

2014 ITC Predictions – A New Year Of Growth

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ITCandor Expectations 2014

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Futurologists amaze us with tales of machines with minds of their own, while marketers scare us with exponential capacity forecasts... The trouble with predictions is that an exciting future tends to become a mundane reality. I've been doing this job for 30 years and been involved in some stinker forecasts (Itanium or ASPs taking over the world) and everyone missed the significance of the Internet when it first arrived.

For the 5th year in a row I've prepared a set of forecasts for the coming year, having already assessed the accuracy of last year's ones ¹The purpose is to provide some thought leadership on market trends firmly based in the reality of revenue and spending growth or decline. As you read through you'll notice that there are many more positives than last year. You'll want to know about the best opportunities in the coming year.

Best of Luck in 2014!

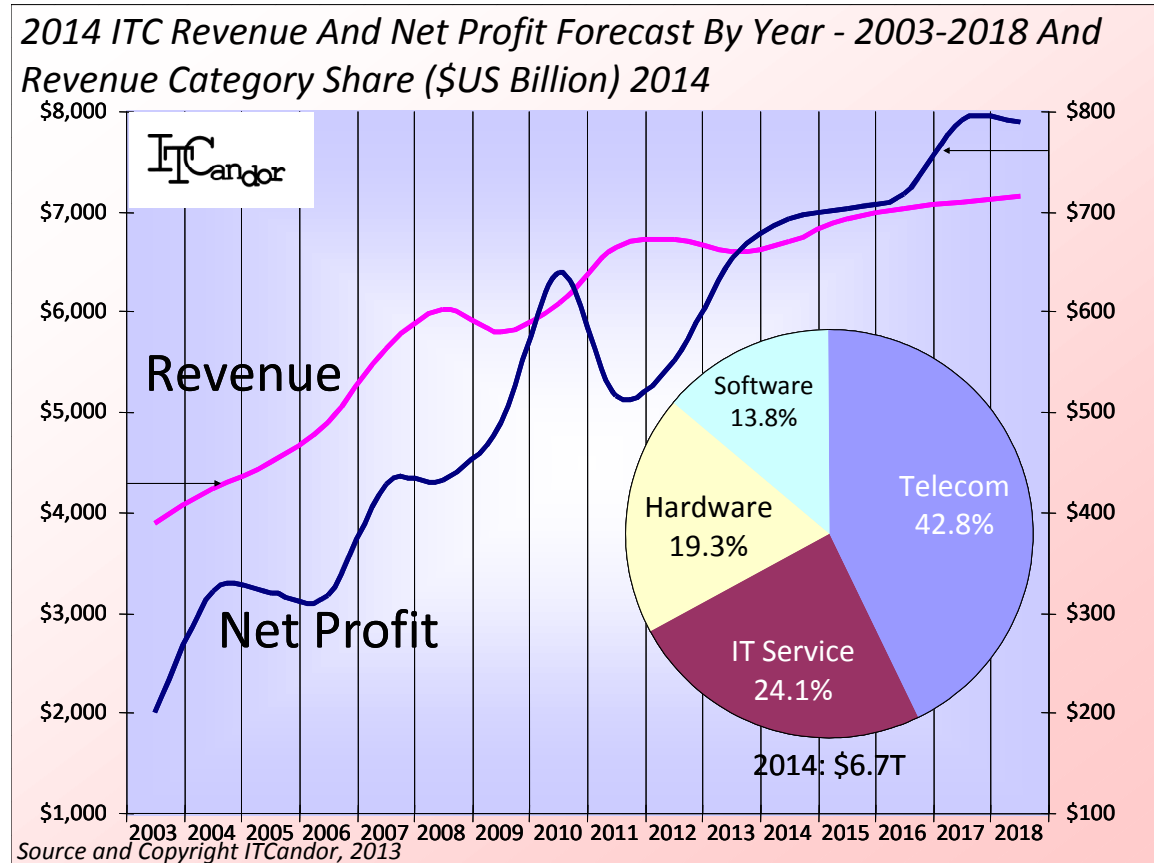
I'd like to thank Marcel Warmerdam, Puni Raja, Pim Bilderbeek, Keith Humphries, Carsten Schmidt, Roberto Masiero and others for helping formulate these predictions.

Further Reading: ITCandor's Methodology²

¹ <http://www.itcandor.com/2013-self-assessed/>.

² <http://www.itcandor.com/methodology/>

1. The ITC Market Grows 1.4% To \$6.7 Trillion – A Post-Recession Year



Our first prediction is that the ITC market will grow 1.4% following the decline of 1.6% in 2013.

While high sovereign debts continue to drive austerity budgets in emerged countries, some are launching infrastructure projects to kick-start the economy. However (as you'll see later) Central Government will be the only industry sector to spend less on ITC in the year. Smarter City suppliers (such as IBM, Siemens and Hitachi) shouldn't get depressed, as there'll be major savings made in improving the efficiency of other processes.

