

Information Technology and Telecommunications Market Update

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AGENDA

We Have Been Here Before

Economic Update

Worldwide and Canadian ITC Markets

Software Market

Telecommunications Services Market

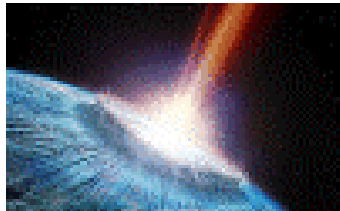
IT Services Market

Outsourcing

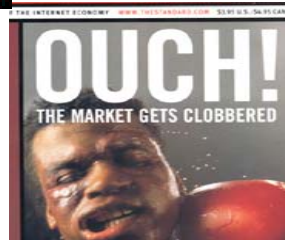
Top Predictions

Why are we in this business?

Entering 2002



Dot-com crash



Global recession

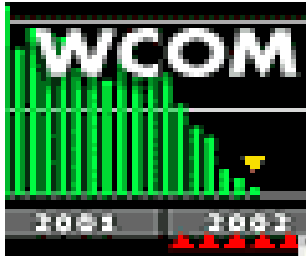


Telecom winter



September 11

During 2002



Enron, WorldCom, etc.



Wall Street



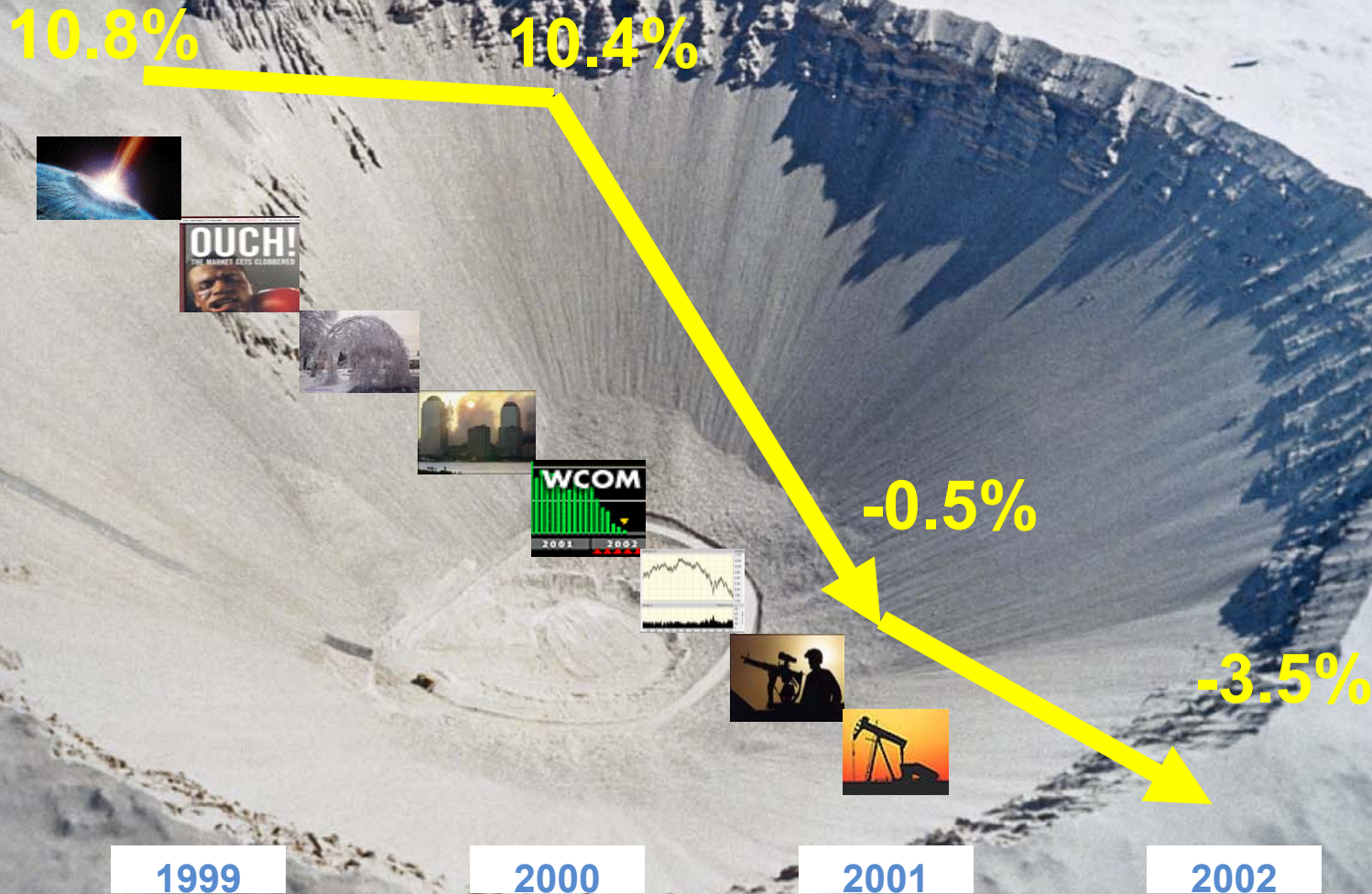
Drums of War



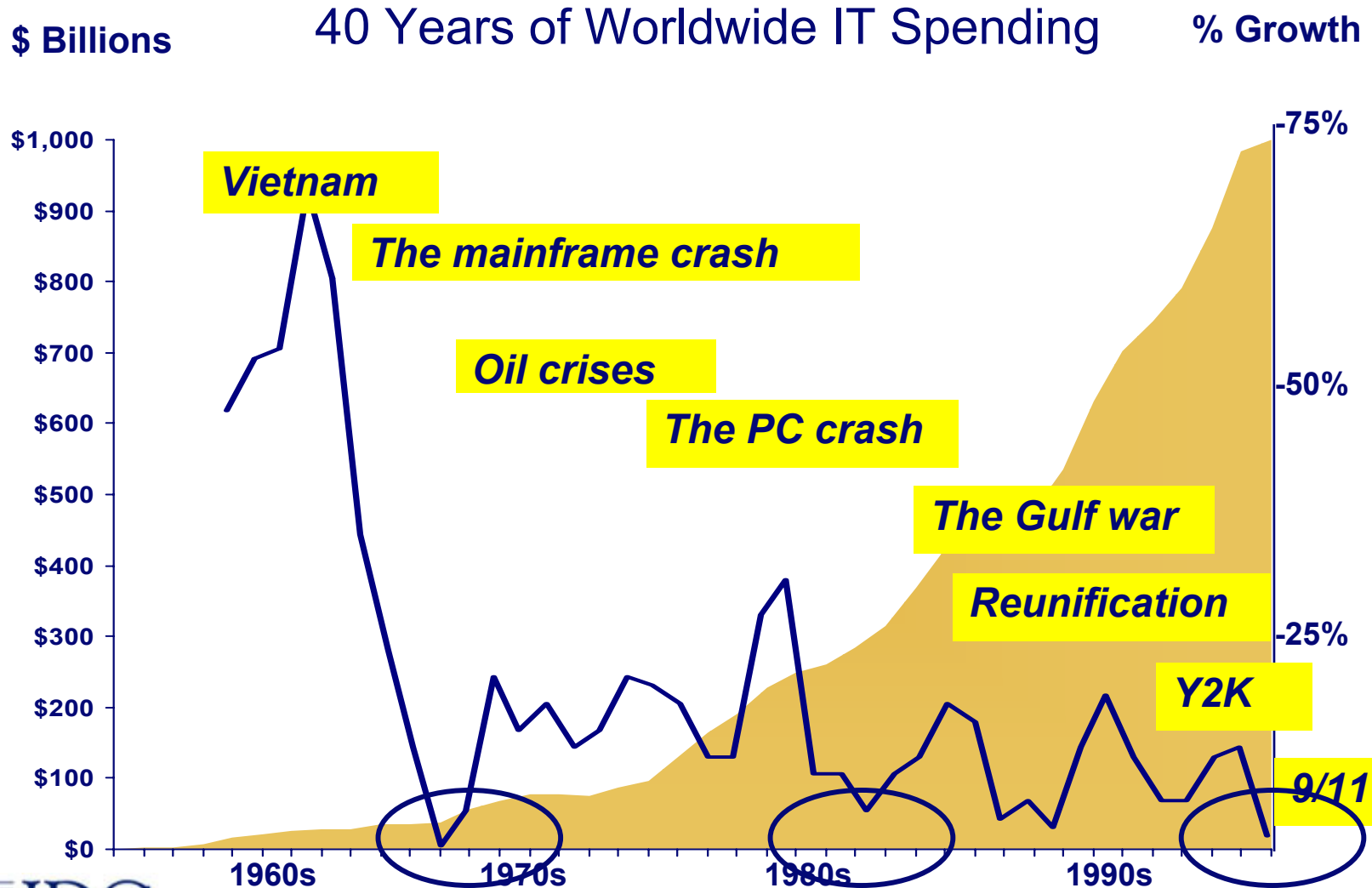
Oil Prices

An Industry Cratered

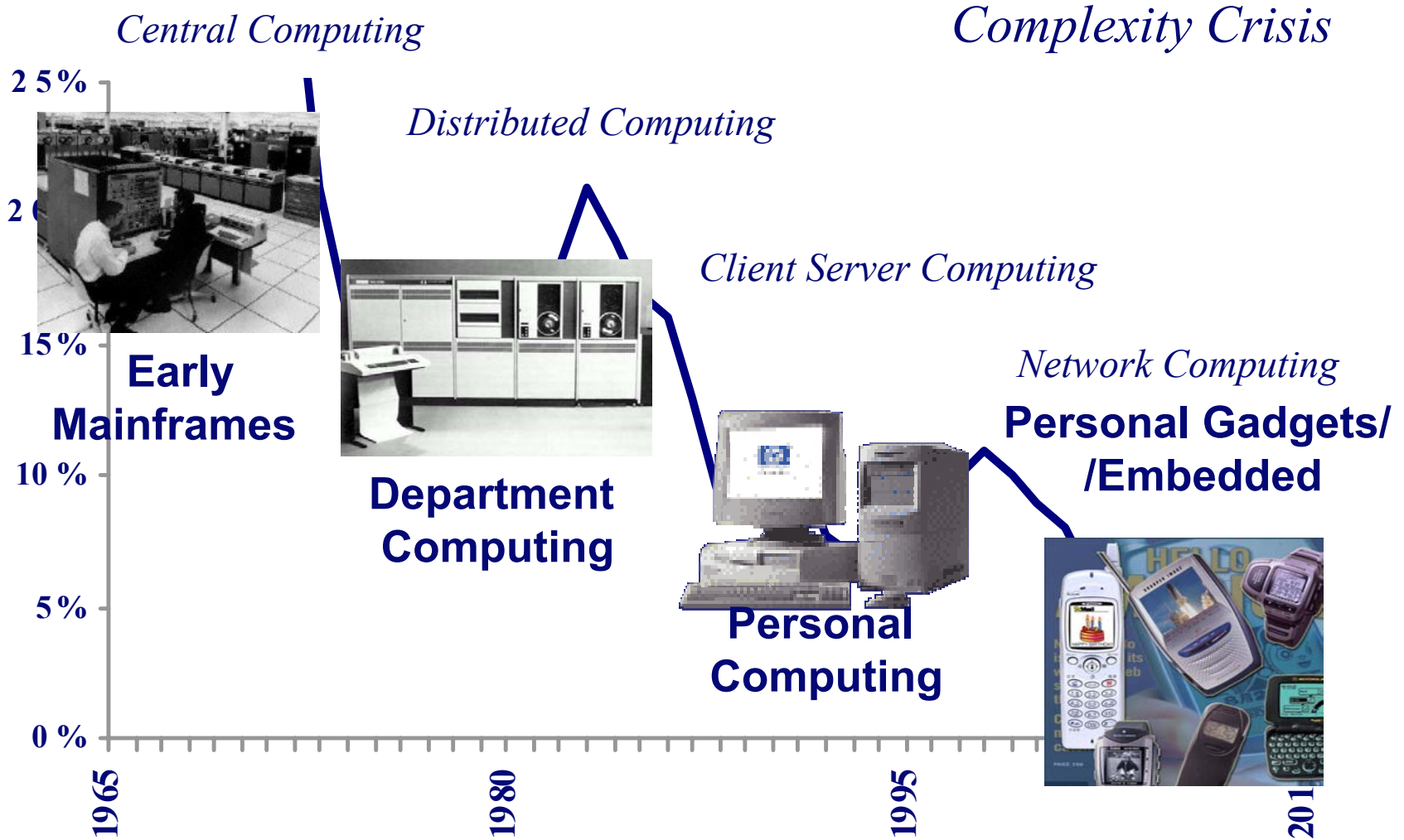
WW IT Spending Growth (%)



