period of almost boringly moderate IT market growth. But this does not mean that 2007 will be a boring, "mature" year within the IT market. On the contrary, we predict that this cap on total market growth is, once again, setting the stage for vendors' relentless hunt for growth pockets and accelerating their adoption of new disruptive business models — as we see in many of the following predictions.

The next two predictions show where some of the best pockets of growth will be in 2007 from a geographic standpoint. We start with the broad regional growth picture and then zoom in to the next wave of emerging markets beyond the BRIC countries.

## 2. Mature Regions Will Experience an Uptick; Emerging Markets Will Brake (Just a Little)

Regionally, the main story will continue to be about the great disrupter — globalization — continuing apace, as emerging markets continue to drive growth. For the past several years, the regional IT growth story has been essentially the same: moderate growth in the big, mature markets and two to five times faster growth in the emerging markets. In 2007, we predict this story will change only slightly, with the mature markets generally stable to modestly improving and the emerging markets tapping the brakes a little bit. Here's the detail:

☒ Stable to modestly higher growth will occur in North America, Japan, and Western Europe:

- ❑ In North America, we predict 2007 growth will be fairly stable at 6.1%, driven by U.S. growth of 6.3%.

- ❑ We predict IT spending in Japan will grow by almost 2.5% in 2007, which is still quite small but a nice uptick from 2006 (1.5%). The impending J-SOX law (similar to the Sarbanes-Oxley law in the United States) will be a key driver for long-overdue investments to refresh corporate IT in Japan.

- ❑ In Western Europe, IT spending will grow by a little more than 5%, below the worldwide average but a step up from 2006 (about 4%). Spain and the United Kingdom will continue to shine, with Germany and France showing signs of improvement.

☒ We predict still scorching, but a bit slower, growth in the emerging markets in 2007, led by India (23%), with China, Central and Eastern Europe, the Middle East and Africa, and Latin America all expected to come in at around 14% growth. Continued high growth in domestic IT spending will make China and India very-high-priority markets for IT suppliers in 2007.

We detail more about our regional outlook in *Worldwide IT Spending Update: 3Q06 Black Book Forecasts* (IDC #204354, November 2006) as well as in upcoming Top 10 Predictions documents on Europe, the Middle East, and Africa (EMEA); Asia/Pacific; and Latin America. (Watch for them on idc.com.)

We also have more to say about these geographic markets throughout this document's remaining predictions, including the next prediction, which is focused on emerging markets "beyond BRIC."

## 3. Growing Pains in BRIC Will Boost Exploration of Beyond BRIC Countries

Make no mistake, in 2007 it will still be extremely important for growth-oriented IT players to develop a strong presence in the BRIC countries. But the BRIC countries, in addition to excellent growth, are also experiencing growing pains from overheating economies, including rising wages, rising real estate costs, and increasing turnover.

So, in 2007, IT suppliers will step up their efforts to open up the next wave of emerging countries as both IT sourcing and IT buying centers. Four areas — where we predict IT spending will grow by 10–20% in 2007 — will draw the bulk of vendors' beyond BRIC attention:

◻ **Emerging Asian countries (EACs), among which we include Pakistan, Sri Lanka, Bangladesh, Thailand, Malaysia, Vietnam, Indonesia, and the Philippines.** We see good gross domestic product (GDP) growth through 2010 (5.4%), which we predict will support over 12% IT growth in that same time frame. Vietnam, Sri Lanka, Pakistan, and Bangladesh will be at the high end of both GDP and IT growth in the region during the next several years.

◻ **Latin America's Southern Cone, particularly Argentina, Chile, and Peru.** Although Brazil (and Mexico) will continue to be a focal point for IT spending growth and sourcing, in 2007 we predict that the Southern Cone countries will grow in importance as both an IT consuming market and a sourcing market. We predict IT spending in the subregion will grow at 10% in 2007, and at a similar clip through the rest of the decade. In 2007, Argentina will also expand as a sourcing center — more perhaps than any other country in Latin America — because of availability of resources and lower labor costs. Motorola, EDS, IBM, and Accenture are there already; look for expansion and more vendors to arrive in 2007.

◻ **The Middle East's Gulf Cooperation Council (GCC) states.** The GCC countries will see over 10% annual growth in IT spending through 2010. Growth will be especially strong in Saudi Arabia, the United Arab Emirates (UAE), and Kuwait. This area is benefiting from not only high oil prices but also economic growth, economic reform, and diversification (nonoil) efforts. In 2007, we will see Dubai continue to develop as an important gateway between the European, African, and Asian markets.