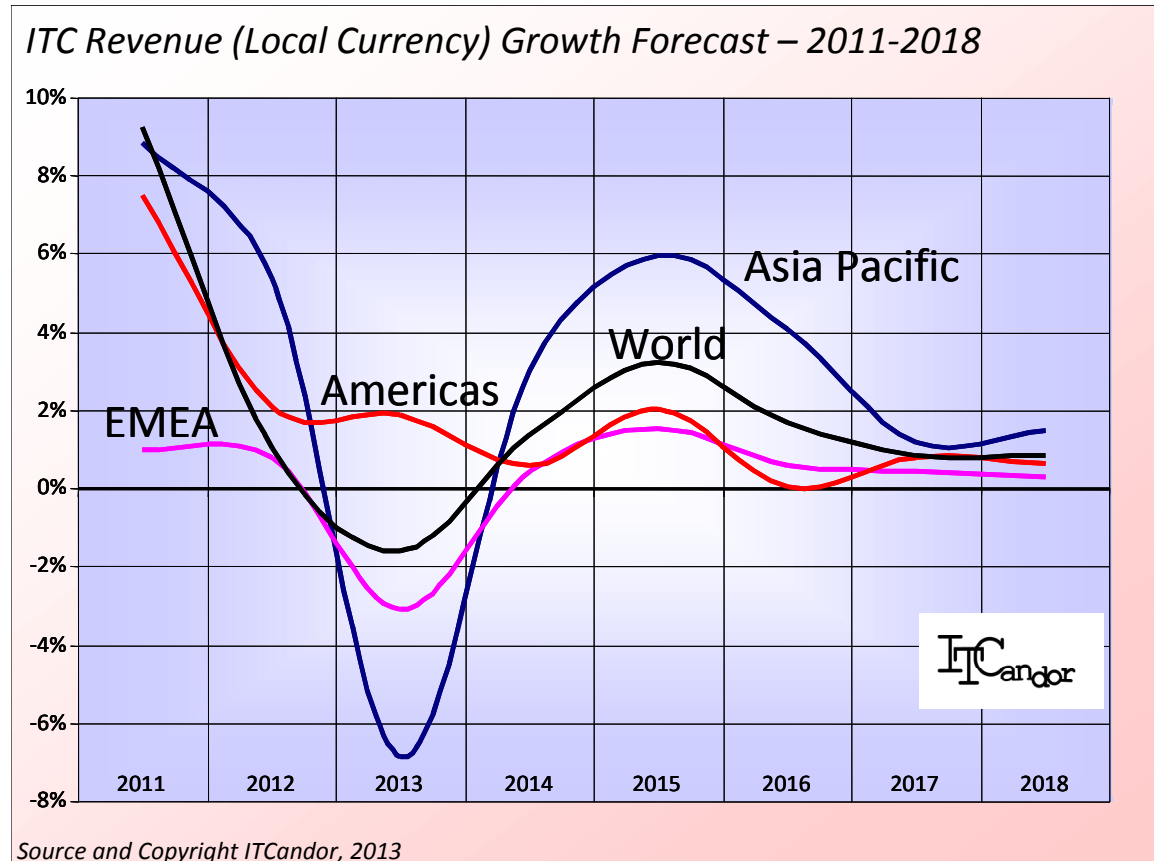
As demand in the West increases, so we expect to see emerging countries in Asia Pacific grow once more – mainly as exporters. Africa has grown fastest in 2013 and will continue in 2014 as the middle classes grow and infrastructure (especially mobile technology) is rolled out. Sales in the Middle East will do better as long as political stability is retained. Agreement on nuclear developments in Iran will lead to an increase in technology imports.

In 2014 the market will be worth \$6.7 Trillion, with Telecom Service the largest proportion (42.8% - growing 0.5% to \$2.9T) followed by IT Service (24.1% - up 2.1% to \$1.6T), Hardware (19.3% rising by 2.0% to \$1.3T) and Software (13.8% - 2.3% higher at \$923B). As we shall see later, there are hot and weak offerings in each of the 4 categories.

Further Reading: The Q3 2013 ITC Market³

³ <http://www.itcandor.com/q313itc/>

2. A Stronger Recovery In Asia Pacific And The Americas Than EMEA



Our 2nd prediction is that there will be a stronger recovery in Asia Pacific and the Americas than EMEA.

In particular, spending in Asia Pacific will grow by 3.0% (both in local currency and \$US terms) to \$2.4T, the Americas by 0.6% to \$2.3T and EMEA by 0.4% to \$2.0T (see Figure). The reason for the different growth rates is a combination of market maturity – the dominance of the US market in the Americas will lower growth, while the relatively immature nature of Asia Pacific countries (aside from Japan and Australia) will allow more. Despite many emerging countries in EMEA, they are still very small, making the maturity of Western Europe act as a break on growth.

We expect these trends to continue in 2015, when Asia Pacific growth will be at 6%.

In 2013 the Americas actually grew 1.9%, while spending in EMEA dropped by 3.1%. The market in Asia Pacific was down by 6.9% in local currency, but up 3.0% in current dollar terms – as effect of the falling value of the Japanese Yen against the dollar.