We've Been Here Before



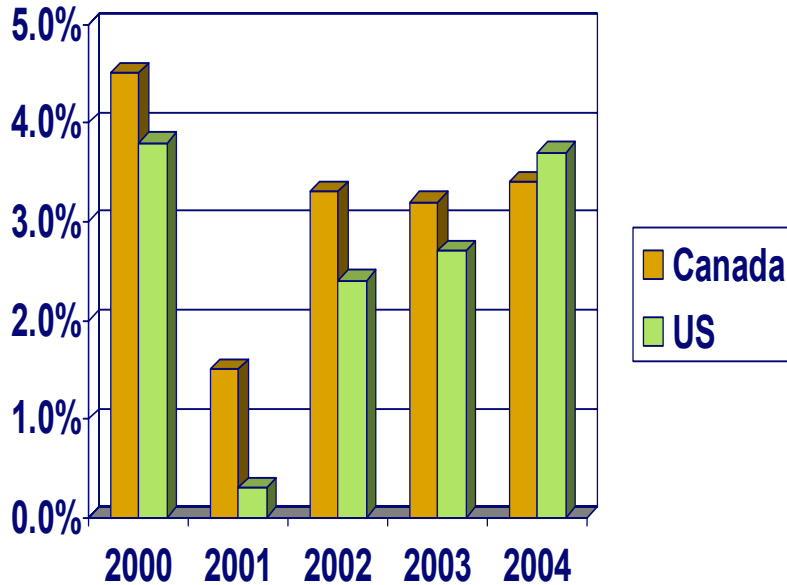
The Long Term Story – WW IT Spending Growth (5 year moving average)



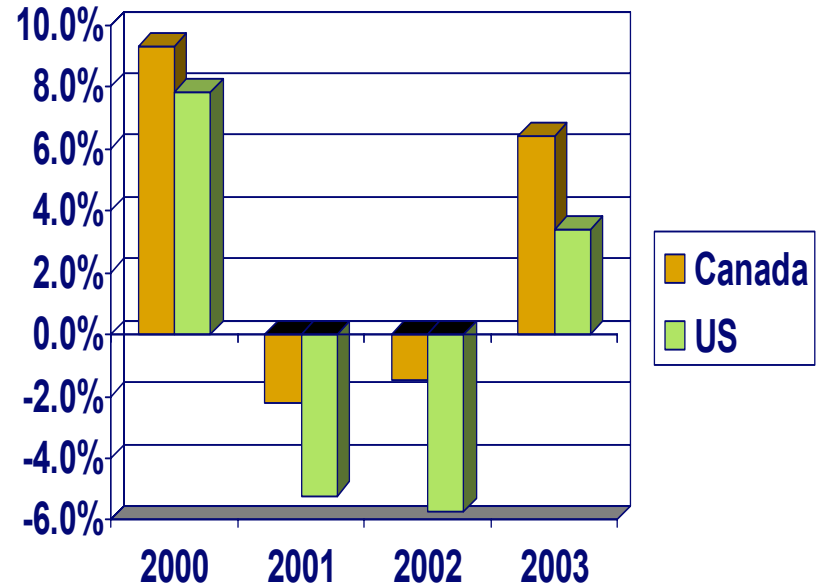
Economics, Assumptions and Expectations

Economic Update

GDP Growth Y/Y



Business Investment Growth Y/Y



Source: Consensus Economics, Dec 2002

Canada Highlights:

- Employment Market Healthy
- Concern with dependence on US

US Highlights:

- Layoffs still occurring – Structural Impacts
- Concern over consumer sentiment
- War Costs = 1% to 2% of GDP