☒ **North, East, West (NEW) Africa.** In this subregion — particularly in Nigeria, Kenya, Morocco, Algeria, and Tunisia — we predict growth percentages in the mid- to high teens over the next several years.

No, BRIC won't be "yesterday's news" anytime soon. Indeed, many vendors are still in the early days of building out their BRIC strategies and presence. But in 2007 we will see the more forward-leaning IT players ramp up for the next wave of emerging markets beyond BRIC. This preparedness will be particularly important for growth- and margin-pressured IT infrastructure suppliers because the greatest growth in these countries is almost uniformly skewed toward infrastructure investments.

Look on idc.com for Top 10 Predictions documents in the next 30–60 days from IDC's Asia/Pacific, Latin America, and EMEA teams — each featuring more predictions about both BRIC and beyond BRIC countries and subregions.

For the next six predictions we shift gears, away from major segment growth outlooks, to predictions about key market disruptions and shifting vendor strategies.

## 4. Three Groups of Vendors Will Intensify Their Focus on Reaching "the SMB Long Tail"

Last March, we wrote that, for IT players wanting to outgrow the overall IT market (i.e., most vendors!), the ability to "scale down" to SMBs will be critically important in 2007 and beyond (see "The IT Market's $150B SMB 'Long Tail,'" **blogs.idc.com/ie/?p=53**). One reason for this focus on the SMB, of course, is that the SMB space is growing faster than the overall IT market.

SMB IT spending growth in 2007 will continue to outpace that of large enterprises. IDC predicts SMB spending on IT will grow by almost 8.5% in 2007, almost 2 percentage points higher than the overall IT market growth rate.

Another reason that SMB is becoming a high priority is the vibrant, emerging markets we discussed in Predictions #2 and #3 have a very high concentration of SMBs, so to be successful in these fast-growing markets, it is urgent for vendors to develop successful SMB strategies. For example, the Asia/Pacific region, excluding Japan, will be an SMB growth hot spot. In 2007, we predict 10% or greater growth in SMB IT spending, with SMB sectors in Taiwan, Hong Kong, and China extremely vibrant and dynamic.

One other reason for the intensifying focus on SMBs in 2007 is the new offerings and new delivery models developed for the SMB market will ultimately be just as important in the large enterprise market.

Consequently, in 2007 we predict that small (and medium-sized) business will be very big, with three groups of vendors that will aggressively step up their SMB-focused initiatives:

☒ Established IT players, such as IBM, HP, SAP, Oracle, Cisco, and Accenture, will introduce many new offerings targeted at SMBs, including managed services and SaaS and BaaS offerings. These vendors will roll out many of these offerings in

emerging markets because of the high growth, large proportion of SMBs and, more important, minimal legacy issues, making emerging markets an excellent test bed for disruptive models. (IBM, for one, is already aggressively exploring new SMB offerings and business models in China.) More on this in Prediction #6.

☒ Expect Asia/Pacific-based product and services players to make their own major SMB moves in 2007. Specifically, Indian service providers — on their own and in partnership with established IT vendor partners — will introduce new SMB offerings. We predict that these suppliers will be among the most aggressive in leveraging new, online delivery models (e.g., SaaS) (see Prediction #6).

☒ Online services players, such as Google, Yahoo!, eBay, Amazon, and Travelocity, will accelerate their SMB initiatives in 2007. Look for partnerships with more traditional, large enterprise–focused IT services and software players that are finding it extremely difficult to scale down their traditional offerings to SMBs, as well as with more focused specialists (e.g., the recent Google/Intuit partnership).

As we stated at IDC's Directions conference in March, the bottom line is the SMB marketplace is shifting from a backwater of IT adoption to the epicenter of IT market growth and innovation. Vendors that are not moving SMB strategies way up on their agendas in 2007 will be quickly left behind.

IDC's SMB research team will publish a detailed Top 10 Predictions document on the SMB market on idc.com in the next 30–60 days.

## 5. The Battle for Information Platform Leadership Will Shift into High Gear

During the past several years, there has been enormous consolidation in both the infrastructure and application layers of the dynamic IT stack — and the establishment of a small number of "platform leaders." Information is the last of the big dynamic IT platforms up for grabs, and easily the most important. Customers consistently identify "rapid access to relevant information" among the top 2 business requirements for IT. And coherent information access and management are becoming more critical as a necessary backbone for SOA implementations. Although IBM, Oracle, SAP, Microsoft, EMC, and others have been putting platforms together during the past several years, information access and management remain too fragmented.

