



## A Mature Industry? I Don't Think So!

Allegations of IT industry maturity vastly premature

---

### Abstract

Distinguished industry analysts, most prominently Richard Holway of Ovum Holway, believe that the IT industry is maturing and future growth levels will be similar to the Gross Domestic Product. This forecast has grave consequences for the industry, but is it right?

In the first in a series of articles, Ian Henley, Chairman of *ChangeBEAT*, argues that the industry is nowhere near its potential, and happy days can return again.

But there is a catch!

## Introduction

During 2002 the UK Information Technology industry went “under water” and thousands of IT professionals lost their jobs. IT directors are forecasting a reduction in IT spending in 2003 and they are full of woe about the medium term.<sup>1</sup> These developments have led distinguished industry analysts to proclaim that the industry is now maturing, and consequently it can only ever hope to return to growth levels similar to the Gross Domestic Product (GDP, usually 1-3%). These predictions are accompanied by dire warnings about the future status and earnings of IT professionals because of oversupply.

*ChangeBEAT* believes that this forecast is based on a faulty analysis of the market dynamic. We believe the IT industry is in doldrums of its own making and there is every prospect of returning to high levels of growth. We passionately believe that the IT industry’s fate is in its own hands. It must **not** believe that its misfortunes are inevitable or these beliefs will become self-fulfilling. In fact, prospects for the IT industry have never been better.

But there is a catch. The industry is not maturing, but it is vital that it grows up.

## The doomsday scenario

That the IT market has stalled is beyond dispute. The point at issue is whether it is possible for it to grow again significantly faster than GDP, and, if so, what must be done to make this happen. Richard Holway of Ovum Holway has advanced four main arguments in his pamphlet “IT’s all over now?” to support the case that the market has matured. These are summarised *in italics* below with our commentary.

## We can’t go on like this!

*The market has grown from 1% of the economy in 1964 to 4% in 1999. If it carried on at that rate it would be 100% of the economy by 2050, which is plainly impossible, as we still need to eat, be housed and use transport.*

---

<sup>1</sup> Goldman Sachs survey of IT spending



This argument is based on the false assumption that market share is a “zero sum game”, that is, what is won by one sector is lost to the other. It is, of course, perfectly true to say that if a “New” part of an economy grows faster than the “Old”, then the New will increase asymptotically its percentage share over the Old.

But, obviously, what is left of the Old remains to service our need for food, houses and transport and so on. This Old economy will continue to grow at whatever rate capitalism requires to service demand. Meanwhile, even newer new markets will be born and rapidly grow away, preventing the New from ever becoming dominant.

### **There is no “next big thing”**

*Previous downturns in the IT market place have been rectified by the arrival of the “next big thing” and there is no such thing coming.*

How short and selective our memories are! Only two years ago everyone was climbing over one another to throw billions of dollars at the flimsiest dot com investments imaginable. Now we shake our heads and bemoan the absence of a new technology that will make life easy for us once again.

The potential of the Web to transform the world’s institutions – banks, travel, retailers, universities, government and so on – is more compelling now than it was at the height of dot com hysteria, because what was then speculation is now proven fact. Online consumer sales in the US leaped to about \$74bn in 2002, according to research firm ComScore Networks. Amazon’s share price doubled. Expedia, an online travel agent, made a pre-tax income of \$35.5M on turnover of \$165.8M in third quarter. Lastminute.com saw gross profit for 2002 grow by 93% to £33.3 million. Every day we see Tesco delivery vans in the high street. Literally, the Web is starting to deliver the goods.<sup>2</sup>

But there is more to it than eShopping. The Economist<sup>3</sup> points out how new, successful, business

---

<sup>2</sup> For example, during 2002, the author bought online: new books; out of print books that could never otherwise have been traced; CDs; buildings insurance; PC peripherals; two holidays; sheet music; PC software; and subscriptions to the Internet Chess Club and Ovum Holway Systemhouse.

<sup>3</sup> *E-commerce: Profits at Last* December 21st 2002



models are emerging. American consumers paid \$1.2 billion for Internet content in 2002 (excluding gambling and pornography). People are coming to terms with the idea that content can no longer be free. They are willing to pay \$14.99 for second-hand car histories from Carfax.com, \$12.95 for personal credit-rating data from Equifax.com and \$189.95 per year to search for their forbears at Ancestry.com, which claims over 900,000 paying subscribers! Weightwatchers.com claim around \$5M dollars a month in fees.

So successful business models are just starting to emerge, but although over 500 million people already have access to the Web, this still represents less than 10% of the world's population. According to a recent EU report, only 5% of those in Europe with access to the Web regularly shop online.

Does this sound like a mature market? A market where everyone who wants one has got one? On the contrary, it is the tip of the tip of the biggest market-iceberg that anyone could possibly imagine.