Scenario Assumptions

Forecast

Downside

Economy

GDP 3%-4% Range

GDP 2%-3% Range

Profits

Results Mixed

Unpleasant Surprises

Geopolitics

War in Iraq, limited

War in Iraq, extended

Oil Prices

Up \$5/barrel

Up \$15+/barrel - \$40/bbl

Inflation

Under 2%

Worries over deflation

Scenario Assumptions

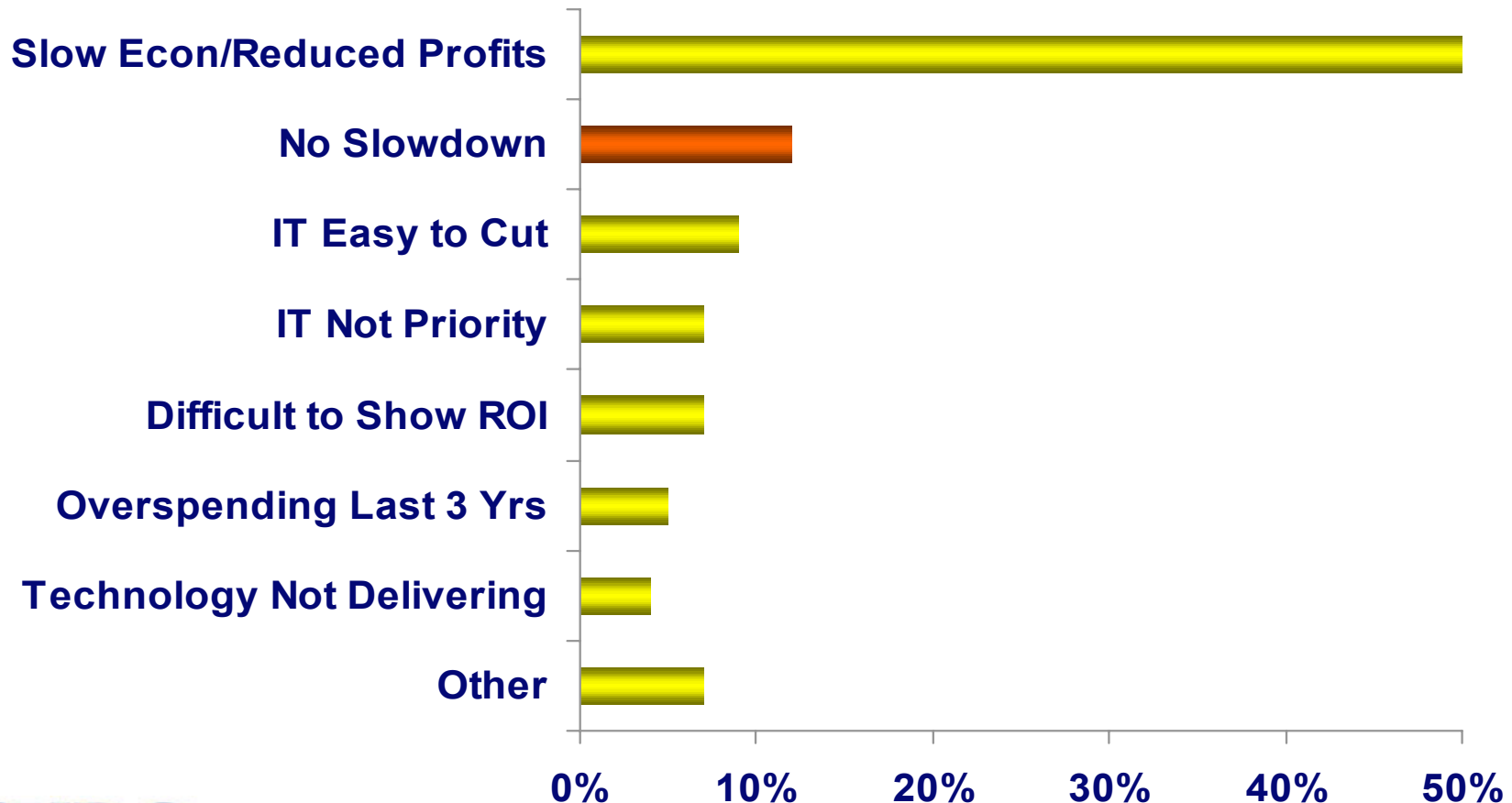
Forecast

Downside

| | | |
|-------------|-----------------------|------------------------------|
| IT Market | Maturing Industry | Crisis of Confidence in Tech |
| Telecomm | Capex Lower, 3G 2005+ | More Bankruptcies, Bad News |
| Consumers | Saturation, Debt | Volume and Price Declines |
| Business | Spend with Economy | Depression Mentality |
| Stocks | Up slowly 2003 | Flounder |
| Killer Apps | None | None |

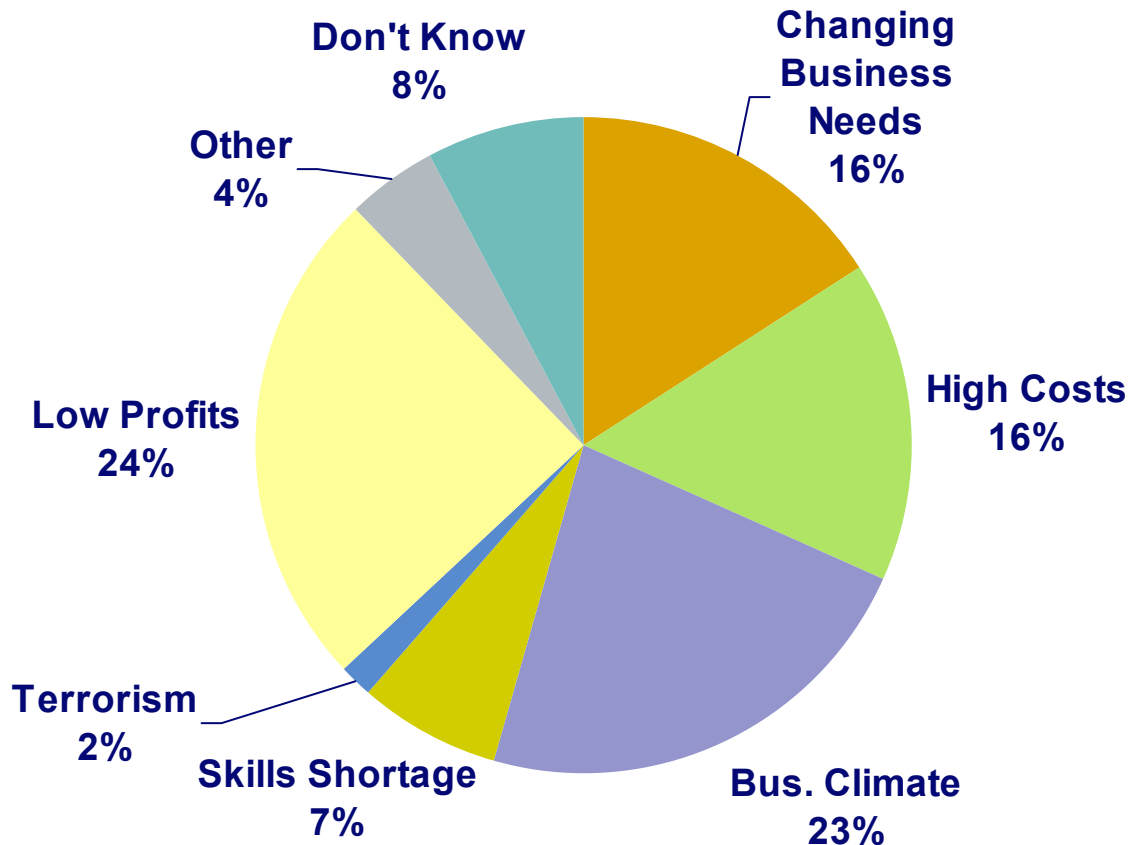
The Economy Matters ...