In 2007, we'll see an acceleration in consolidation among information access and management players to establish leadership positions in the new dynamic information platform:

☒ Major contenders — including IBM, Oracle, SAP, Microsoft, and EMC — will continue to build out their information platform footprints. For example, look for Oracle to add to its search capabilities by acquisition (e.g., Autonomy).

- ☑ HP will jump into the information access and management world, acquiring one of the major independents in the converging unified access/search/BI worlds (e.g., FAST, Autonomy, Endeca, Business Objects, or Cognos) or information management (e.g., Informatica).

- ☑ We will see a continuing rollup among independents, including the companies mentioned previously as well as Google.

- ☑ 2007 will see an acceleration in the development of verticalized "information as a service" players, building information delivery solutions around specific business problems and domains. (Current examples include LexisNexis, Reed Elsevier, and Factiva.)

A second major theme impacting the information tools and platforms world in 2007 will involve bridging the technologies, and cultures, of the traditional corporate information management world and the expanding, bottom-up — consumer-ish — world of Web 2.0. In 2007, Web 2.0, community-driven information tools that generate good-enough information, will move center stage in the enterprise. Wikis, blogs, and other bottom-up information-generating and -sharing tools will become integral in customers' product development, marketing, and customer service processes. A growing priority will be for products that bridge community-created, "social computing" content back into the corporate information access and management platforms mentioned above.

For more focused and detailed predictions about the information access and management space, look on idc.com for a Top 10 Predictions document from the IDC Information Access research team in the next 30–60 days.

## 6. Major Application Vendors Will Radically Upshift Their SaaS Efforts

In the application software world, 2007 will be a period of continuing radical change, with major expansion of SaaS as a way to accelerate SMB penetration and SOA adoption, the emergence of "local heroes" as important multinational application software players, and increasing impact of Web 2.0 technologies. In 2007, the role of SaaS as a key driver of SOA adoption (see "How SOA Will Really Be Adopted," **blogs.idc.com/ie/?p=76**) will become more obvious and important (particularly with the rising strategic importance of SMBs) as vendors make big strategy adjustments. In addition:

- ☑ **Shifting, and expanding, SOA application ecosystems onto SaaS delivery platforms will become a key strategy for reaching the SMB market.** Application ecosystem recruitment will build around SaaS platforms, with SOA-enabled microverticalization, on SaaS platforms, poised to become "the new customization" over the coming decade. Using online hubs to recruit — and enable the channel to create new, composite solutions (as NetSuite's SuiteFlex and salesforce.com's AppExchange do) — will be a critical success factor for these ecosystem leaders (see below and Prediction #9).

- **IBM will create an "IBM Live" (our name) online hub.** This online portal will allow customers (especially SMBs) to find and access, on demand, applications from IBM's WebSphere/SOA ecosystem partners. IBM needs to find an answer to the question of improving SMB adoption of its own software and that of its partner ecosystem, and so it needs to do a better job providing its middleware as an SaaS platform. This prediction is not an easy one to make because IBM will need to overcome its fear of alienating partners, recognizing, as Microsoft seems to have done with its Dynamics Live initiative (see "Where's Dynamics Live?? Microsoft's Next Big Disruption Opportunity," **blogs.idc.com/ie/?p=58)**, that in the emerging online software and business services delivery model, where the competition will increasingly be between ecosystems, partners *need* their ecosystem leader to create powerful hubs that attract customers. salesforce.com, for one, has already generated favorable reaction from its AppExchange partners for its ability to generate leads.

- **SAP and Microsoft will shift their SaaS initiatives into second gear.** As we predicted last year, SAP and Microsoft tiptoed into SaaS in 2006. In 2007, both companies will expand their SaaS offerings with a broader range of applications and greater scalability, setting the stage for more partners delivering complementary solutions via the SaaS model. Look for SAP to launch a new midmarket application platform, which, in a sign of this market shift, will initially be available *only* in an SaaS/hosted mode. SAP will also launch an online "xApps hub" to register, and make available for download its ecosystem, partners' SOA-based applications, for the same reasons we mentioned IBM needs to do so. In our view, SAP will need to quickly expand this from a distribution hub, to a solution-delivery and promotional hub. In the meantime, Microsoft will deliver on its announced Dynamics CRM Live and expand the number of Dynamics applications that are available in an SaaS mode.

