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In this Technical Brief we will discuss the market for Packaged Applications that can be used to automate business processes. We will provide some basic definitions and estimate the overall size of the market. This is the second in a series of Technical Briefs we will publish as we gather information to complete an overview of the entire Business Process market.

The BP Automation market is broadly divided into three sub-segments: (1) Horizontal Packaged Applications, sometimes called Enterprise Suites, (2) Vertical Packaged Applications, often referred to as Best-of-Breed Applications, and (3) Unique Applications, or Customized Applications developed by individual companies or consultancies.

Generally speaking, Enterprise Suites are integrated collections of applications that store all data in common databases, providing managers with more control over how the work flows among the many specific functional modules associated with a horizontal process, while Best of Breed Applications are more likely to be optimized for performance of a more narrowly defined sub-process. Unique Applications generally focus on even more narrowly defined or customized solutions. In this Technical Brief we will focus on the Horizontal Packaged Applications market.

**Horizontal Packaged Applications** or Enterprise Suites are designed to support the automation of business processes. Most Enterprise Suites integrate modules that would traditionally fall in the various departmental or functional areas. For example, Supply Chain Management (SCM) application suites offer software modules designed to operate and manage all aspects of a supply chain process, and Customer Relationship Management (CRM) application suites offer software modules designed to operate and manage all aspects of a customer relationship process.

We divide Enterprise Suites into five subtypes or markets:

**ERP Applications.** Enterprise Resource Planning applications automate enabling or operations processes, including finance, accounting and human resources. Leading vendors in ERP are SAP, Oracle, PeopleSoft and J.D. Edwards. In 2001, according to IDC, the ERP application market generated revenues of approximately \$25B. SAP had 17.2% of the market and Oracle had 6.7% of the market. When you consider that SAP's ERP sales are \$3.6B and represent 17.6% of the market, you realize that there are a significant number of small companies active in the ERP market. This is true of all the other niches we describe, as well.

**CRM Applications.** Customer Relationship Management applications automate sales, marketing and customer support processes. These applications interface with customers, manage staff that interface with customers, and indirectly influence new product designs. The leading CRM vendors include Siebel Systems (24.5% of market at \$1.58B in sales), Oracle (5.9% at \$378M in sales), and SAP (4.3% at \$275M in sales).

**SCM Applications.** Supply Chain Management applications automate supply chain processes. Early ERP applications often included support for manufacturing subprocesses, but today, these modules have been moved from ERP to SCM suites. These applications interface with suppliers and partners, control the flow of materials and products through the company, and support managers who make decisions about



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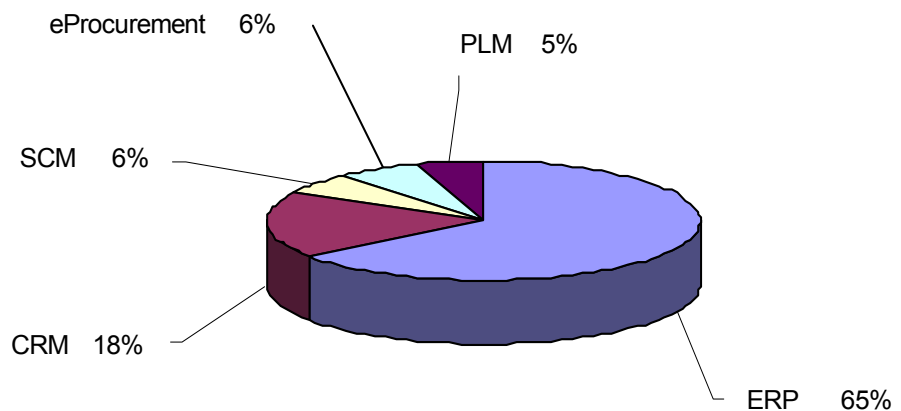
the supply chain. The leading supply chain vendors include i2 Technology, SAP and Manugistics.

**PLM Applications.** Product Lifecycle Management applications automate the management of new product development processes. Although small compared to ERP or SCM application suites, the development of new products is key to maintaining a competitive edge, and increasingly important as companies compete by trying to offer customers more tailored products, more frequently. Leading players are PTC, Dassault Systemes, SAP and Invensys/Baan.

**e-Procurement Applications.** E-Procurement applications automate processes that procure supplies via the Internet. Some analysts would group these applications with ERP suites while others, would group them with supply chain suites. Increasingly, however, unique applications are being developed that use the Internet to link and facilitate orders and payments, so we have classified them as a unique niche. Leading players are Ariba, CommerceOne, Oracle and SAP.

ERP applications have been around the longest and are by far the most established. They constitute about two-thirds of the Horizontal Package market with revenues of \$25B. CRM is the next most popular suite with reported revenues of a little over \$6 billion in product sales. SCM and e-Procurement are newer and just beginning to pick up momentum. Each reports revenues of \$2.5B. New Product Development is the smallest market with \$1.8B in sales.

The entire Horizontal Packaged Applications market generated revenues of approximately \$36 billion dollars in 2002. Figure 1, on the next page, summarizes our overall estimate of the Horizontal Packaged Applications Market



**Figure 1. The Horizontal Packaged Applications market.**

**Note:** These estimates represent an average derived from a variety of analyst sources and vendor financial reports, and are based on estimated revenues for both 2001 and 2002. Because there are differences in how analysts categorize and report the various applications, these estimates may vary as much as One-half billion dollars. Never-the-less, they provide a general overview of the market for horizontal applications and the distribution across the reported market segments.



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**Vertical Packaged Applications** or Best-of-Breed Applications are applications developed to support specific functional needs within the organization. These are stand-alone applications developed and sold to specific departments in particular industries with sub processes to automate. Examples of these types of applications are airline reservation systems and bank portfolio management programs.

There are a vast number of companies that sell vertical market applications. Many are unknown to those outside the specific industry. For example, popular vendors in the banking industry include Harland, MISYS and SunGard Banking Systems. Popular vendors that sell to Insurance companies include Mynd/Computer Sciences (formerly Policy Management Systems), Inspire Insurance Solutions and ADP Claims and Unisys is one of the leading providers of reservation and load balancing systems used by airlines. We will discuss Vertical Market Packaged Applications in detail in future Technical Briefs.

**Overall Market Estimates** are difficult to determine and there are no credible estimates of the entire BP Automated Packaged Applications market that we know of. A popular guesstimate is that the total market for software applications is about \$100B a year. We estimate that the Horizontal Packaged Applications market is approximately \$36B. If this is accurate, then the market for Vertical Packaged Applications, and internally developed applications, together, is approximately \$64B.

It should be noted that this report does not touch on the market for outsourced solutions. Most companies buy packaged applications from vendors and run them internally on their own machines. Some, however, buy applications and hire an external outsourcing company to actually run and maintain them.

The numbers reported here, derived as they are from a number of sources, must be regarded with some caution. While we have tried to provide a good general overview of the current market, we do not believe the numbers represent a reliable basis for forecasting the kinds of changes that will likely take place in the next few years when the economy begins to pick up and companies begin to explore the uses of the Internet more aggressively.