% Saying It's "The Main Inhibitor" To IT Spending



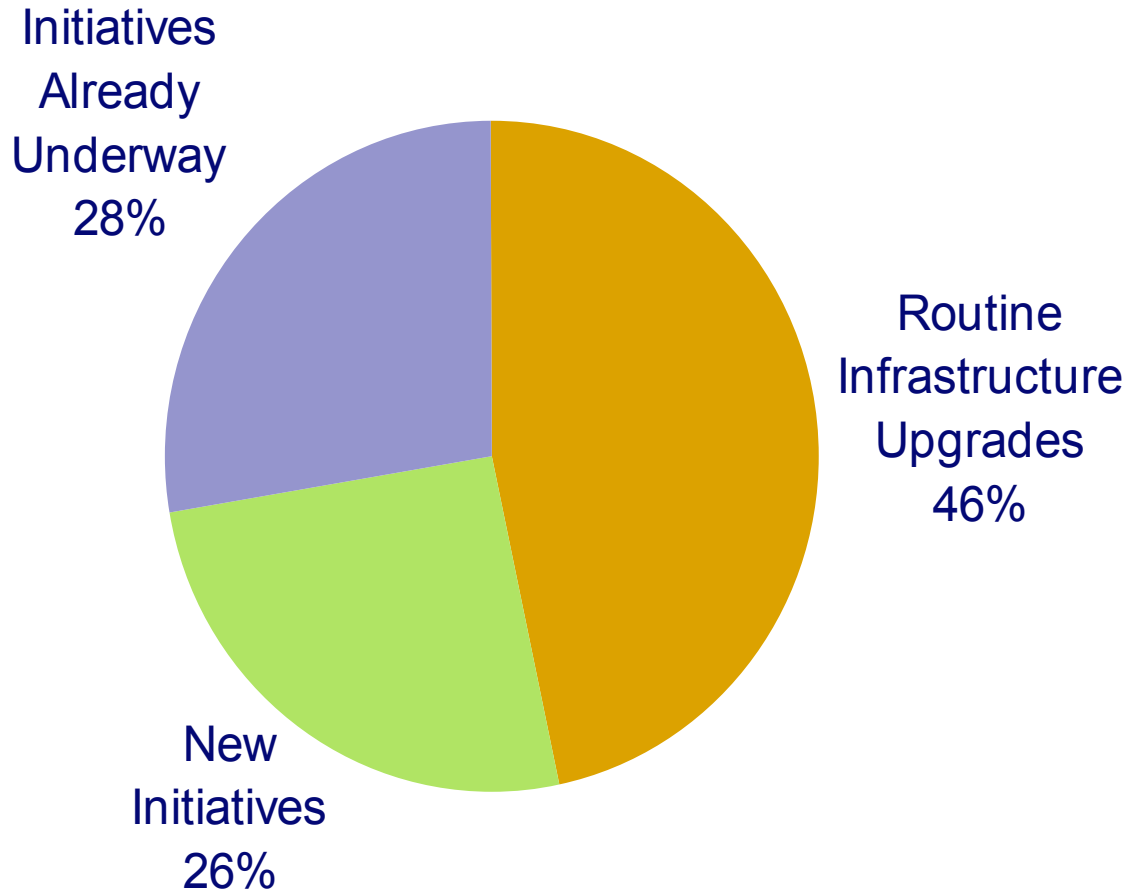
Spending Inhibitors In 2003

Reasons That Would Slow IT Spending In 2003 (% Listing As Top Cause)