- **salesforce.com will be acquired.** We believe the growing importance of online delivery of software and business services will make salesforce.com a very tempting target to both large players still struggling to scale down and online, consumer-heavy players trying to "scale up" to the business market as a way to further monetize their online presence. Of course, salesforce.com isn't the only SaaS player; look for other SaaS players to be snatched up as well in 2007 (see our recent study on some key SaaS players: *Software-on-Demand Provider Strategies: 21 Profiles of Delivery and Business Practices,* IDC #202616, August 2006).

2007 will also be notable for the rising impact of local/regional software vendors (notably in Asia) and the increasing number of vendors riding into the enterprise through Web 2.0 technologies:

- **Asia/Pacific software vendors will emerge to capture regional and global markets.** In Asia/Pacific, IDC's research team has noted that more local vendors are rising as "eastern heroes" and increasing their regional and global footprints. Many of these vendors will come from China, India, Korea, Australia, and Malaysia, with a focus on enterprise applications such as ERM, CRM, and supply chain applications. Look for these companies, including UFIDA, Kingdee,

Mincom, AhnLab, and Rising, to give the more established global vendors a run for their money. (They already control over a third of the Asia/Pacific [excluding Japan] market.)

☒ **Web 2.0 technologies and vendors will *drive* innovation in the software market.** End users want to have in the workplace some of the highly personalized experiences available on the Web through blogs, wikis, mashups/composite applications, RSS, social networking and online communities, Internet bookmarking/social tagging, voice over IP, instant messaging and presence, Ajax and Flash programming, and personal dashboards. In 2007, we will see traditional (e.g., Adobe, IBM/Lotus, Microsoft, Oracle, and SAP) and relatively new IT solution providers (e.g., Above All, Attunity, Conduit, Digital Harbor, Google, Nexaweb, Serence, Serendipity, Socialtext, Traction, and Zimbra) expand Web/Enterprise 2.0 capabilities that will redefine business user application experiences.

For a more detailed set of predictions on the applications and application deployment spaces, look on idc.com for an IDC Top 10 Predictions document from our research team in the next 30–60 days.

## 7. "Virtualization 2.0" and Software Appliances Will Reshape the Infrastructure Landscape

In the extremely broad world of IT infrastructure, two disruptive themes grab our attention for 2007 — virtualization and software appliances:

☒ **Virtualization 2.0 will accelerate adoption and reshape infrastructure opportunities.** Virtualization is easily one of the most disruptive developments in the infrastructure marketplace, and it is quickly moving beyond the 1.0 stage (legacy consolidation, test and development) and into the 2.0 stage (delivering higher IT service levels, supporting improved business innovation). In addition:

❑ In 2007, IDC predicts that more than 10% of all physical server deployments will be virtual machine hosts supporting more than 3.6 million virtual servers, a 52% increase over 2006.

❑ In 2007, this accelerated adoption of server virtualization (combined with improved multicore processor technology) will have a negative impact on server processor consumption; continue to squeeze software vendor pricing; result in disruption to traditional clustering, workload balancing, and disaster recovery products; and have a positive impact on server memory consumption in the marketplace.

❑ Accelerated virtualization adoption will also create opportunities for infrastructure software vendors that deliver products that manage this increasingly virtualized IT environment — particularly around performance monitoring, provisioning, compliance reporting, cluster visibility, change and configuration management, and APIs that enable management console integration.

☑ **Software appliances will become a household term in 2007.** The convergence of virtual machine technology and a new initiative by several tool vendors (e.g., rPath, VMware, and Ingres) is giving birth to this new form of software packaging, which, like the hardware analog, will typically be limited-function, self-contained products that are inexpensive to acquire, easy to manage, and, in most cases, easily and inexpensively replaced at a future point in time — sounds familiar — maybe we should call them "AppPods." These products will be an interesting option for SMB environments; in fact, appliances will grow as an emerging alternative delivery strategy to SaaS. It won't be a real showdown; both will be important alternatives among an increasingly rich variety of delivery options (including traditional on premise, remote-managed on premise, and mixes of all of the above). Software appliances based on Linux already have made their debut (although the major Linux vendors have not yet responded to the software appliance trend). So far, Microsoft has made no positive commitment to make it possible for ISVs to build software appliances based on Windows operating systems. However, we believe that this market segment will evolve in such a way as to threaten Microsoft's position in the market, forcing Microsoft to respond with its own Windows software appliance strategy. This market is very young, but taking form quickly; for both hardware and software vendors, this will be an important new category and route to market.