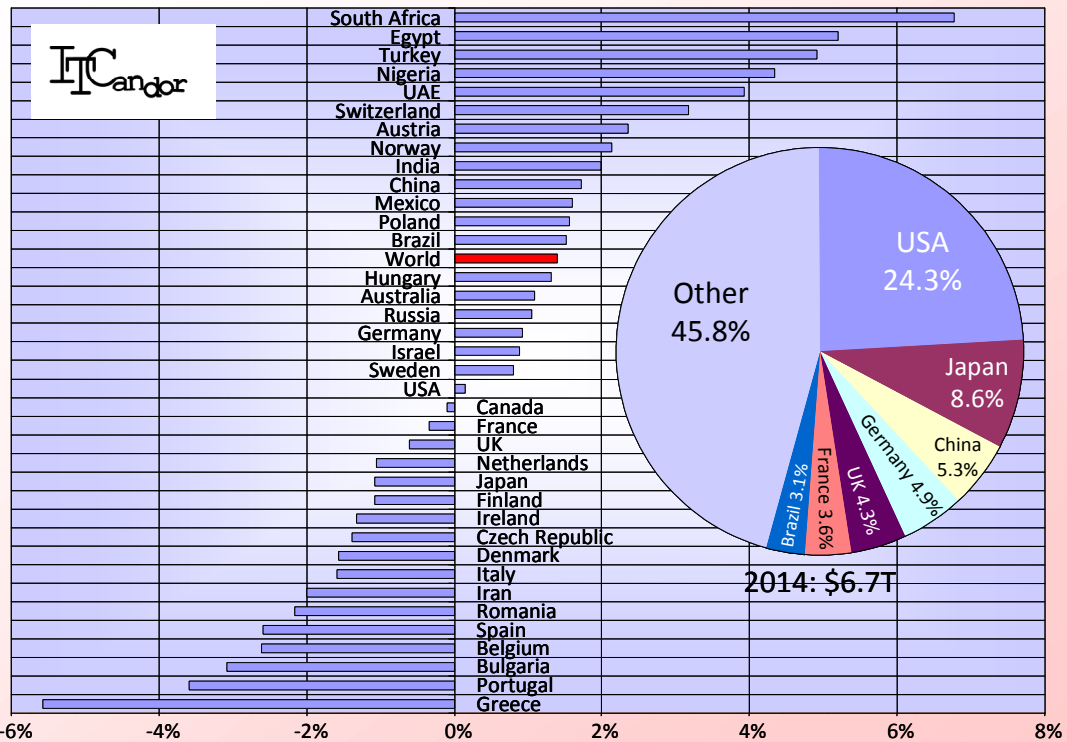
Understanding exchange rates is vital to good market research, as we assert every year.

Further Reading: [How to handle exchange rates⁴](#)

⁴ <http://www.itcandor.com/currency-how-to/>

3. Over 20 Country Markets Grow In 2014

2014 ITC Revenue (\$US) Forecast Growth By Country



Source and Copyright ITCandor, 2013

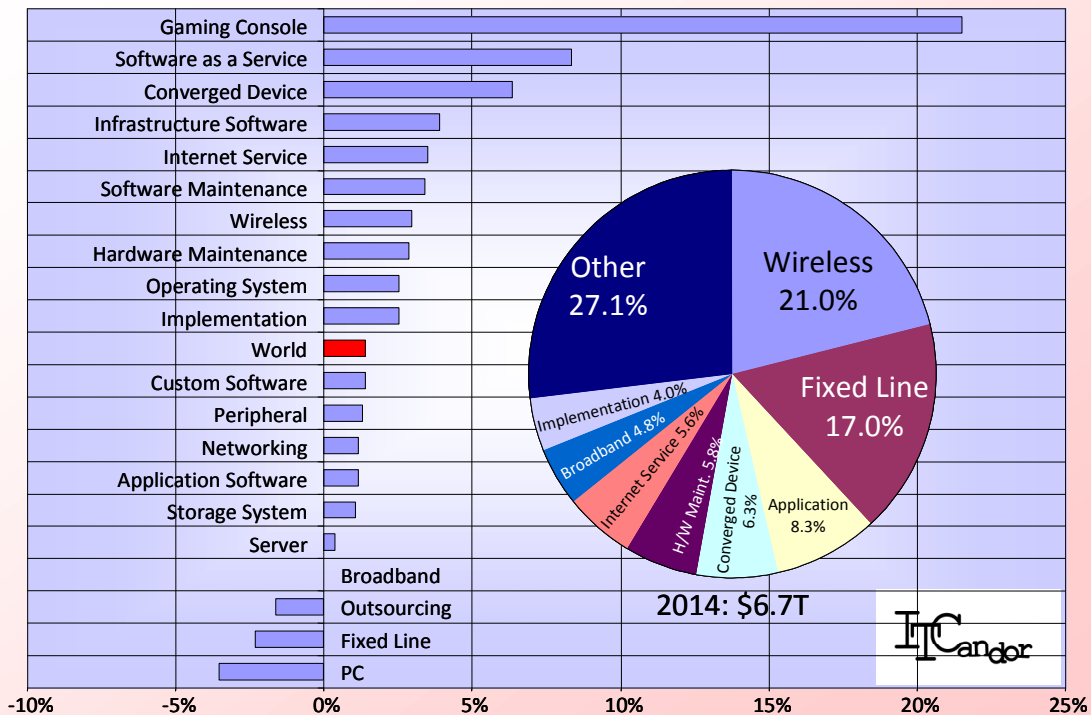
Our 3rd prediction is that ITC spending will increase in over 20 countries in the world. Leading the pack will be South Africa, Egypt and Turkey and we also expect BRIC countries to grow. Of the emerged markets we expect Switzerland, Austria and Norway to do well. Of the major countries we expect Germany and the USA to grow (just), while France the UK and Japan will remain in decline. We expect Southern European countries to be towards the bottom of the pile, with Greece suffering a 7% decline in the year. At the sub-regional level in EMEA we expect Western Europe to fall by 0.4%, Eastern Europe to be up by 0.8%, the Middle East to grow by 3.1% and Africa by 7.5% (although it will still only account for 8.1% of the EMEA total). We look at the size in population and GDP, natural resources (oil, gas, minerals), sovereign debt and the maturity of the ITC market in each country to forecast these growth rates.

Further Reading: Our sizing of the US market⁵

⁵ <http://www.itcandor.com/itc-usa-2012/>

4. Gaming, SaaS, Smart Devices And Infrastructure Software Grow – Outsourcing, Fixed Line Telecom And PCs Fall

2014 ITC Revenue (\$US) Forecast Growth By Offering



Source and Copyright ITCandor, 2013

Our 4th prediction is that gaming, SaaS, smart devices and Infrastructure Software will grow, while Outsourcing, Fixed Line telecom and PCs fall.