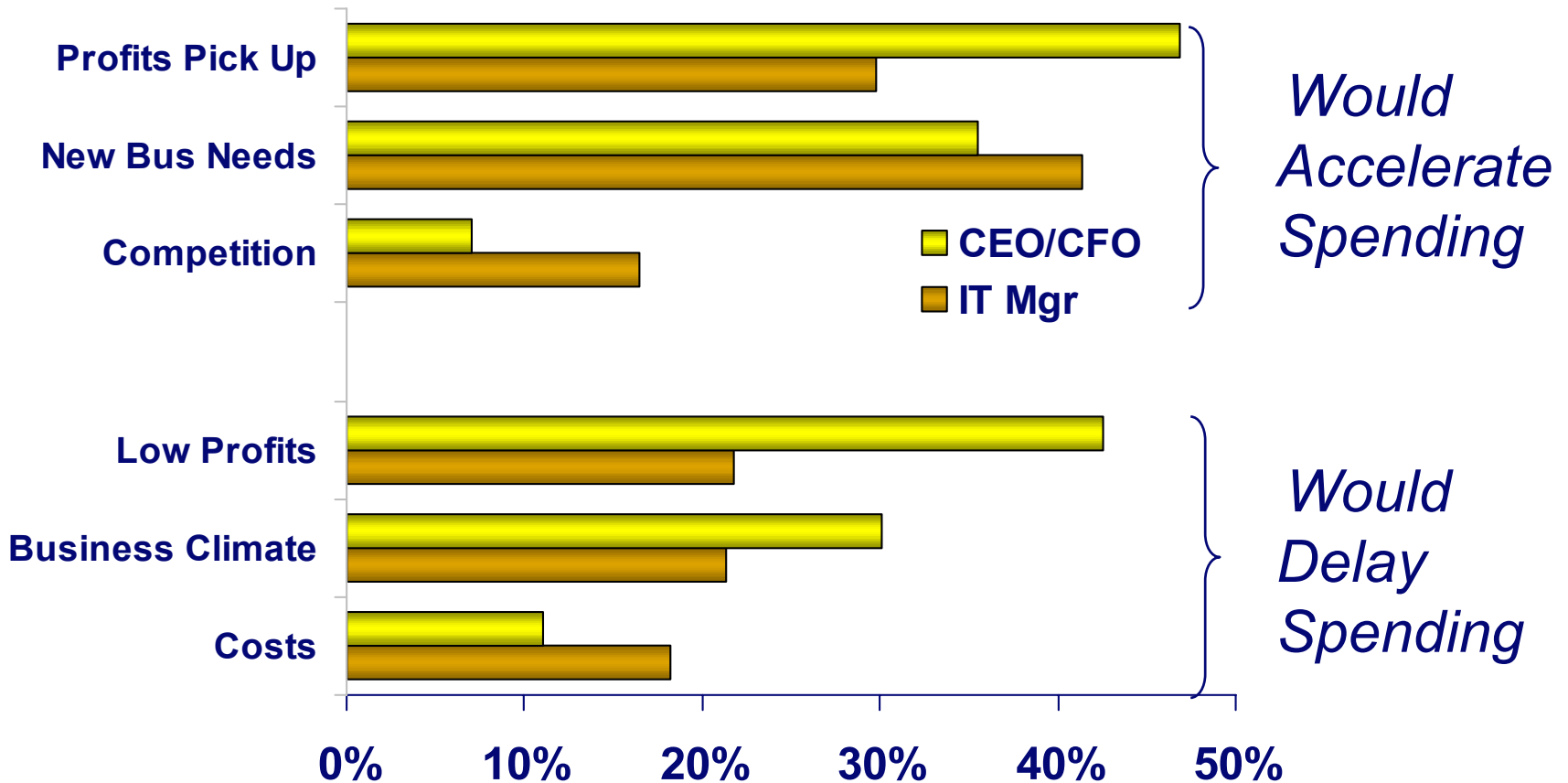


Planned IT Spending Distribution 2003

Discretionary vs Non Discretionary Bar moves up



Growth Triggers & Inhibitors



What Customers Want

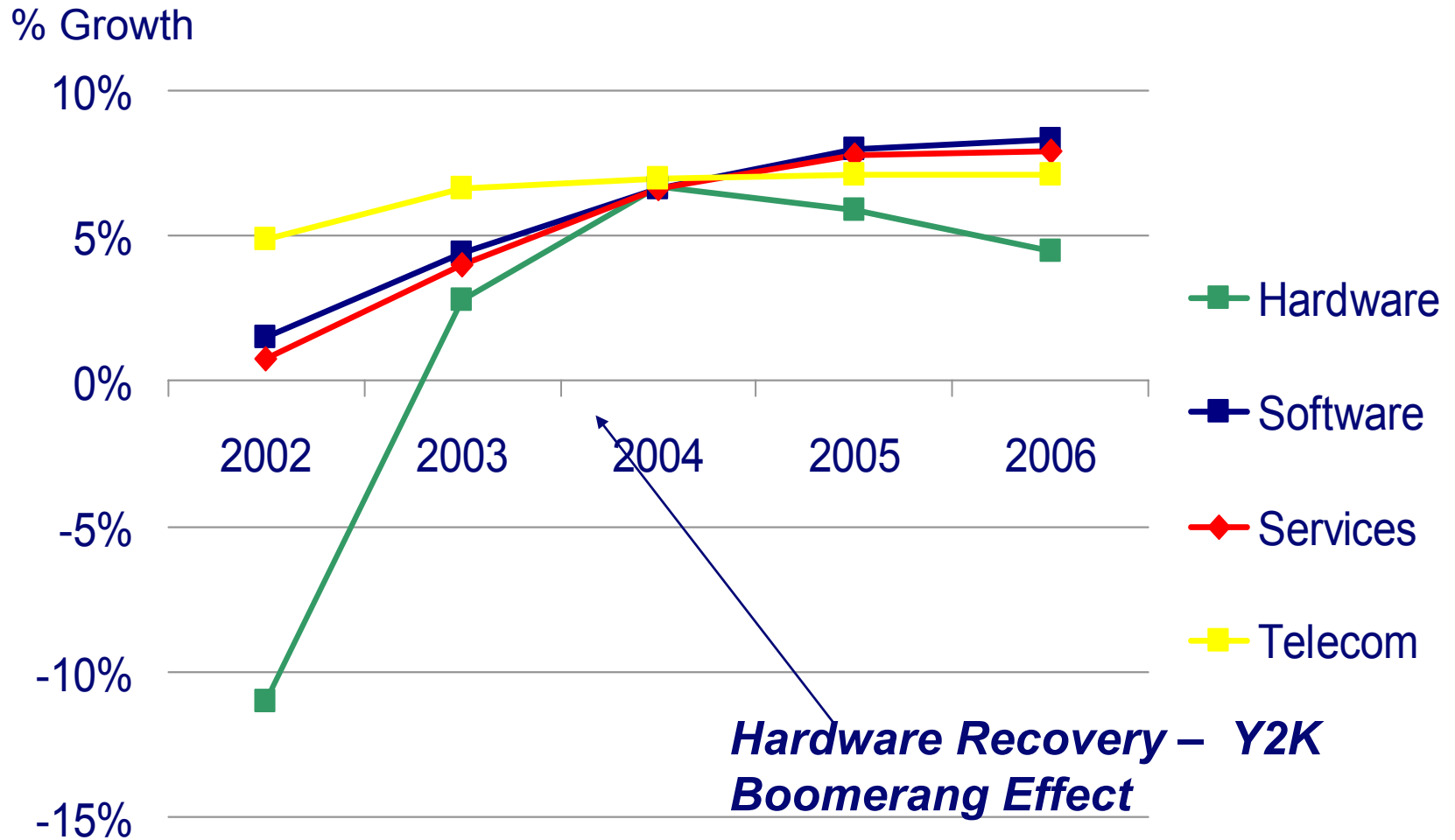
| Industry | Pain Point | Top 2003 Solution |
|-----------|--------------------------|-----------------------|
| Banking | Customer loyalty | CRM |
| Govt | Anti-terror & efficiency | Security |
| Retail | More efficient service | Store systems |
| Cap Mkts | Meeting regulations | Business intelligence |
| Auto/Aero | Reduce procure costs | B2B |