For our Enterprise Computing team's Top 10 Predictions document on this market, look at idc.com in the next 30–60 days.

## 8. Services/Software Fusion Will Pick Up Speed

In 2007, the services industry will continue its radical, and challenging, transformation characterized by continuing pressure of offshore services vendors' expanding footprints and ambitions and aggressive use of SaaS as a service delivery platform — by both traditional and offshore players — for greater growth and profitability, particularly for the midmarket:

☑ Offshore vendors will continue to swim upstream and onshore — keeping the pressure on the established global services players to transform their business models. Historically, so-called offshore IT services firms have enjoyed operating margin advantages over their global competitors across the services spectrum. However, increasing margin pressures in core outsourcing and continued global growth in the high-value business and IT consulting markets will accelerate the efforts of offshore firms to swim upstream. In addition:

❑ In 2007, offshore vendors will expand their upstream business and IT consulting/strategy capabilities; this will manifest itself primarily in a spate of acquisitions by the major offshore firms targeted at quickly gaining increased access to local and regional consulting markets. A recent example is Tata's acquisition of TCS Management, a small, high-value management consulting firm focused on the Australian market.

❑ Offshore players' R&D/engineering service offerings will continue to gain strength across a wide variety of industries, including software and product design, belying the image that offshore service companies are all about routine, noninnovative offerings.

❑ Offshore providers will look to make more strategic onshore investments in outsourcing capabilities, from direct investments in datacenter buildouts to strategic acquisitions of infrastructure outsourcing or hosting providers.

⊡ BPO and IT services players (onshore and offshore alike) will step up midmarket-oriented, services-as-software initiatives, accelerating investments in "productizing IP" and investing in online delivery capabilities (see "'Services-as-Software,' the Long Tail, and the New Software and Services Fusion," **blogs.idc.com/ie/?p=73**):

❑ In 2007, we will see growing competition and convergence between traditional BPO and SaaS focused on the midmarket. The HR market offers a good example of this services/software fusion, with new SaaS offerings such as that from HR SaaS start-up Workday, the recent acquisition of SaaS player Employease by ADP, and Accenture's midmarket-focused acquisition of Savista early in 2006. In 2007, we predict more SaaS players and software-enabled midmarket BPO players will be acquired by the large BPO players to give them high-leverage, online delivery capabilities. At the same time, look for SaaS players to add more business services around their online software offerings, moving beyond SaaS to full-fledged BaaS.

❑ Large outsourcers, such as IBM GS, HP, Sun Microsystems, and EDS, will look to expand high-leverage, "downscalable" utility computing opportunities via organic investments in delivery capabilities and offerings and/or partnerships with key players such as online service providers (e.g., eBay, Amazon.com [with its Elastic Compute Cloud], Yahoo!, Travelocity, or Google) and SaaS providers (e.g., salesforce.com or NetSuite).

Our Services team will publish its Top 10 Predictions for the services market on idc.com in the next 30–60 days.

## 9. "Two-Minute Drill": IP Competence, Channel Mashup, Pricing Shift, Networks + SOA + Solutions = IT

Before we head for our predictions about the consumer world, we want to briefly highlight four additional areas where we see hyperdisruption impacting vendors' strategic decisions and investments in 2007:

⊡ **IP competence.** In the past, the IT industry (and the software industry in particular) has largely considered IP a legal rather than a business domain. Today, we increasingly see vendors wanting to understand how they can use their IP portfolio in more creative ways, particularly as they develop and/or participate in innovation ecosystems. In 2007, we predict:

❑ Many more IT product, and services, suppliers will hire "chief IP officers" (CIPOs). CIPOs have already been established at IBM, HP, SAP, Yahoo!, and Microsoft.

❑ There will be a major increase in IP licensing — to others and from others — by virtually every major IT player. We're seeing a growing number of IP consulting and broker firms such as IPotential and ThinkFire, which offer services that include helping firms monetize their IP portfolios and improve their IP management competencies.

❑ We will see more IP lawsuits by both "IP competent" vendors protecting the IP they actually produce and are looking to leverage and "patent trolls."

Look for more about this issue in an IDC Top 10 Predictions document published by our Software Business Strategies team on idc.com in the next 30–60 days.

