Chapter 3: An Analysis of the PSASV Industry and Competition
3.1  Competition Analysis of the Package Software Industry

3.1.1  Introduction

Competition analysis is a very useful tool for business strategists. It is based on the observation that profit margins vary between industries, which can be explained by the structure of an industry. Primary purpose of the competition analysis is to determine the attractiveness of an industry. However, the analysis also provides a starting point for formulating strategy and understanding the competitive landscape in which a company operates.

There are various tools available in the market to conduct competitive analysis depending upon industry type. Given the dynamic status of the PSASV industry, the ‘Segmentation Analysis’ and ‘Five Forces Model’ have been used for the competitive analysis study of this industry as part of this research.

Segmentation analysis has been used in this study to analyze the competitiveness and profitability aspects of the PSASV industry. It has been done based on the secondary data available in journals, reports and web repositories.

Five forces analysis enables a company to develop a competitive strategy that best defends against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. IT industry five forces model has been taken as the base and questionnaire based responses have been leveraged to develop the PSASV five forces model.

3.1.2  Market Overview

3.1.3  Market definition

The global software and services industry group is composed of the information technology and communication market segments. Information Technology consists of services, software, digital media and hardware. Software consists of software development. And, in turn, the package applications industry falls under software development.

Package Development is divided into three primary market areas – Application Development and Deployment, Applications, and System Infrastructure Software. This research focuses on the market segment dealing in the customization and maintenance of customized software products. Table 3.1 outlines the structure of the global software and services industry in terms of how it is organized.
### Table 3.1: Global Software & Services Industry Structure

<table>
<thead>
<tr>
<th>Information Technology</th>
<th>Services</th>
<th>Application Development and Deployment</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Managed Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Integration Services</td>
<td></td>
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<tr>
<td></td>
<td>Support Services</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Online Services</td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>Software Development</td>
<td>Packaged Applications</td>
</tr>
<tr>
<td>Digital Media</td>
<td>Digital Content</td>
<td>Applications</td>
</tr>
<tr>
<td>Hardware</td>
<td>End user Equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IT equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>hardware components</td>
<td></td>
</tr>
<tr>
<td>Communication</td>
<td>Service Provision</td>
<td>Wireless</td>
</tr>
<tr>
<td></td>
<td>Wireless</td>
<td></td>
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<td></td>
<td>Wireline</td>
<td></td>
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<tr>
<td></td>
<td>Interconnection</td>
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<tr>
<td>Network Equipment</td>
<td>Wireless</td>
<td></td>
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<tr>
<td></td>
<td>Wireline</td>
<td></td>
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<tr>
<td></td>
<td>Interconnection</td>
<td></td>
</tr>
</tbody>
</table>


#### 3.1.3.1 Market analysis

The global package software industry has experienced consistent levels of growth for the period 2008-2012 and is expected to continue with a similar or marginally better trend for the period 2013-2015. It is expected to grow from 310 Billion USD in 2010 to 430.9 Billion USD in 2015. Figure 3.1 shows the global package software industry revenue in the period 2010-15. Figure 3.2 shows the global package software industry revenue changes in the period 2010-2015. Year-on-year growth in this period is expected to be around 6-7 percent (Statist and IDC report 2012). It saw a bigger jump in the year 2012 over the year 2011 numbers than rest of the years in the period 2010-15.
Worldwide Packaged software market is expected to have a CAGR of 6.8 percent during 2011-16. Application development and deployment is expected to rise more significantly at a CAGR of 8.4 percent during the same period than the overall industry.

Table 3.2 lists the worldwide packaged software revenue by primary market and region for the period 2011-16 in MUSD.

Americas lead the chart with the expected revenue of USD 238 Billion in 2016 followed by USD 138 Billion for EMEA and USD 75 Billion for the APJ. Application development and
deployment contributes the highest in revenue followed by Applications and System Infrastructure Software respectively.