What has changed, however, is that people now realise that fashion designers, models, teenage techno-geeks and celebrities are not qualified to deliver on these opportunities. Only serious people with well-established businesses, a little vision and a lot of IT expertise, will be able to win through.

Properly exploited, does that not sound like a pretty big thing for the IT industry?

### **No industry gets bigger than 5%**

*No similar industry, arising from engineering or technological developments (for example railways, the automotive sector, airlines, telecomms, TV and radio), has ever exceeded 5% of the economy.*

The problem with this argument is that it is quite invalid to compare the IT industry with radios, cars, televisions or travel. For such markets, there is an upper bound on consumption. Few people wish to own more than one or two cars or televisions. People's desire or need to travel is limited. A mature market occurs when "everybody has one" (or as much, or as many, as they want) and future sales are driven by replacement or substitution.



Can we really think that we have reached the upper bound of the potential for the consumption of information technology? The great majority of IT users are still stuttering along using a word processor, some email and perhaps a spreadsheet or two. What they can and will do in the future is access on-demand a grid of computing applications and communications infrastructure that they will exploit in all aspects of business and leisure.

IT is the enabling technology for all businesses to improve. Just as the machine replaced the animal as a source of power in just about every industry, so IT is replacing established ways of doing things in all industries. IT is not e-Business. It IS business.

If this were not enough, it should also be understood that the many future industries will only exist **because** of IT. For example, the Genome Project, which has plotted the sequence of human DNA, is sure to produce all kinds of new businesses in disease prevention and cure. It will undoubtedly lead (rightly or wrongly) to all kinds of genetic engineering spin-offs. But the Genome map itself is a data set equivalent to ten million pages of data. To decipher the Genome it will require the analysis of data sets one thousand times larger again than the mapping project itself.<sup>4</sup> A whole industry is sure to grow up around this new phenomenon, and it will be fuelled by information technology.

The reality is that if there is a meaningful upper bound to the application of information technology in people's lives, we are nowhere near it. To propose that market measurements for a technology as pervasive and empowering as IT will obey the same rules as that for television sets, is entirely to miss the point. Never mind five per cent. Why should not half of everything we do be based on consumption of IT in one form or another?

### **It's time for a phase change**

*All markets go through four phases: Pioneer, Mass Market, Maturity and Post Maturity. The IT industry has been in the "mass market" phase for thirty-five years. Ergo: it must be time for maturity!*

---

<sup>4</sup> Who Says Elephants Can't Dance? Louis V Gerstner



Sorry, this will not do at all. The simple market development model is wholly inadequate to apply to a many threaded, highly complex industry like information technology. It may be useful to look at some facet of the industry in this way, for example the PC market, where the case can be made that the market is now mature. But the IT industry contains hundreds of different businesses in different phases of growth. As discussed above, the eBusiness phenomenon is only just beginning.

## The fundamentals are still sound

In short, there is no good reason whatever to believe that the IT industry has reached a plateau. The fundamentals of the business remain quite incomparable with any other:

- Moore's law still applies. Technology advances will continue to double computing power and storage capability each year or eighteen months into the foreseeable future, enabling ever more sophisticated software to drive ever more powerful applications.
- By 2020 a \$1,000 computer will achieve the capability of the human brain.<sup>5</sup> Before that, a single data storage device about the size of a CD will have the capability to store all the information contained in all the libraries of the world.
- At long last the monopoly of the telecomms companies is coming to an end and there is the prospect of virtually limitless bandwidth at very low cost.
- Even after the dot com bust, it remains much, much cheaper to move electrons than atoms. There are still billions of pounds to be removed from inefficient supply chains in every industry everywhere.
- In what other industry can one develop a product that costs practically nothing to manufacture and distribute? Where else can one invest in a business with the potential to grow as fast as a software company can? Compare the problems of

---

<sup>5</sup> Dr Hans Moravec, Carnegie Melon University, Author of *Mind Children*



growing a manufacturing business by 500% with those of growing a software company.

A mature market? Come on.