There are more winners than losers among the more than 20 offerings making up the 4 categories discussed in our first prediction. Around the 1.4% growth expected overall there are some distinct winners and losers. In particular:

- **Gaming consoles** are expected to grow by a massive 22% to \$17B as Microsoft, Sony and Nintendo ship new systems to replace older ones; in addition gaming software will continue to outpace the market, especially in titles for PCs and smart phones
- **Software as a Service** – an important part of the Cloud Computing market – will grow by 8%, reaching \$71.9B; we'll look at Cloud in more detail later on
- **Converged Devices** (including smart tablets and phones, as well as basic mobile handsets) will grow by 6% to \$426B – albeit at a slower pace than in recent years; rather than selling mainly to new customers, suppliers will have to learn how to persuade us to replace our existing phones
- In the middle growth areas are **Servers, Peripherals, Networking** and **Storage; Applications** are expected to grow less than **Infrastructure Software** or **SaaS**
- There are 3 offerings we expect will decline in 2014 – **PCs** by 4% (only) to \$292B, **Fixed Line** telecom by 2% to \$1.2T and **Outsourcing** by 2% to \$205B; in the latter case traditional services are expected to decline faster than the up-tick in the various forms of Cloud outsourcing

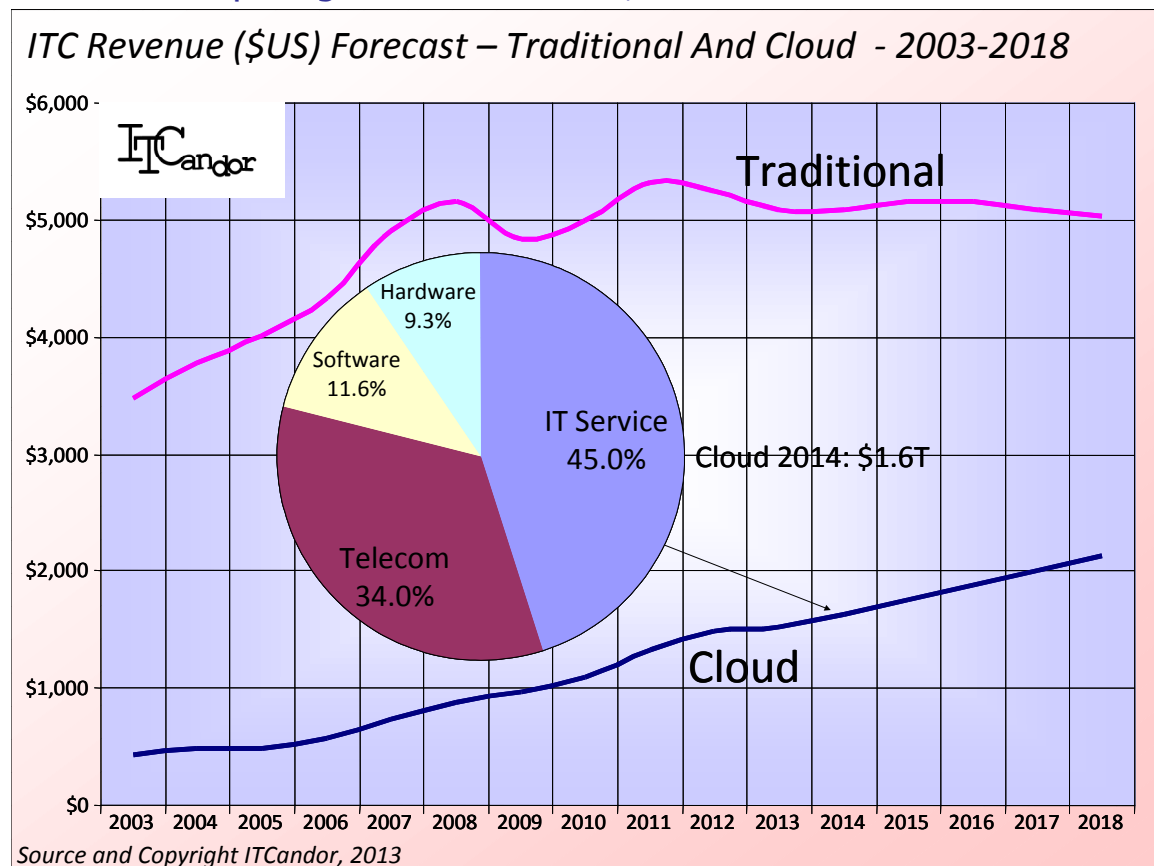
The relative strength of Services will depend largely on suppliers' abilities to lower the cost of Enterprise computing by helping customers to cut (or at least control) the rising costs of internal staffing.

At the moment we are not predicting that any particular new offering such as solid 3D printing will run away in terms of growth.

We look at historic growth, investment in products and new technology and user adoption trends to create these comparative forecasts for each offering.

Further Reading: ITCandor's latest sizing reports⁶

5. Cloud Computing Grows 6.3% To \$1.6 Trillion



Our 5th prediction is that Cloud Computing will grow by 6.3% to reach \$1.6T.

2013 was not a great year for the area, with growth at just 3.4%. While it remains a countervailing business, it is becoming sidelined as a subject, partially as a victim of its own success. Cloud Computing is still an important subject – especially for those who choose to buy in – rather than build – their applications: Financial Services companies in Holland were allowed by their regulator to use Cloud services for the first time in 2013: we expect many other industry sectors and countries to follow. Our general view is that IT Services will become Cloud services before becoming just 'services'. After all eBay is just an auction house and Google, an advertiser – there It element will become increasingly irrelevant over time.