**Table 3.2: Worldwide Packaged Software Revenue by Primary Market, 2011-16 in Million USD**

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>CAGR (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Application development and deployment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>38,939.0</td>
<td>42,271.4</td>
<td>46,471.0</td>
<td>51,115.3</td>
<td>56,247.2</td>
<td>61,877.7</td>
<td>9.7</td>
</tr>
<tr>
<td>EMEA</td>
<td>26,434.2</td>
<td>27,663.5</td>
<td>29,293.7</td>
<td>31,388.4</td>
<td>33,871.3</td>
<td>36,670.4</td>
<td>6.8</td>
</tr>
<tr>
<td>APJ</td>
<td>12,098.5</td>
<td>12,903.0</td>
<td>13,874.9</td>
<td>14,980.0</td>
<td>16,200.0</td>
<td>17,524.1</td>
<td>7.7</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>77,471.7</td>
<td>82,837.9</td>
<td>89,639.6</td>
<td>97,483.7</td>
<td>106,318.5</td>
<td>116,072.2</td>
<td>8.4</td>
</tr>
<tr>
<td><strong>Applications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>81,094.0</td>
<td>87,019.3</td>
<td>93,468.1</td>
<td>100,294.4</td>
<td>107,856.1</td>
<td>116,196.0</td>
<td>7.5</td>
</tr>
<tr>
<td>EMEA</td>
<td>51,388.6</td>
<td>53,190.8</td>
<td>55,585.7</td>
<td>58,455.2</td>
<td>61,708.8</td>
<td>65,163.3</td>
<td>4.9</td>
</tr>
<tr>
<td>APJ</td>
<td>23,888.7</td>
<td>25,515.2</td>
<td>27,242.9</td>
<td>29,011.6</td>
<td>31,173.7</td>
<td>33,497.3</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>156,471.2</td>
<td>165,725.3</td>
<td>176,296.7</td>
<td>187,761.2</td>
<td>200,738.6</td>
<td>214,856.6</td>
<td>6.5</td>
</tr>
<tr>
<td><strong>System Infrastructure software</strong></td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Americas</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>45,191.2</td>
<td>48,043.9</td>
<td>50,993.9</td>
<td>53,943.5</td>
<td>56,935.0</td>
<td>59,950.2</td>
<td>5.8</td>
</tr>
<tr>
<td>EMEA</td>
<td>28,274.2</td>
<td>29,302.6</td>
<td>30,717.2</td>
<td>32,379.9</td>
<td>34,196.3</td>
<td>36,085.9</td>
<td>5.0</td>
</tr>
<tr>
<td>APJ</td>
<td>17,381.0</td>
<td>18,346.0</td>
<td>19,510.0</td>
<td>20,629.0</td>
<td>22,032.1</td>
<td>23,513.8</td>
<td>6.2</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>90,847.2</td>
<td>95,692.5</td>
<td>101,221.2</td>
<td>106,952.3</td>
<td>113,163.4</td>
<td>119,549.9</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Americas</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>165,224.2</td>
<td>177,334.7</td>
<td>190,933.1</td>
<td>205,353.1</td>
<td>221,038.3</td>
<td>238,023.9</td>
<td>7.6</td>
</tr>
<tr>
<td>EMEA</td>
<td>106,097.7</td>
<td>110,156.9</td>
<td>115,569.6</td>
<td>122,223.5</td>
<td>129,776.4</td>
<td>137,919.6</td>
<td>5.4</td>
</tr>
<tr>
<td>APJ</td>
<td>53,468.2</td>
<td>56,764.1</td>
<td>60,627.8</td>
<td>64,620.7</td>
<td>69,405.7</td>
<td>74,535.1</td>
<td>6.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>324,790.1</td>
<td>344,255.7</td>
<td>367,157.6</td>
<td>392,197.3</td>
<td>420,220.4</td>
<td>450,478.6</td>
<td>6.8</td>
</tr>
</tbody>
</table>

Source: IDC 2012

### 3.1.4 Market Segmentation

Overall the Packaged software market is extremely dynamic and various ways of segmentation are used at different times depending on the analysis requirement. Few of them are as below:

1. Category-wise segmentation
2. Geographical (region-wise) segmentation
3. Market-share wise segmentation
4. Functional segmentation

#### 3.1.4.1 Category wise segmentation

Overall the market is divided into 3 categories:

1. **Application Development and Deployment (ADD):** Application Development is associated with creating a new product or enhancing an existing product in the market. These developments become part of the features to be used by the customer in the production system. Once the product is created or enhanced and tested for release to the market, deployment takes place at customer sites. Deployments involve installing the
application for use by user communities and at times also train them on how to use the software package.