☒ **Channel mashup.** The increased focus of major suppliers on SMBs, the growing importance of online/managed service providers, the shift of major suppliers to deliver "everything as a service," and the development of ecosystems of microvertical solutions will drive a redefinition of channel players' offerings as well as their relationships with suppliers and customers. In 2007, we predict we'll see:

❑ As we saw in Prediction #6, the application platform vendors will beef up their online hubs as a critical promotional, and transformational, platform for local channel players that come into the platform vendors' ecosystems.

☒ More local SIs and VARs productize their value-add in software, becoming microverticalization contributors to the application platform players' online ecosystems

❑ Collaborative supplier/channel programs continue to increase (witness IBM's new agreement with cosell, codeliver arrangements), including programs to help the channel transform themselves to online, service-as-software–enabled business models.

❑ Continued investment in managed services, and alliances with service providers, by VARs,

Look for more about this issue in an IDC Top 10 Predictions document published by our Channels research team on idc.com in the next 30–60 days.

☒ **Business-oriented pricing.** One of the biggest challenges CIOs face is "connecting the dots" from IT investments to important business metrics or outcomes. In 2007, we predict more IT vendors will shift to business metrics– or outcome-based pricing. We're already seeing this from SMB-focused software vendors, which have to deal with "CEO as CIO" customers, who demand a connection between IT pricing and business operations. In 2007, we'll see some of the larger firms, particularly risk-taking offshore players, move more aggressively toward pricing denominated in business metrics.

☒ **Networks + SOA + solutions = IT.** Major network players such as Cisco have been on the periphery of their customers' dynamic IT/SOA transformations. CIOs have traditionally tended to see network equipment and service providers as "plumbing." In 2007, we predict that these communications players will greatly increase their "IT-ness," presenting both interesting new partners and competitors. In addition:

❑ In 2007, network/communications equipment vendors, including Cisco and Avaya, will successfully position themselves as relevant to the CIO's agenda by expanding their SOA-enabled network offerings and, at least as important, turning down their network-centric messaging and turning up their IT-centric, SOA-oriented messaging.

❑ In 2007, we'll see a growing wave of IT solutions acquisitions by telecom operators. Enterprise convergence of IT and telecom presents demand challenges that neither IT solutions providers nor telecom operators are equipped to handle. The first to recognize the weakness will be the first to capitalize on the opportunity. Telecom operators have already shown understanding of this concept through acquiring IT solutions providers such as Counterpane Internet Security, acquired by BT; USinternetworking, acquired by AT&T; Telindus, acquired by Belgacom; and Neocles, acquired by FT. In 2007, telecom operator strategies to gain IT solutions expertise through acquisition will continue. We expect acquisition deals to grow larger in scope as the strategy proves out and telecom operators' enterprise business units grow more competitive.

Look for more about these issues in IDC's Top 10 Predictions documents published by our Network Infrastructure and Business Network Services teams on idc.com in the next 30–60 days.

## 10. Consumer Markets: What Else? Convergence, Competition, and Creativity

It's no surprise; once again in 2007 there will be an enormous concoction of convergence, confusion, disruption, excitement, greed, fear, and creativity in the consumer IT and communications markets, as seen in the following predictions for 2007 from our Consumer and Telecom research teams:

☒ **Virtual worlds will profit and mobilize.** Although 2006 was about gaining users, 2007 will revolve around monetizing them. Already, commerce within virtual world communities is expanding at a phenomenal rate, with the first Second Life millionaire avatar announced in late November 2006. Communities such as Virtual Laguna Beach and Second Life themselves will prosper in 2007 via additional goods and services for subscribers, while the free market economy will flourish "in world" as well. In 2007, communities will expand by going mobile, as shown by Verizon Wireless' recent partnership with YouTube to allow its subscribers to watch and comment on YouTube videos while mobile and the operator's partnership with Revver, which shares ad revenue with people who

upload video to its Web site. Furthermore, the launch of Vista bodes well for the virtual world space because the necessary graphic support will be built into new PCs, expanding the number of potential participants by tens of millions.

☑ **Gaming will skyrocket.** 2007 will prove to be a great take-off year for this industry, which is a vast and growing community unto itself. We will see the first full year of the three major gaming platforms — Xbox 360, PS3, and Wii — battling it out. Although PS3 shipments will be production constrained, Xbox 360 will see Xbox Live drive more usage with online gaming and content (movie) distribution, and Wii will begin to expand the number of casual gamer households. We predict that all of these changes will add up to a worldwide videogame console market that grows by a whopping 50% in 2007.