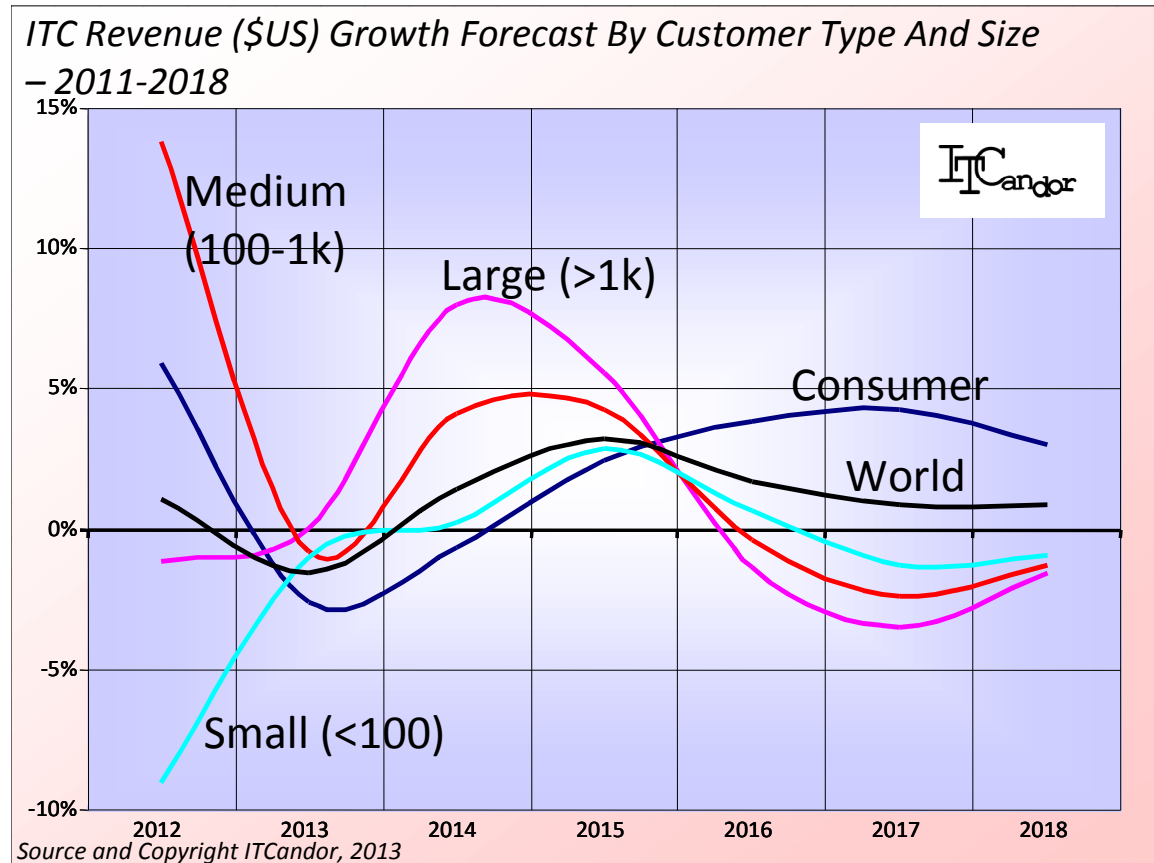
In 2014 there will be a heightened clash as large suppliers roll out SAP, Oracle, Hadoop and other SaaS in direct competition with their channel partners, although we expect them to concentrate for the most part on very large Enterprise customers.

⁶ <http://www.itcandor.com/about/market-share-and-forecast/>

We look at the historical development of Cloud Computing, vendor statements on growth and size wherever possible and talk to numerous users about their adoption intentions to produce our forecast.

Further Reading: Our Cloud Computing definitions and methodology⁷

6. Business Stronger Than Consumer Demand In 2014



Our 6th prediction is that business will be stronger than consumer spending in the year.

We expect the following by customer type and size:

- **Large** companies (those with 1k or more employees) will spend 8% more reaching \$1.1T; this follows a 0% growth in 2013
- **Medium** companies (with between 100 and 1k employees) will increase their spending by 4% to reach \$712B; this follows a decline of 1% in 2013
- **Small** companies (those with less than 100 staff) will spend the same \$1.8T next year as they did this
- **Consumer** spending will continue to decline, dropping a further 1% to \$3.1T from the fall of 2.6% this year; our rationale

We expect a reversal in demand over the next few years, which will put consumers on top by 2016 – if that happens sooner than we expect it'll be good for the market (if not for our prediction for next year).

