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The most comprehensive review of BPM Suites ever published



BPM, BPR, Six Sigma and BPMS

In September, we published an estimate of the size of the Six Sigma market. We used an approach that we have used over the course of the past two decades. We identify the largest players, determine their revenues and then apply some simple heuristics to generate an overall estimate of the size of a market. Historically, using this approach, we have generated estimates that have proved to be more accurate than those produced by the larger analyst firms who tend to over-estimate the size of emerging markets. [1]

The first problem one faces in defining market segments is that many companies play in more than one segment and determining their revenues for any given niche can be very difficult. IBM, for example, only releases numbers for divisions, making it difficult to identify how much of their software revenue should be attributed to their BPM Suites. Indeed, considering the various ways that IBM's WebSphere is used, determining how much of the WebSphere revenue ought to be assigned to BPM, how much to modeling or to infrastructure and how much to Java automation projects, is difficult. This problem is especially acute in the BPMS space, since most of the leading vendors were active as EAI vendors or Workflow vendors before BPMS became a category that analysts followed. Should we just assume that BPMS now includes all Workflow or EAI sales? Similarly, should we assume that Business Process Monitoring now includes all the revenue that was formerly attributed to BI and Data Warehousing? There are no correct answers for these questions and every analyst group struggles to come up with pragmatic compromises.

When we considered the Six Sigma market, we started by defining the Quality Control market and identified five core niches and several overlapping market segments. We decided that we would only focus on the Lean and Six Sigma segments that focus on training and consulting. We determined that there were 6 large players, each having between 50 and 100 employees and each earning between \$15 and \$20 million a year. That yields a market of from \$90-\$120 million. We doubled that to take into consideration all of the smaller players and niche players and arrived at a total Lean Six Sigma market of from \$180-\$240 million. Obviously, this kind of estimation isn't rocket science; it just involves asking lots of questions and then applying some very simple heuristics.

Several people we talked with about the Lean Six Sigma market urged us to extend our approach to the entire Business Process market and in this Advisor we offer an initial estimate of the market. Going forward, we plan to continue to research and track the overall BP market and as we gain more accurate information we will refine our estimates.

To help us understand the BPM market, BPTrends has undertaken a series of reports on each of the major niches. We have already published reports on BPM Suites and Architecture, Modeling and Simulation tools (www.bptrends.com/reports_landing.cfm). Each of these reports begins with a discussion of the market and the ways vendors within the niche are positioning themselves. We are currently working on a report on Business Rule Vendors and plan to produce a report on Process Performance and Monitoring Products in 2006.

We began by defining the various possible niches within the overall BPM market. For our purposes, a niche is defined by a set of vendors who compete with each other for

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sales. Based on lots of discussion with leading vendors, we arrived at the niches pictured in Figure 1. The size of the circles isn't meant to reflect the relative size of each niche. We simply wanted to depict some of the overlap that exists among the various niches in the current BPM market.