2. **Applications (APP):** This segment is associated with the operations support that is provided once the deployment has been done at customer sites. This involves day to day issue resolutions faced by the users and developments required for small bug fixes and minor enhancements to the software package. Large changes are managed in the next deployment (also called as release) in packaged industry parlance.

3. **System Infrastructure Software (SIS):** System infrastructure software involves deals with software layers below the application layer (at the database and the operating system level). Technical support is also provided by the vendors during initial installation and (later) application support.

Figure 3.3 shows the different shares of these 3 areas in the total packaged software market, with Applications having almost half of the market share (48 percent) and the other half divided into ADD (24 percent) and SIS (28 percent).

**Figure 3.3: Category wise Segmentation of Packaged Software Industry**

![Figure 3.3: Category wise Segmentation of Packaged Software Industry](image)

Source: IDC, 2012

### 3.1.4.2 Geographical segmentation

The packaged software market can be divided into 3 major regions on the basis of geographical spread:

1. North America
2. Europe, Middle East and Africa (EMEA)
3. Asia Pacific and Japan (APJ)

America Continues to be the biggest source of revenue for the Packaged Software Application Services industry irrespective of the economy not doing so well for the past decade or so. It
accounts for about 52 percent of the total revenue of the industry whereas, EMEA and APJ account for 31 percent and 17 percent respectively.

Revenue contribution of North America has grown from USD 165 billion in 2011 to USD 238 billion in 2016 registering around 44 percent growth. Europe along with Middle East and Africa continues to be the second largest revenue contributor in the packaged software application area with revenue growing from USD 106 billion in 2011 to USD 137 billion in 2016, registering around 29 percent growth. Asia-Pacific and Japan take the third spot as far as revenue is concerned with the revenue growing from USD 53 billion in 2011 to USD 74 billion in 2016 registering around 40 percent growth. Figure 3.4 and Figure 3.5 indicate the revenue contribution and region-wise growth for the packaged software industry.

**Figure 3.4: Worldwide Packaged Software Revenue by Region, 2011-16**

![Worldwide Packaged Software Revenue by Region, 2011-2016](source: IDC, 2012)

**Figure 3.5: Geographical segmentation of packaged software**

![Geographical segmentation of packaged software](source: IDC, 2012)
3.1.4.3 Market share of major players

Microsoft has historically been the largest player in the market with 17.76 percent share of the overall packaged software market of roughly USD 325 billion. IBM, Oracle and SAP follow with 8.73 percent, 8.10 percent and 4.78 percent respectively. The most interesting aspect of this industry is that it is dominated by small players having more than 60 percent of market share. This aspect makes this market a prime candidate for acquisitions and consolidation in the future. Table 3.3 lists the distribution of Worldwide Packaged Software among the top vendors in terms of revenue and market share.

Table 3.3: Revenue by Top 5 Vendors, 2011 (USD millions)

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Revenue</th>
<th>Market share (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft</td>
<td>57,668.4</td>
<td>17.76 percent</td>
</tr>
<tr>
<td>IBM</td>
<td>28,341.2</td>
<td>8.73 percent</td>
</tr>
<tr>
<td>Oracle</td>
<td>26,316.0</td>
<td>8.10 percent</td>
</tr>
<tr>
<td>SAP</td>
<td>15,538.6</td>
<td>4.78 percent</td>
</tr>
<tr>
<td>Others</td>
<td>196,928.0</td>
<td>60.63 percent</td>
</tr>
</tbody>
</table>

Source: IDC 2012

Figure 3.6 shows the revenue share (rounded) for the top 5 vendors in Packaged software market

Figure 3.6: Revenue share (rounded) for the Top 5 Vendors, 2011

Source: IDC 2012
3.1.4.4 Functional segmentation

From the Functional usage perspective of packaged software, ERP or Enterprise resource Planning software covered more than 23 percent of the market in 2011 which is further predicted to grow up to 32 percent by 2016. Detailed breakups for the key functional segments are provided in Table 3.4