Worldwide ITC Perspectives

WW 2003 Key Thresholds

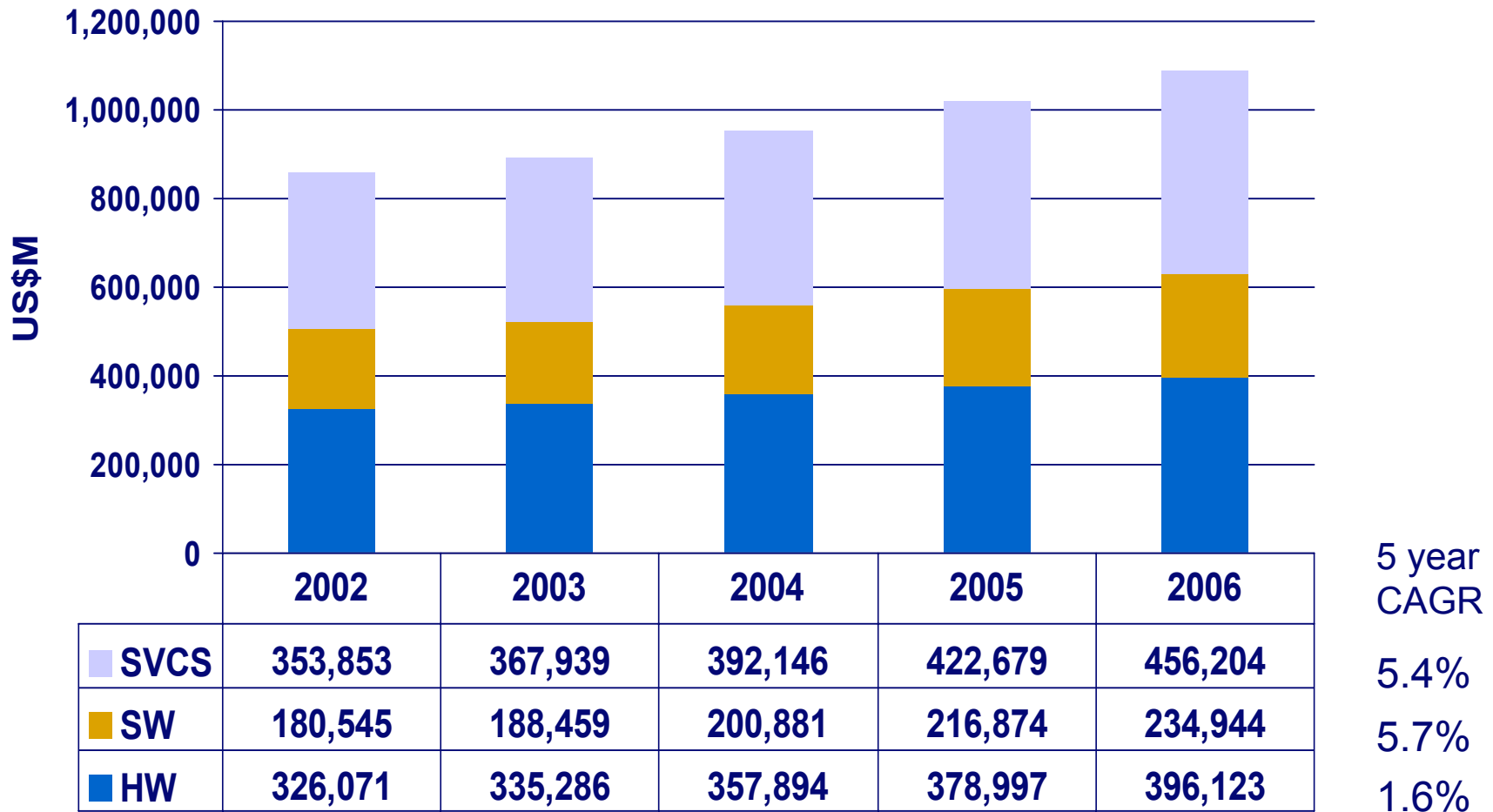
| | |
|-----------------------------|------------------|
| Cell phones installed | > 1.5 billion |
| eMailboxes | > 1 billion |
| PCs installed | > 600 million |
| Internet Users | > 700 million |
| Mobile Internet Users | > 250 million |
| Broadband Households | > 80 million |
| IT Spending Worldwide | > \$892 billion |
| Telecom Spending Worldwide | > \$975 billion |
| Internet Commerce Worldwide | > \$1.5 trillion |