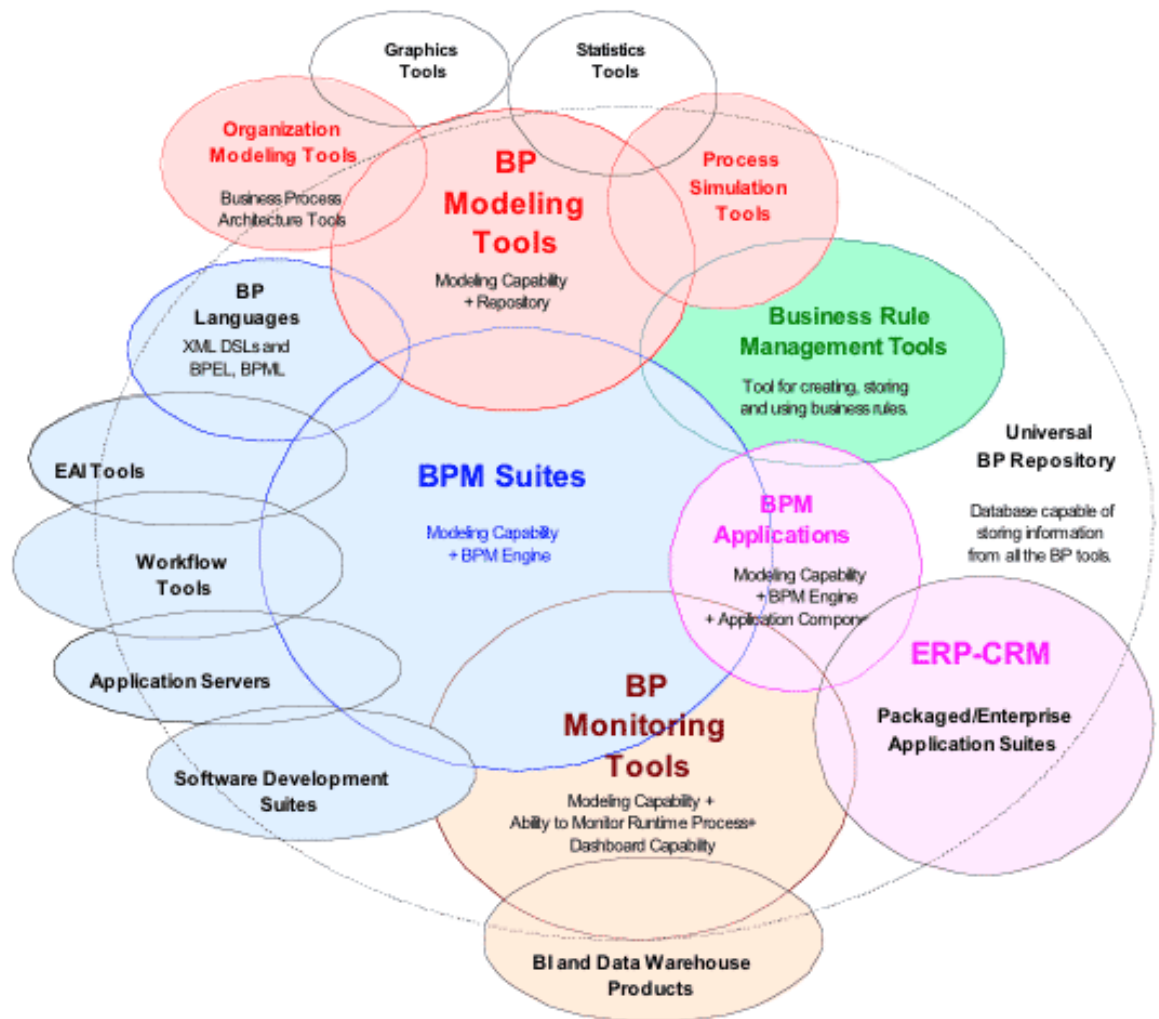


Figure 1. The major niches that comprise the overall BPM market.

Lean Six Sigma. This niche is populated with consulting and training companies that help companies create and develop the Lean Six Sigma resources they need to conduct Lean Six Sigma process improvement programs. As we suggested earlier, there are about 6 major vendors and lots of smaller vendors and we estimate that the total annual revenue generated by these vendors, in 2004, was approximately \$240 million.

Business Process Redesign. This niche is populated with process modeling tool vendors. It includes some Enterprise Architecture modeling vendors and some Simulation vendors, but the core is made up of companies that sell products that let business managers model their processes. Most Lean Six Sigma practitioners do not use BPR tools. This niche supports practitioners who are attempting more comprehensive process redesign efforts. It includes some IT practitioners who use BPR tools during the initial stages of automation projects, but most IT practitioners use UML software tools, not the BPR tools included in this category. Unlike Lean Six Sigma, which is primarily a consulting and training niche, this is a software products niche. Again there are about 6 major vendors and, in 2005, they had revenues of about \$20 million apiece. So this niche is about the same size as the Lean Six Sigma market - say about \$240 million.

Business Rules Software and Consulting. This niche is populated by consultants and tool vendors who offer products and services that enable companies to define their Business Rules. Some of these vendors are now actively seeking to reposition

themselves into the BPMS niche, but most are still focused on helping companies define Business Rule Systems. This niche is dominated by consulting firms, although there are also several software vendors. Most of them are small and there are about 5 dominant vendors. We estimate that the total niche generates about \$150 million in revenues.