**Table 3.4: Global Enterprise Application Software Revenue in 2011 and 2016, by Functions (in USD billions)**

<table>
<thead>
<tr>
<th>Function</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprise Resource Planning</td>
<td>23.8</td>
<td>32.6</td>
</tr>
<tr>
<td>Office Suites</td>
<td>15.7</td>
<td>21.2</td>
</tr>
<tr>
<td>Business Intelligence</td>
<td>12.2</td>
<td>17.2</td>
</tr>
<tr>
<td>Customer Relationship Management</td>
<td>12</td>
<td>18.4</td>
</tr>
<tr>
<td>Supply Chain Management</td>
<td>7.7</td>
<td>11.9</td>
</tr>
<tr>
<td>Enterprise Content Management</td>
<td>4.3</td>
<td>7</td>
</tr>
<tr>
<td>Data Compression Services</td>
<td>3.6</td>
<td>5</td>
</tr>
<tr>
<td>Conferencing and Teaming</td>
<td>2.9</td>
<td>5.2</td>
</tr>
<tr>
<td>Project and Portfolio Management</td>
<td>1.5</td>
<td>2.2</td>
</tr>
<tr>
<td>Other Application Software</td>
<td>31.4</td>
<td>36.8</td>
</tr>
</tbody>
</table>

Source: IDC 2012

Figure 3.7 shows the revenue functioning for global enterprise application software in 2011

**Figure 3.7 Global enterprise application software revenue in 2011, in Billion USD**

Source: IDC 2012
3.1.5 Market Outlook

3.1.5.1 Market value forecast

The worldwide packaged software market is expected to grow at a CAGR (compounded annual growth rate) of 6.8 percent during 2011-16. Application Development and Deployment (ADD) is expected to rise more significantly at a CAGR of 8.4 percent during the same period. Table 3.5 explains the region-wise breakup of the revenue for the market.

Table 3.5: Worldwide packaged software revenue by market, 2011-2016 (million USD)

|                        | 2011       | 2012       | 2013       | 2014       | 2015       | 2016       | CAGR(%) 
|------------------------|------------|------------|------------|------------|------------|------------|----------
| Application development and deployment |            |            |            |            |            |            |          
| Americas               | 38,939.0   | 42,271.4   | 46,471.0   | 51,115.3   | 56,247.2   | 61,877.7   | 9.7      
| EMEA                  | 26,434.2   | 27,663.5   | 29,293.7   | 31,988.4   | 33,871.3   | 36,670.4   | 6.8      
| APJ                   | 12,098.5   | 12,903.0   | 13,874.9   | 14,980.0   | 16,200.0   | 17,524.1   | 7.7      
| Subtotal              | 77,471.7   | 82,837.9   | 89,639.6   | 97,483.7   | 106,318.5  | 116,072.2  | 8.4      
| Applications          |            |            |            |            |            |            |          
| Americas               | 81,094.0   | 87,019.3   | 93,468.1   | 1,00,294.4 | 1,07,856.1 | 1,16,196.0 | 7.5      
| EMEA                  | 51,368.6   | 53,190.8   | 55,585.7   | 58,455.2   | 61,708.8   | 65,163.3   | 4.9      
| APJ                   | 23,988.7   | 25,515.2   | 27,242.9   | 29,011.6   | 31,173.7   | 33,497.3   | 6.9      
| Subtotal              | 1,56,471.2 | 1,65,725.3 | 1,76,296.7 | 1,87,761.2 | 2,00,738.6 | 2,14,856.6 | 6.5      
| System Infrastructure software |        |            |            |            |            |            |          
| Americas               | 45,191.2   | 48,043.9   | 50,993.9   | 53,943.5   | 56,935.0   | 59,950.2   | 5.8      
| EMEA                  | 28,274.2   | 29,302.6   | 30,717.0   | 32,379.9   | 34,196.3   | 36,085.9   | 5.0      
| APJ                   | 17,381.0   | 18,346.0   | 19,510.0   | 20,629.0   | 22,032.1   | 23,513.8   | 6.2      
| Subtotal              | 90,847.2   | 95,692.5   | 1,01,221.2 | 1,06,952.3 | 1,13,163.4 | 1,19,549.9 | 5.6      
| Total                 | 3,24,790.1 | 3,44,255.7 | 3,67,157.6 | 3,92,197.3 | 4,20,220.4 | 4,50,478.6 | 6.8      

Source: IDC 2012

From a category perspective, Applications would lead the worldwide packaged software market as per the projected figure till FY 2016 (source IDC), with revenue expected to be touching 200 billion USD by 2015 and grow further in 2016. Figure 3.8 presents the forecast in a graphical manner.