Recessions and product life cycles affect the spending on ITC by customer size and type. Large companies are currently doing better than SMEs and are using Social Business techniques to increase their agility. The recession and banking crisis have restricted ITC spending in many smaller companies. The decline in consumer spending is again a result of

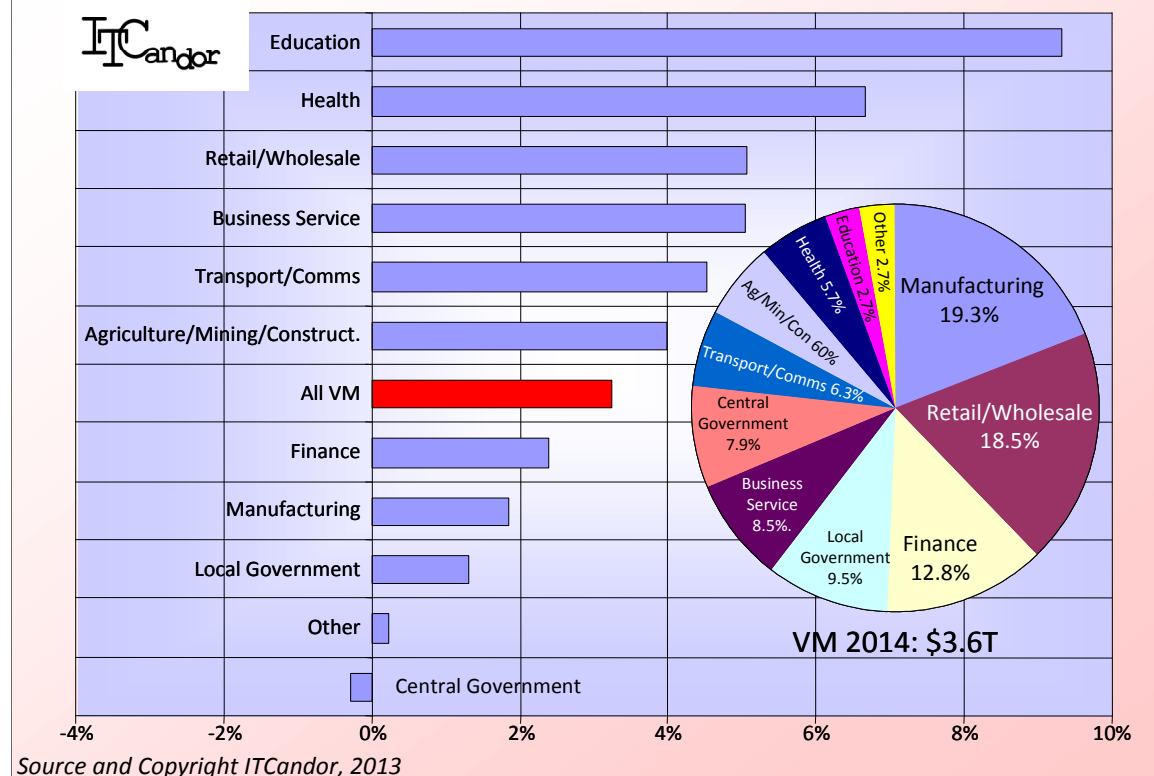
⁷ <http://www.itcandor.com/about/cloud-computing/>

the recession and the effects of redundancy and lower salaries on household income and budgets.

Further Reading: Our analysis of US spending by customer type⁸

7. All Industry Sectors (But Central Government) Grow

2014 ITC Business Revenue (\$US) Forecast Growth By Vertical Market



Source and Copyright ITCandor, 2013

Our 7th prediction is that spending in 10 of the 11 industry sectors will grow in 2014, leaving just Central Government spending in decline.

In total business spending on ITC will grow by 3% to \$3.6T in the year, following a decline of 1% this year. There will be some major differences by sector. In particular:

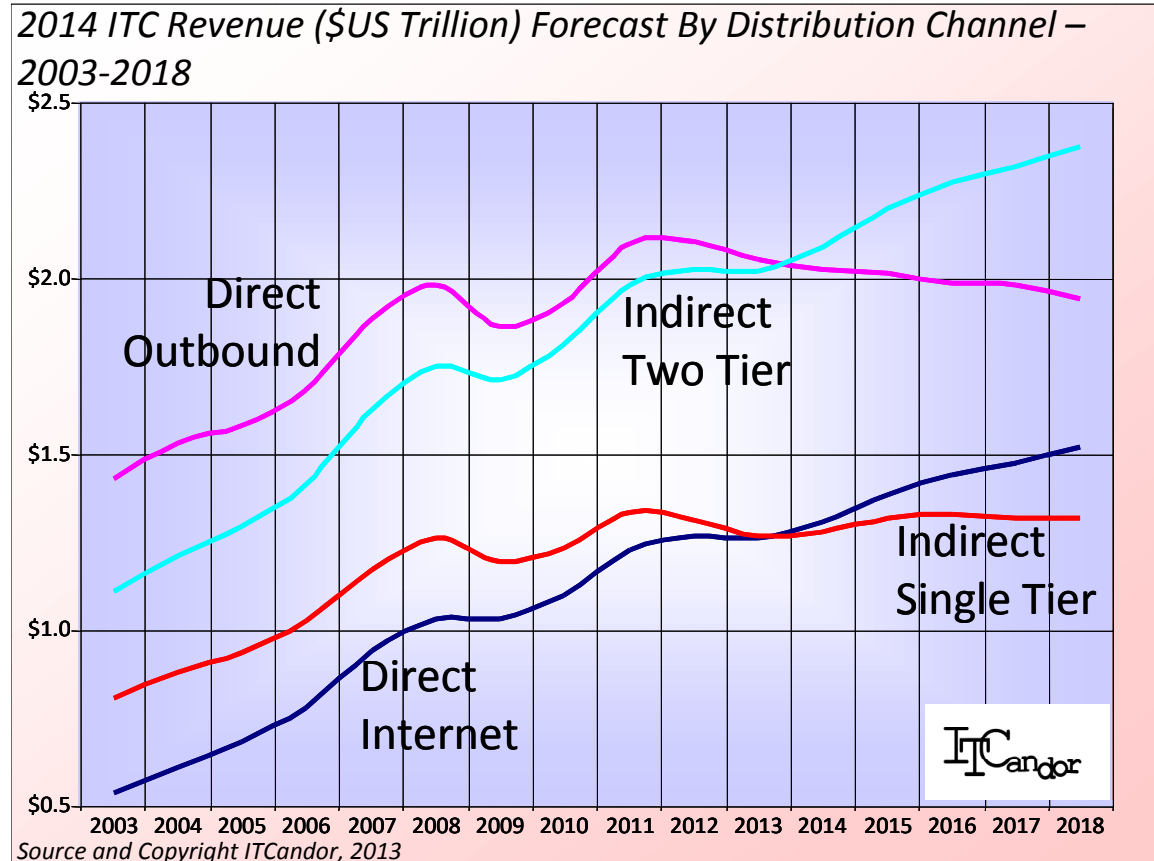
- **Education** (9%) and **Health** (7%) Sectors will see the most growth in spending in the year; however at 2.7% and 5.7% of the total business spend they will remain the 2 smallest sectors for now; handling smart devices and improving electronic records will be strong in both sectors
- **Retail/Wholesale** trade will increase spending by 7%, but will remain behind Manufacturing as the largest sector – taking up 18.5% of all business spending; increasing focus on Social Business will drive spending here
- **Manufacturing** (2%) and **Finance** (2%) will grow than less than overall; workstation and graphics processing will be strong in these areas next year
- **Central Government** will spend very slightly less next year than this, while Local Government will increase its spending by just 1%; our industry has a lot to offer in improving the efficiency of government processes for those who really want to save costs overall