Business Process Management Suites. This niche includes BPM vendors who sell software products that can be used to define business processes and then support the runtime execution of those processes. Some of the BPMS vendors offer a comprehensive package, but most combine elements from BPR, Rules, and Business Platform vendors (e.g. IBM, Microsoft, SAP) to create a complete offering. Most of the vendors in this space were formerly classified as either Workflow or EAI vendors. To make matters more confusing, the major analyst firms alternate between lumping Monitoring into the BPMS category, or breaking it out into a separate niche (e.g. BAM). This is important since Process Monitoring, as defined by the Business Performance Management Forum, includes Data Warehouse and BI vendors. To keep things simple, we'll ignore the Data Warehouse and BI vendors for the moment, and focus only on vendors that seek to directly control the execution of runtime business processes. There are at least 15 major vendors in this space, including companies like IBM and SAP, and a wide variety of minor vendors, which means that it is especially hard to estimate the overall size of this market niche. Gartner and others keep suggesting that the BPMS vendors are earning in the \$2-\$3 billion dollar range. We suspect that the market is closer to \$1.5 to \$2 billion, but it is clearly significantly larger than other niches we have considered so far and it is growing rapidly.

Human Performance Technology. The HP Technology or HP Improvement niche is dominated by consultants and trainers. This niche is particularly hard to define because it is often confused with training or BPR, but, in fact, it constitutes a well organized body of knowledge and methodologies that focus on helping to analyze employee and managerial activities and define performance improvement solutions. The niche is made up of small consulting companies and is probably generating about \$75 million in revenue.

Balanced Scorecard. This niche focuses on helping companies define managerial objectives. It could easily be lumped with HPT, but it is clearly recognized as an independent niche by most companies. We estimate that the Balanced Scorecard consultants are earning a little over \$40 million a year.

Business Process Frameworks. At the moment, this niche consists primarily of consultants and tool vendors who support the Supply Chain Council's SCOR framework. There is a lot of development going on in the frameworks area, however, and we expect that this niche will grow rapidly in the next couple of years. In the meantime, the revenue generated by SCOR and other frameworks consulting firms was probably about \$40 million.

Business Process Outsourcing. The BP Outsourcing market is poorly defined and only tangentially related to BPM, but it is clearly a huge market that will interact more with BPM in the near future as companies use BPR and BPMS products to gain an overview and to manage their BPO efforts. Major analysts put this market at from \$30-\$40 billion and we will leave it at that.

ERP, CRM and Packaged Applications. In a similar way, ERP, CRM and other packaged applications also constitute a huge market. This market is dominated by the vendors of packaged software, but also includes a major consulting component contributed by consultancies that seek to help companies install or maintain their ERP and other packaged applications. Again, major analysts put this market at over \$50 billion and we'll use that number.

Keep in mind that we are ignoring the Business Performance/Monitoring market [2] and that we regard the estimates for BPO and ERP as extremely questionable. Nevertheless, it is obvious that all of the core BPM niches, from Lean Six Sigma and HPT, to BPR and BPMS only constitute a small part of a much larger market defined by ERP and BPO.

Still, the various BPM niches are very active and most are growing at from 20%-30% a year.

In Figure 2, we used circles to show the various niches we have described. We positioned them in front and behind the pyramid we often use to suggest that some niches are primarily focused on helping companies with strategic and architectural problems, some are more focused on process modeling and improvement, and others are primarily focused on helping with implementation problems. Obviously, the circles are not to scale, since it is hard to depict the relationship between \$40M and \$40B in a single graphic representation. We have not bothered to provide an overall estimate of the BPM market, since this will vary considerably, depending on what you include or exclude.