Figure 3.8: Worldwide Packaged Software Revenue by Primary Market, 2011-2016

Source: IDC 2012
3.2 Competitive Landscape in the PSASV industry

3.2.1 Key players in package software application services domain

Most of the large software System Integrators (SIs) in the market provide package application services. The Gartner SAP magic quadrant is a good representation of the key players in the market as most of the players operate or provide services related to multiple packaged products. The Gartner magic quadrant maps the services providers on two aspects - one, their completeness of vision, and, two, their ability to execute. Service providers falling in the Leaders quadrant are found to have completeness of vision as well as ability to execute. Accenture and IBM figure here followed by major Indian players such as Infosys and TCS. Although Deloitte, possesses completeness of vision to a great extent but has limited ability to execute and hence lands in the Visionaries quadrant. Challengers have the ability to execute but can do better on the vision related aspects. HCL and Wipro amongst other Indian players find a place here. Niche players are the service providers that are either operating at smaller levels by choice or have started building their package application practice later than their peers.

Figure 3.9: Gartner Magic Quadrants for packaged application services (SAP)

Source: Gartner, 2013
3.2.1.1 Brief about the key big players mentioned in the Gartner magic quadrant:

a) **ACCENTURE**: One of the world’s leading organizations providing management consulting, technology and outsourcing services, with more than 293,000 employees; offices and operations in more than 200 cities in 56 countries; and net revenues of USD 28.6 billion for fiscal 2013.

b) **CAPGEMINI**: Cap Gemini is one of the world's foremost providers of consulting, technology, outsourcing services and local professional services. Present in over 40 countries with more than 130,000 employees, Cap Gemini Group helps its clients transform in order to improve their performance and competitive positioning.

c) **IBM**: The International Business Machines Corporation (IBM) is an American multinational technology and consulting corporation, with headquarters in Armonk, New York, United States, with worldwide operations resulting into annual revenue of USD 99.7 billion and more than 431000 total number of employees worldwide.

d) **INFOSYS**: Infosys is a global leader in consulting, technology, and outsourcing solutions. Infosys enables clients in more than 30 countries to outperform the competition and stay ahead of the innovation curve. With USD 8.25 billion in FY14 revenues and 160,000+ employees, Infosys provides enterprises with strategic insights on what lies ahead.

e) **TCS**: Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global businesses, ensuring a level of certainty that no other firm can match. TCS Ltd. got incorporated as a separate entity on January 19, 1995. TCS operates in 46 countries with employee strength of around 264000 and annual revenue of USD 10 billion.

f) **WIPRO**: Wipro Ltd is a global information technology, consulting and outsourcing company with 145,000 employees serving over 900 clients in 60 countries. The company posted revenues of USD 6.9 billion for the financial year ended Mar 31, 2013.

g) **L&T Infotech**: L&T Infotech is a global IT services and solutions provider. They provide winning edge to our clients by leveraging Business-to-IT Connect and deeply committed people. Their clients include industry leaders like Chevron, Freescale, Hitachi, Sanyo and Lafarge, among others. SAP and Oracle make up their entire ERP support.

h) **HCL TECHNOLOGIES**: As a USD 5.2 billion global company, HCL Technologies brings IT and engineering services expertise under one roof to solve complex business
problems for its clients. Leveraging their extensive global offshore infrastructure and network of offices in 31 countries, HCL provides holistic, multi-service delivery in industries such as financial services, manufacturing, consumer services, public services and healthcare.

i) **HP**: Hewlett-Packard or HP is an American multinational information technology corporation headquartered in Palo Alto, California, United States. It provides hardware, software and services to consumers, small and medium-sized businesses (SMBs) and large enterprises, including customers in the government, health and education sectors with employee strength of 331,000 worldwide.

j) **ATOS**: Atos SE (Societas Europaea) is an international information technology services company with 2013 annual revenue of Euro 8.6 billion and 76,300 employees in 52 countries. Serving a global client base, it delivers IT services through Consulting & Systems Integration, Managed Operations, and transactional services through Worldline, the European leader and a global player in the payments services industry.

k) **CSC**: CSC is a global leader of next-generation information technology (IT) services and solutions. In addition to their headquarters in Falls Church, Virginia, USA, and three other major offices in Australia, Asia and Europe, CSC’s 80,000 professionals serve clients in more than 70 countries.

l) **DELOITTE**: Deloitte is a leader among SAP ERP implementation service providers in North America.