⁸ <http://www.itcandor.com/usa-vm-2012/>

Of course suppliers adjust their sales and product strategies to fit them to particular vertical markets and tend to have their own strengths - Oracle and IBM in Finance, HP in Manufacturing, etc.

Further Reading: SAP's vertical market aims⁹

8. Multi-Channel Marketing Takes Over



Our 8th prediction is that multi-channel sales and marketing will take over our industry in 2014.

We show a traditional break between distribution channels that we use in our market sizing in the Figure. However the splits between who takes the customer's money, which this is based on, is becoming less relevant over time. The trends are towards cheaper fulfilment of course, with direct Internet and indirect 2-tier costing less than direct outbound and indirect single-tier.

The real story is the development of multi-channel marketing, which will have a bog effect on how ITC itself is sold in 2014. The use of Social Business is well understood by leading suppliers such as HP, IBM, Oracle and Dell and will be deployed more widely in the year. I'm worried that deeply integrated campaigns can be creepy, but that's because I'm highly anti-suggestible. Multi-channel market, if done right, will help suppliers and channels to have 'stickier' customers.

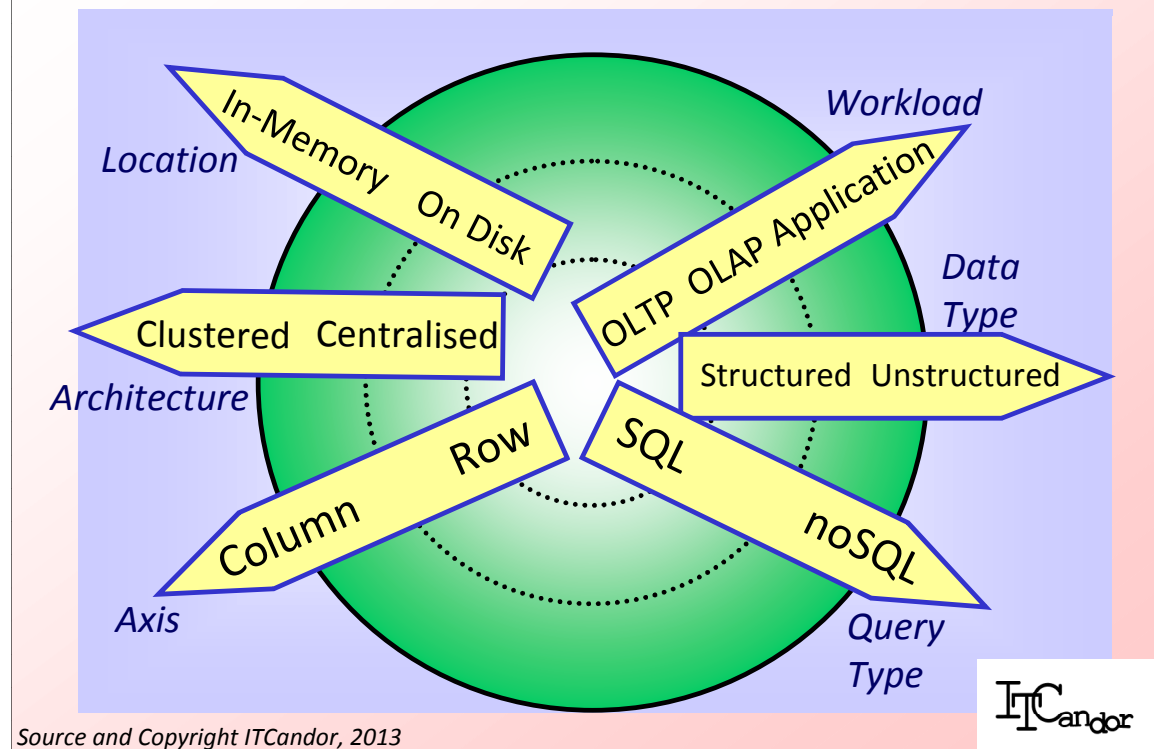
Further Reading: Our analysis of IBM Smarter Commerce¹⁰

⁹ <http://www.itcandor.com/sap-business-suite-on-hana/>

¹⁰ <http://www.itcandor.com/ibm-smarter-commerce-q212/>

9. In-Memory Databases Define Big Data Success

Database Multiple Choice In 2014



Our 9th prediction is that in-memory databases will drive the Big Data market.