☑ **Internet video will meet television.** Online music continues to grow at a strong rate, but 2007 is the year that video will take center stage. From YouTube to iTunes, online video distribution is here. Pay per download, download to burn, online rentals, and a host of Web services will begin to reach the television through solutions such as Apple's forthcoming iTV and Microsoft's Xbox Live. Also look to the service providers to start putting together the service pieces with next-generation customer premise equipment to drive more interactive capabilities into the living room.

☑ **Quad play will launch from cable companies.** In 2007, cable companies will ignite the battle for quad play through the finally activated Sprint joint venture and moving the new branded Sprint–cable MSO wireless phone into their successful triple-play bundles. Telephone companies (e.g., AT&T, Verizon, and Qwest) will respond with their usual reactive posture to cable.

☑ **Skepticism will grow for muni WiFi.** The first major municipal wireless networks will come online in 2007 (e.g., in Philadelphia). This step will prove or disprove the business cases that a municipal WiFi network can deliver ubiquitous low-cost access for multiple constituencies (e.g., consumer, city government, and wholesale) at a fraction of the cost by incumbent telephone companies and cable TV companies. Clearly, telcos and cable companies have had a good thing with their metropolitan area business cases with good profits on plenty of inefficiencies. But the ability to replicate an entire business at a fraction of the cost while still providing customer service and quality seems to be a remote possibility.

☑ **Hedge funds will retard telecom in 2007, or will they?** Those unregulated massive pools of capital known as private-equity hedge funds will extend their tentacles more deeply into the telecom markets in 2007. Already, hedge funds Apax, Blackstone, Kohlberg Kravis Roberts, Permira, Texas Pacific Group, and Carlyle Group control several telecom operators, including Tim Hellas, the Greek mobile phone company; TDC, the Nordic telephone company; Bezeq, the Israeli telephone company; Hawaiian Telecom; and Insight Communications, the ninth-largest U.S. cable operator. Control is ephemeral in this business — companies are purchased and then flipped. The impact can be significant because investments are sharply curtailed during hedge fund control, with profits

maximized. A bigger play by hedge funds in the sector will retard "risky" ventures and innovations, such as fixed-mobile convergence, IP telephony, broadband, and IPTV.

Look for more about these issues in IDC's Top 10 Predictions documents published by our Consumer and Business Network Services teams on idc.com in the next 30–60 days.

## ESSENTIAL GUIDANCE

Given all of the market shifts and disruptions we expect in 2007, we predict an unprecedented number of bold vendor moves. As we noted above, 2007 will see small business become big, more software become services, more services become software, business IT players become more consumer-ish, and consumer players become more businesslike. We'll also see channel-oriented players go more direct, direct players develop new channel strategies, and communications vendors become more "IT-ish."

So, in this year of hyperdisruption, there's one clear conclusion: It will be a bad year for vendors that are not ready to step out of their comfort zones, and it will be a very promising year for vendors that understand the many dimensions of this IT industry hyperdisruption and are willing to realign their strategies, offerings, and business models around the new market structure.

## LEARN MORE

### Related Research

#### IDC Documents

- ☑ *Worldwide IT Spending Update: 3Q06 Black Book Forecasts* (IDC #204354, November 2006)

- ☑ *Unified Access to Information: Content Vendors Heed the Urge to Converge* (IDC #202942, August 2006)

- ☑ *Software-on-Demand Provider strategies: 21 Profiles of Delivery and Business Practices* (IDC #202616, August 2006)

- ☑ *The Flattening World of Enterprise IT: Transition and Disruption Ahead* (IDC #DR2006_GSFG, February 2006)

- ☑ *IDC Predictions 2006: It's Gut-Check Time as Disruptive Business Models Gain Traction* (IDC #34492, November 2005)

*IDC Blogs*

☒ "How SOA Will Really Be Adopted," **blogs.idc.com/ie/?p=76**

☒ "'Services-as-Software,' the Long Tail, and the New Software and Services Fusion," **blogs.idc.com/ie/?p=73**

☒ "Where's Dynamics Live?? Microsoft's Next Big Disruption Opportunity," **blogs.idc.com/ie/?p=58**

☒ "The IT Market's $150B SMB 'Long Tail,'" **blogs.idc.com/ie/?p=53**

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