### 3.3 Five Forces Analysis for PSASVs

Five Forces Industry analysis enables the industry players to develop a competitive strategy that best defends against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. By developing an understanding of these competitive forces, the company can:

- Highlight the company’s critical strengths and weaknesses (SWOT analysis)
- Animate its position in the industry
- Clarify areas where strategic changes will result in the greatest payoffs
- Emphasize areas where industry trends indicate the greatest significance as either opportunities or threats
The framework for the Five Forces Analysis (as in the figure 3.10) consists of the competitive forces:

- Rivalry among industry competitors (degree of competition among existing firms) - intense competition leads to reduced profit potential for companies in the same industry

- Threat of substitutes (products or services) - availability of substitute products limits ability to raise prices

- Buyer’s bargaining power - powerful buyers have a significant impact on prices

- Supplier’s bargaining power - powerful suppliers can demand premium prices and limits profit

- Threat of new entrants (barriers to entry) - act as a deterrent against new competitors

Five Forces model for the package software services market is analyzed taking into consideration companies offering activities related to application development, implementation, integration, testing, maintenance and support (functional and/or technical), upgrade and help desk services. The key buyers are taken as businesses – large and small, individual consumers and governmental entities. Key suppliers are the package software development companies, providers of hardware devices and secondary software tools, as well as skilled employees of the additional suppliers.

Source: Worldwide web
3.3.1 Buyer Power

Buyers in this industry group vary in size, from small individual customers to multinational companies and government agencies with financial muscle and greater buyer power. The smaller end of the market is fairly fragmented, with local and regional firms serving the needs of small businesses, as well as small firms that target clients in specific industries. The existence of large buyers helps strengthen buyer power, as the loss of business from one of these customers could have a detrimental effect on players’ revenues.

Contracts between market players and buyers vary according to the service being provided. Some IT service contracts can last for several years although consulting contracts tend to be shorter and there is a growing trend towards contracts that have a shorter duration. In the application operations, management and outsourcing market segment long-term contracts between players and customers are common, translating into potential switching costs for buyers. Contracts with large customers are often secured after a bidding process. Consequently, such customers display greater buyer power.

Name recognition is likely to be of significance to customers, particularly for large deals and high end work in the value chain. Buyers often look to a company with a reliable reputation for such services. The services offered by market players can often be highly important to the successful operation of a business, which reduces buyer power considerably. Players are unlikely to forward integrate into the business sector of buyers, strengthening buyer power. Buyers also depend on the supplier for the selected packaged application. They have to stick to the compatible environment based on the selected package. But, there are multiple package alternatives available in the market depending on the requirement.

Overall there is a moderate to strong degree of buyer power in this industry group depending on the relevant situation, as shown in figure 3.11.
There are two high level types of suppliers in this industry. First are the product vendors who develop and own the package software. And, second are the suppliers that provide infrastructure, people support etc.

The product market is dominated by some large software vendors. These product vendors focus on niche areas that vary by industry, size of business, functions and geography etc. and it becomes very difficult for customers dealing with these large vendors with comprehensive suites of products to switch from one vendor to another.

Another important input factor in this industry is qualified staff with appropriate technical knowledge and expertise. Industry players rely on the continued service of qualified employees and high rates of staff turnover can be detrimental to the business. This can be regarded as a high switching cost, with employees viewed as suppliers of such expertise. Package software services forms a big part of the IT services industry. This indicates how important qualified employees are in this industry.

Other inputs such as hardware components are often purchased from sole suppliers. Such suppliers are often large companies offering differentiated products, resulting in significant supplier power. On the other hand, companies, such as IBM, show some backward integration
with their own hardware and software capabilities, which reduces their reliance on external suppliers. Supplier power in this industry is strong overall, as shown in figure 3.12.