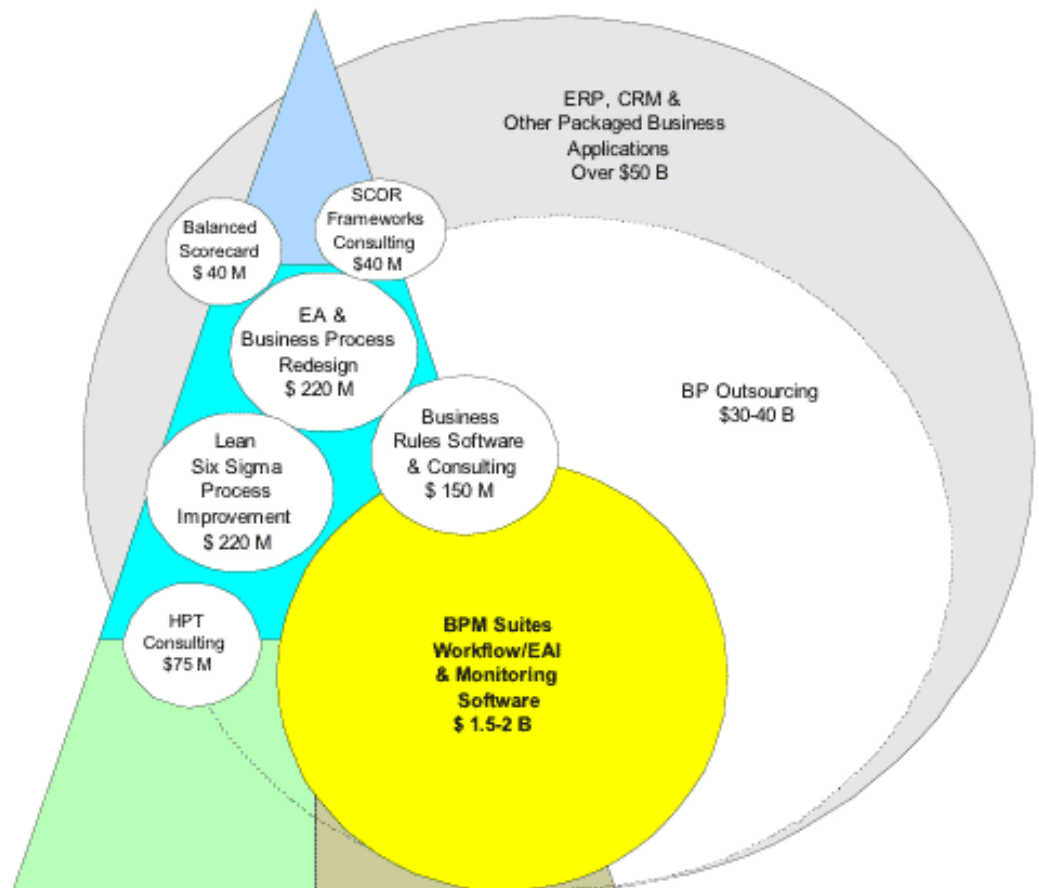


Figure 2. A rough overview of the BPM market, mid-2005.

For many, interesting results will be the size of the BPR and BPMS niches. Others will find the comparable sizes of the Lean Six Sigma and BPR niches more interesting. We'd stress, again, that these are emerging markets and companies have not yet decided what combinations of capabilities will prove most useful. Thus, Rules may continue to stand as a unique niche, or may rapidly merge with the BPMS niche. Similarly, it may soon be necessary to discriminate between the platforms, like Microsoft's BPM platform, IBM WebSphere and SAP's NetWeaver, and the various BPMS products that increasingly sit on top of those platforms. Or, we may witness a convergence of Lean Six Sigma and HPT or BPR and Frameworks.

We've tried to describe the market niches as we understood them at the end of 2004, but we caution readers that everything is in flux. Still, perhaps, an admittedly rough comparison of the various BPM market niches will be of interest to our readers.

'Til next time,

Celia Wolf
Paul Harmon

[1] The problem with most estimates in an emerging market is that they depend on reports from privately held companies. Thus, analysts have no way of knowing how accurate or consistent the reported numbers are. As markets mature, however, the more successful new companies go public, requiring them to publish audited numbers. At that point, analysts can compare earlier numbers with validated numbers. In the past, we have forecasted two emerging markets - AI and Expert Systems in the Eighties and Object Technology in the Nineties. In both cases, our estimates proved to be at or slightly higher than actuals, and consistently lower than those of the larger analyst firms.

[2] We think the Process Performance Monitoring niche is very important and will include it in future estimates, but we are excluding it this year in hopes that clearer definitions will emerge in the next few months, providing consensus regarding classification of BI, Data Warehouses and the various types of Monitoring tools.

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