## So what is the problem?

Alas, we have to look much closer to home for the reason why the industry has stalled. A few more facts:

- If we assume that a successful project is one which is delivered on time; on budget; to the agreed specification and to a satisfied customer, then the many research studies that have been published over the last ten years all show that between 60% and 98% of all IT projects fail.
- Whilst details of project failures in the private sector are assiduously covered up, there is a steady flow of bad publicity from the public sector. Recently the industry has been in the news for the failure at the London Passport Office (where people ended queuing around the block) and the Criminal Records Bureau (where checks for sex offenders among teachers were not complete before term time started) as well as the fiascos at Lambeth, Wandsworth and Kingston boroughs.
- The Lord Chancellor's Department (LCD) has just announced that it is abandoning its plans to produce new case management software to meet the needs of the 96 magistrates' courts in England and Wales. As Ovum Holway reports<sup>6</sup> "it is interesting that the LCD is going down the route currently favoured by many companies in the private sector i.e. to make do with current legacy systems and join them together to make them work better, rather than embarking on *risky new development projects*."<sup>7</sup>
- Notwithstanding the software to be used by the Lord Chancellor, the industry has been well represented in the courts. *St Albans v ICL*, *Pegler v Wang*, *Horace Holman v Sherwood*, *Marconi v London Fire Brigade* and *South West Water v ICL* have all contributed to the impression that

---

<sup>6</sup> See Ovum Holway Hotnews, Thursday 12th December 2002

<sup>7</sup> Author's italics



implementing IT solutions is a very risky business.

- Many IT buyers believe they were taken for a ride over the Y2K bug. Billions of pounds were invested in upgrading IT systems, but there was no reward for the prudent. If just one company had suffered (or preferably gone broke) for ignoring the bug, the rest could have patted themselves on their backs and congratulated one another for their wisdom. But cautionary tale was there none and this was a PR disaster of the first water. The conclusion reached by many buyers is that the IT industry gorged itself at their expense on the basis of a huge con trick. True or not, perception, in this game, is reality.
- There is grave doubt in many company directors' minds over the Return on Investment they achieve on their IT investments<sup>8</sup>. This is hardly surprising, as an IT company salesman who has the skills to help a customer build a credible business case for deployment of IT, is as rare as hen's teeth<sup>9</sup>.
- The whole of the "dot con" phenomena has further undermined buyer confidence. Whether the traditional IT market can be blamed for the rampant greed and crashing failures of that moment of madness is debatable, but there is guilt by association. The result is deep scepticism over the use of the Web as a business tool, whereas in reality it offers tremendous opportunity.

### The crushing truth

In short, the IT industry's problem has nothing whatever to do with demand for IT reaching saturation. The problem is that the customers of the IT industry have become deeply suspicious of it. They believe

- IT investments do not provide reliable ROI
- IT companies are looking to unload products and bodies rather than solve their problems

---

<sup>8</sup> *Financial Times*; Jan 06, 2003

<sup>9</sup> *Intellect/ChangeBEAT Commercial Survey 2002*





- IT projects are too risky. Better to “make do and mend” rather than put their head on the block.

This is why the market has stalled.

It has nothing to do whatever with the market being saturated, but it has everything to do with customers being fed up with aggressive sales tactics, broken promises and incompetent delivery. It is not a question of market maturity; it is a question of confidence, and right now customers have **no confidence in the IT industry to deliver**.

What IT director is going to march into the main board today and talk with vision about the imperative of the Web? Who is going to ask for money to spend on IT and run the risk of the FD's hollow laughter, followed by lengthy discussion of Y2K and other failed investments? Why should they? They are so battered and bruised they prefer to say, “let's make do and mend”, rather than risk their job. It makes their life easier. Better to forecast low future spending and get themselves off the hook.

Ask any IT professional in the field. Customers are not buying not because they can't think of new projects. They are not buying because they do not believe it is worth the risk.<sup>10</sup>

### Look in the mirror

These are crushing messages for the senior management of the IT industry. Every one of us must look in the mirror and say, “I have done this. I have helped to create an industry that is regarded by its customers as so unprofessional that they fear for their jobs when they buy.”

We cannot blame the market, or its dynamics. We have created these conditions ourselves. It is no good emailing industry analysts begging them to change their mind and tell us that all will be well again, as if success were our right. The industry has to start now to transform itself so that our customers can have confidence that new projects will be delivered successfully and that the ROI will be understood and achieved.

---

<sup>10</sup> See Note 4



This is going to be a hard road. The industry has had it too easy for too long. Sales and project management execution is steeped in unprofessional behaviour. There are huge cultural barriers to overcome. The opportunity is stellar, but if the industry is to recover it must start now to rebuild confidence by changing its sales approach and implementing the necessary business improvements to deliver on its promises.

The industry is not maturing but it is certainly time to grow up.

### **About the author**

Ian Henley is the Chairman of *ChangeBEAT*, which works with IT companies to transform and improve their businesses.



*ChangeBEAT defines, develops and executes change programmes that help achieve enduring business benefit rapidly and reliably. Our people have practical field experience, and are equipped with WingBEAT, our proven change methodology, and our extensive tools. We are professional, pragmatic and action oriented.*

*ChangeBEAT is a trading name and a trademark of Contact to ContRact Ltd.*

For further information call +44 (0) 208 446 6946 or visit [www.ChangeBEAT.com](http://www.ChangeBEAT.com)