**Figure 3.12: Supplier power**

[Diagram: Supplier power analysis]

Source: Author’s creation

### 3.3.3 New entrants

Entry to this industry on a small scale is achievable. Smaller players have experienced increased growth as both government and commercial institutions increasingly turn to third parties to provide specialized IT support. Similarly, buyers seek to cut costs wherever possible and data processing and other business processes have increasingly been outsourced to specialists, allowing clients to focus on core activities.

The market is characterized by ongoing significant M&A activity among public IT software companies, like the acquisition of Business Objects by SAP or Oracle’s purchase of Siebel (a CRM tool), and its acquisition of Taleo (an e-recruitment tool).

Large companies in this market have significant economies of scale in processing and can offer more services; however, small companies can compete by specializing in industries and offering customized services. Despite this, customers with reputable business image may be unwilling to trust smaller, less established companies. This offers larger market players an advantage.
Entry to the industry may also be gained via expansion and diversification of existing products. This trend has pushed the traditional software product companies to look for diversification opportunities to distinguish themselves from the competition thus turning towards service-oriented products and customized solutions.

Barriers to entry include the name / brand recognition factor of larger players who as a result of good brand recall and goodwill may be more likely to attract and retain customers. Considerable technical expertise is a requirement for companies wishing to enter this industry. The markets in which package software companies operate are subject to technological advancements, rapidly developing industry standards and changing customer needs and preferences. This includes the changes forced upon the product vendors due to politico-legal compliance requirements as well as the proactive changes made by the product vendors themselves to improve product functionality. Success of a company is highly dependent on the ability to anticipate and adapt to such changes.

Regulation in this industry is varied and is largely dependent on the service offered. For example, data processing services for financial institutions are often stringently regulated. Overall the likelihood of new entrants to this industry is assessed as moderate, as shown in figure 3.13.

**Figure 3.13: New entrants**

![Figure 3.13: New entrants](image)

Source: Author’s creation
3.3.4 Threat of substitutes

Custom built applications may provide alternatives to packaged software solutions. Some smaller customers may opt for the custom built applications as standalone systems. But, for comprehensive end to end applications, package applications have no viable alternatives due to lower overall total cost of ownership.

On the resourcing side, an alternative to a number of services offered in this industry group is to employ and train in-house staff to provide such services or work on tailored software. In times of economic difficulty, some companies may rely on existing staff rather than third-party service providers.

However, services offered by large industry players provide businesses with several key advantages. Key employees may be released from performing non-core or administrative processes, allowing a company to concentrate wholly on its core activities. Furthermore, businesses can be more flexible by not investing in assets and reducing response time to environmental changes. However, using outsourcing or consulting companies can result in a loss of internal business process know-how, and consequently results in dependency on the service providers.

Overall, there is a moderate threat from substitutes in this industry group, as shown in figure 3.14.

Figure 3.14: Threat of substitutes

Source: Author’s creation
3.3.5 Degree of rivalry

The package software and industry group is fragmented, despite the presence of large, international incumbents (Microsoft, IBM, Microsoft, Oracle and SAP), who together hold a market share of about 40 percent. These large players face increasing competition from diversification of existing companies into this industry. However, larger players may attempt to differentiate themselves which may help to ease pressure on existing market players. Services offered by most industry players are essentially similar and, despite diversification, companies remain highly reliant on revenues from the industry. Rivalry within this industry is alleviated to an extent by good growth in recent years. Overall, rivalry is assessed as moderate, as shown in figure 3.15.

**Figure 3.15: Degree of rivalry**

![Degree of rivalry](image)

Source: Author’s creation

Overall, The PSASV industry group is fragmented, with large incumbents operating alongside smaller companies, although diverse product portfolios and strong growth help to alleviate rivalry slightly.
3.3.6 Five Forces Analysis for PSASVs

Buyers in this industry group range from small, individual customers to businesses and government entities. The loss of business from a larger buyer could have a negative effect on players’ revenues, boosting buyer power. Suppliers tend to be large companies, and players’ reliance on supplier inputs means supplier power is strong. At a small body-shopping level entry is easy as long as the product skill is available. But, new entrants may be put off by industry regulations and competition faced from large, multinational incumbents. However expected growth may mitigate the rivalry level to some extent making the market more appealing to new entrants.

Figure 3.16: Five Forces Analysis for PSASVs

Source: Author’s creation