We've been critical of the lack of definition in the Big Data strategies of the past few years and have observed that they have signally failed to create bigger revenues for the large storage array suppliers. The interesting developments have been in the analytics area – especially in the large growth of Hadoop and massive marketing success of SAP's HANA. Hadoop players such as HortonWorks, Cloudera and MAPR will play an even stronger role in the development of Big Data themes in 2014.

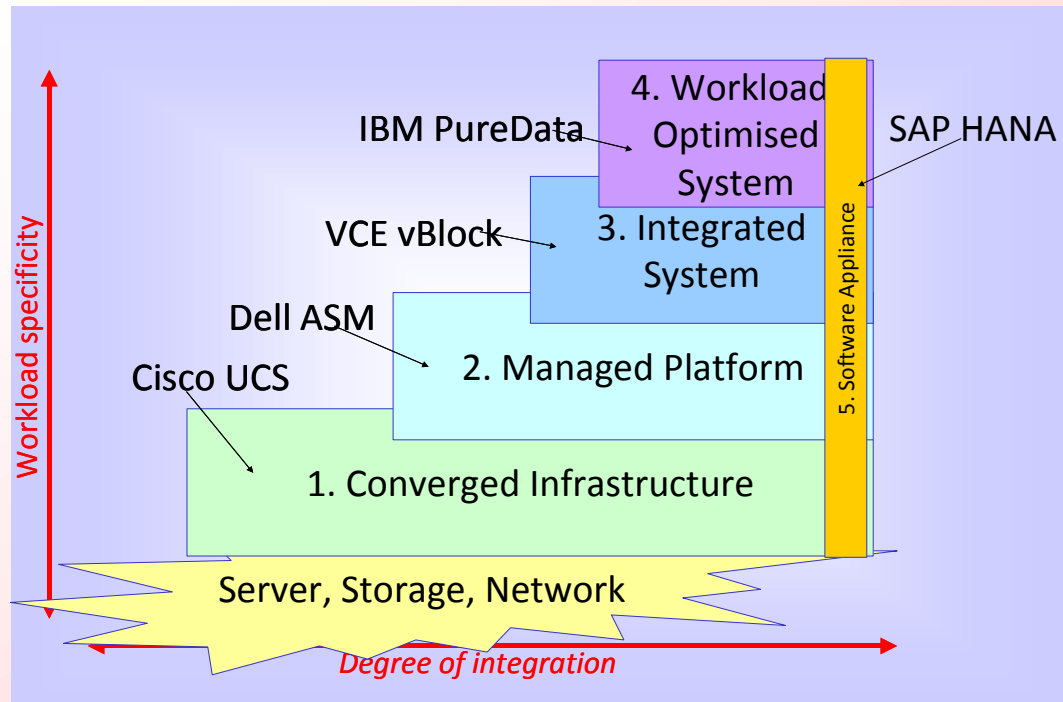
There are many differences in the type and potential performance of databases (see the Figure for some of the choices). In 2014 we believe that there will major growth in in-memory databases, especially in large scale-up systems (whether new Intel Xeon, IBM Power or Oracle Sparc).

Further Reading: What's the beef about in-memory databases?¹¹

¹¹ <http://www.itcandor.com/in-memory/>

10. Integration Drives Supplier And Product Strategies

Converged Infrastructure And Integrated Systems – The Five-Layer Model



Source and Copyright ITCandor/METISfiles, 2013

Our 10th prediction concerns an increased emphasis on integration – both in terms of the supplier strategies and solutions.

Product Integration

In 2013 we worked with the METISfiles to produce the first research studies into Converged Infrastructure and Integrated systems, defining the offerings (see Figure), analysing vendor strategies, interviewing customers and forecasting the market. We discovered significant demand in the data centre for these systems that reduce administrative workloads through autonomic orchestration of server, storage and networking components. However product integration is happening everywhere, whether in new branch-level servers (such as Dell's VRTX), in the combination of services with smart phones, in various appliances being used in the storage and networking areas, or in numerous 'one click to deploy' solutions. As ITC purchasing moves from 'early adopters' to the 'late majority', so suppliers are trying to make things easier to manage.

Not everyone wants vendor integrated products – there are also many large 'do it yourself' approaches, not least from Google, Facebook (especially in its Open Compute model), Amazon and eBay.

Supplier Integration

We also believe that supplier strategies are shifting from 'horizontal' to 'matrix' Integration and a return to a new-style full range approach. Huawei has joined IBM, HP, Dell, Oracle, Fujitsu, HDS and others in the Enterprise sector, while Google buying Motorola and Microsoft, Nokia Mobile sees both expanding into the hardware market. The growing number of

companies going private (Dell, BMC, Blackberry for instance) can also be seen in the context of Matrix Integration – allowing them to build their business aside from the constant glare of the stock market. Vendors will need to make sure they build their new strategies on open systems wherever possible (OpenStack, OpenFlow, etc.) and help customers move to new suppliers at the end of contract periods if necessary - otherwise there'll be a lot of customer lock-in, anti-trust cases and a return to the 1970s when vertical integration ruled. We're going to lots more integration of all sorts in 2014.

Further Reading: Dell VRTX¹², Matrix Integration¹³

We're always ready to present our research to you: so if you'd like to discuss these predictions please contact mhingley@itcandor.com.

¹² <http://www.itcandor.com/dell-vrtx/>

¹³ <http://www.itcandor.com/matrix-integration/>