



**NUCLEUS
RESEARCH**

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ROI ANALYSIS YOU CAN TRUST™

Top Ten Technology Predictions for 2005

THE BOTTOM LINE

As we ring in the new year, Nucleus predicts pricing models, integration, and consolidation will be key moves for achieving ROI in 2005.

As predicted, 2004 was a banner year for leverage, integration, and Linux — and in some cases, 2005 will be more of the same. Here are Nucleus Research's top ten technology predictions for 2005:

BI HEATS UP THE ERP MARKET

With ERP vendors clamoring for customers, adding value to their platforms will be the carrot that they hope lures in new customers. As BI first emerged as a solution for wrestling data out of ERP systems, ERP vendors will move to reclaim lost ground and offer expanded BI capabilities to provide one stop shopping. The result will be a shake-up with the current pure play vendors, and some interesting dynamics as BI vendors and their ERP partners learn some new steps in the co-opetition dance.

MAINTENANCE FEES BECOME THE NEXT BATTLEFIELD

The merger activity in the software market is based on buying new customer bases and adding more lucrative maintenance fees to the vendor's coffers. Discounting among competitors is already fierce, but those maintenance fees aren't being reduced much. That will change as customers are tired of paying for upgrades they may never need, licenses they rarely use, and will now get tougher on negotiating fees. Vendors don't want to give up the attractive profit margin, but they may have little choice if customers have no qualms to turn to competitors for a better price.

HOSTED CRM IS RECONSIDERED

Although the hosted model works in some situations, if it's simply a static sales management system it can quickly reach a break-even point. One of the key selling points of hosted CRM has also been its simplicity; however, if ongoing functionality enhancements and additions are needed to justify the ongoing revenue stream, the cost-benefit equation will continue to shift.

Many hosted CRM vendors are also public companies as well, requiring them to standardize pricing and manage sales for effective revenue forecasting — making ongoing customer management just as important as new customer wins and "special offers" more difficult to pull off. Faced with steady benefits but potentially-increasing subscription fees without clear additional

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benefit, companies will begin to reconsider the ongoing cost of hosted CRM agreements and look at hybrid and other models that they can use in maturity without paying for in perpetuity.

E-COMMERCE IS THE NEW HOSTED CRM

More and more companies will look to outsource their e-tail channel instead of maintaining and updating costly on-premise e-commerce and catalog applications. Just as companies looked to replace costly and difficult-to-maintain CRM with other more cost-effective solutions, companies that invested heavily in e-commerce platforms in the 90s will re-evaluate their ongoing software maintenance, support, and content management costs and consider hosted alternatives.

As we learned from the “dot com” crash, the Internet is just another channel. Companies looking to manage costs and increase profitability across their different sales channels shouldn’t ignore their e-commerce Web site. Dynamic pricing models, fidelity groups, targeted promotions, and other sophisticated sales tactics — as well as integration with the rest of the supply chain — shouldn’t take a team of sales support people. Hosted e-commerce offers a flexible, cost-effective, scalable alternative.

OPEN SOURCE MARCHES ON

Not yet on the desktop, but despite a healthy investment by Microsoft in “independent” analyst white papers, Open Source continues to gain ground in the minds and infrastructures of IT managers. Look to continued focus on open source and a growth of developers and applications that exploit its strengths — as well as more vendors such as SAP quietly touting the cost effectiveness and performance of MySQL.

CONSOLIDATING FOR SAVINGS

Companies are undergoing infrastructure audits to identify and clean out redundant or unnecessary IT assets. They are looking at ways to standardize systems across the company and will spend to replace disparate systems with a single unified system. The payoff can be substantial with big hit returns from system retirement, and attractive ongoing returns through lower IT support costs. The payoffs will be big for systems auditing and analysis tool providers as well.

Seeking savings doesn’t necessarily mean outsourcing, however. With the true costs of outsourcing being presented as a contrast to the projected returns that drove IT outsourcing’s growth, companies are finding the benefits less than stellar. While some aspects of outsourcing tasks can be viewed as IT piece work, separating the business context from applications development results in the same classic disconnect that most companies are trying to avoid. Managing the relationship with the offshore provider can also eat into the potential savings, as does training, bug fixing, and ongoing project communication costs with the

programming team. It's not just a simple case of comparing the hourly wage of the local versus the remote IT worker.

SPAM EXPLODES

Until Microsoft gets better at keeping it out, those clever spammers will keep sending it out. Enterprises will see an increase in spam due to the growing intelligence of spammers. Most organizations — if they haven't already — will need to deploy robust spam filtering solutions that are offered by a number of vendors; the key is in deciding which solution is most appropriate for your enterprise from the list of vendors including Proofpoint, Frontbridge, CipherTrust, MX Logic, IronPort, and Symantec Brightmail. These technologies can help your organization decrease spam and viruses and increase overall employee productivity.

WIRELESS PIGGYBACKING AND PIGGYHACKING TAKE OFF

Back to the good old days of cell phones, when you needed different phones for coverage in different areas. Expect a new round of software apps that help road warriors share the wireless wealth — whether they know it or not. On the ROI side, companies with a lot of road warriors should not be taking wireless access on a case-by-case expense report basis. Evaluating the available options and giving power users a cost-effective standard plan will save money in the long run while reducing the time users spend subscribing and searching for service.

COMPLIANCE REGULATIONS DRIVE CONTENT AND RECORDS MANAGEMENT

Although these decisions are being made cautiously, they are being made — and will result in revenues for software and services vendors in 2005. The recent deadlines to regulatory compliance acts such as Health Insurance Portability and Accountability Act (HIPAA), Gramm Leach Bliley Act (GLBA) and Sarbanes-Oxley (SOX) put significant pressure on executive management in organizations to implement appropriate regulatory compliance software in place.

Organizations have no choice but to invest into such solutions to maintain the appropriate level of control over their data and comply with the law — or to show how what they already have in place does the job effectively. If they haven't already, the CIO and the IT department will need to identify and evaluate compliance technologies that will provide control over the network, messaging, and records and content floating around the enterprise.

RFID HANGOVERS

The morning after, we often have regrets — like getting tagged, for instance. It will still take us some time to get tags right; after all, it's not about cost, it's about reliability. The benefits of RFID are clear, but ROI will only come to those who put benefits before bandwagons.

Those who rushed to get in right in 2005 will continue to pay as the technology improves and good tags get cheaper and more reliable. Those who let the designated drivers go first and took a measured approach are better positioned. Better technology, more vendor and user experience, more mature supporting software, and emerging best practices will help make the RFID party train ride smoother in 2005.

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