Worldwide ITC Spending Growth



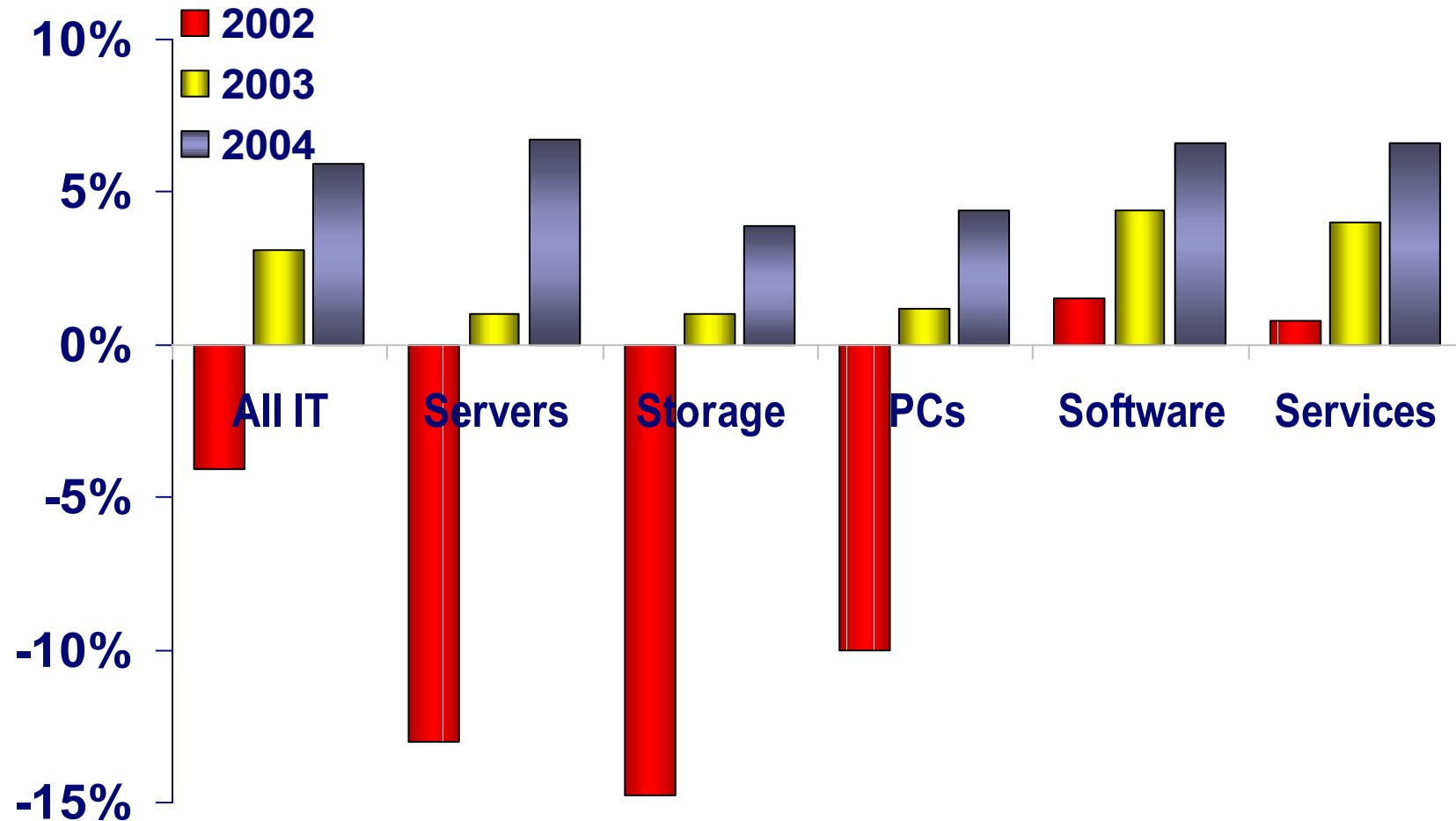
Worldwide IT Forecast 2002-2006 (US\$M)

Driven by Software and Services – and HW Recovery



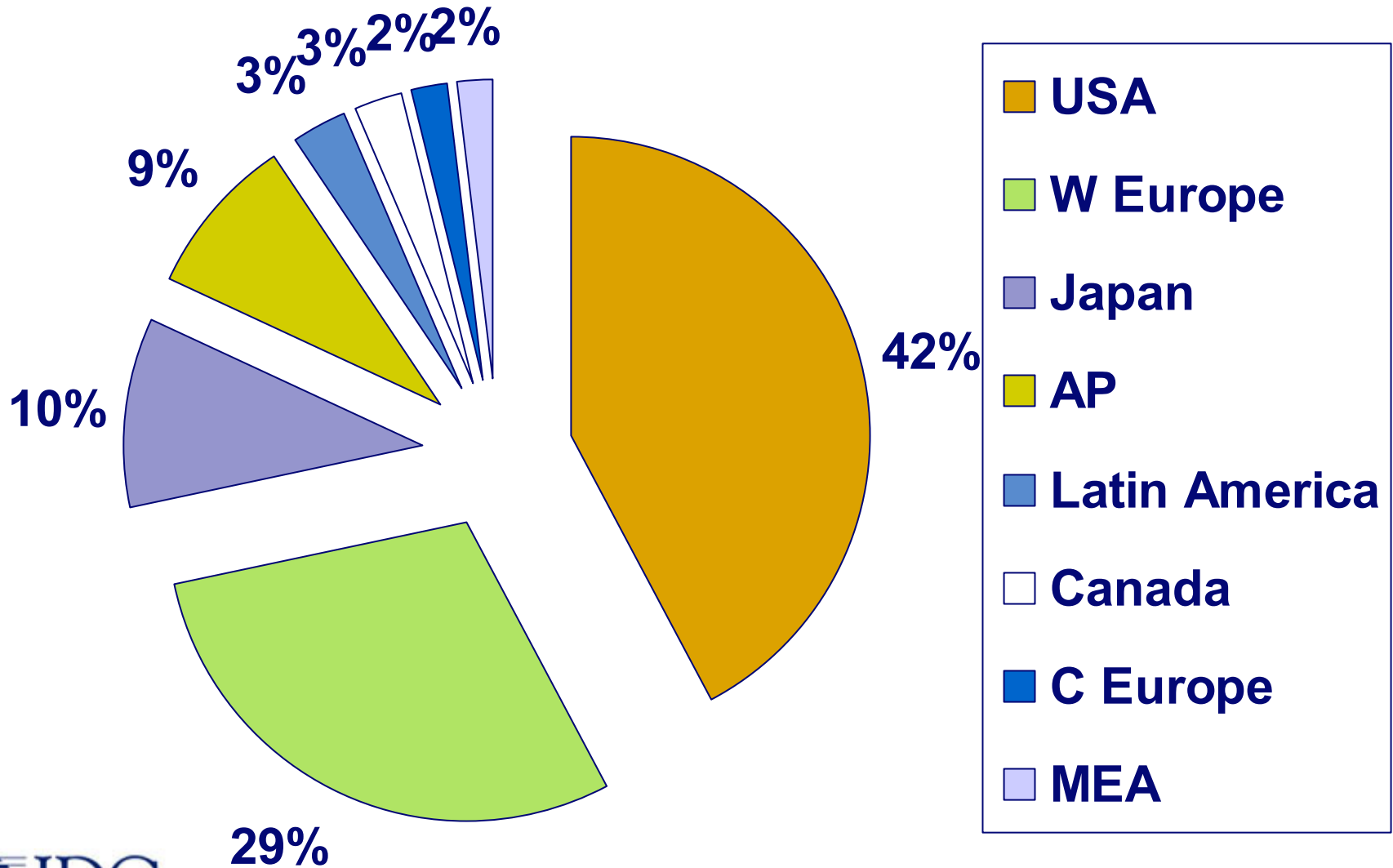
Worldwide IT Growth Rates by Market

Driven Down by Hardware



WW IT Spending Distribution 2003

Shifting Away from North America

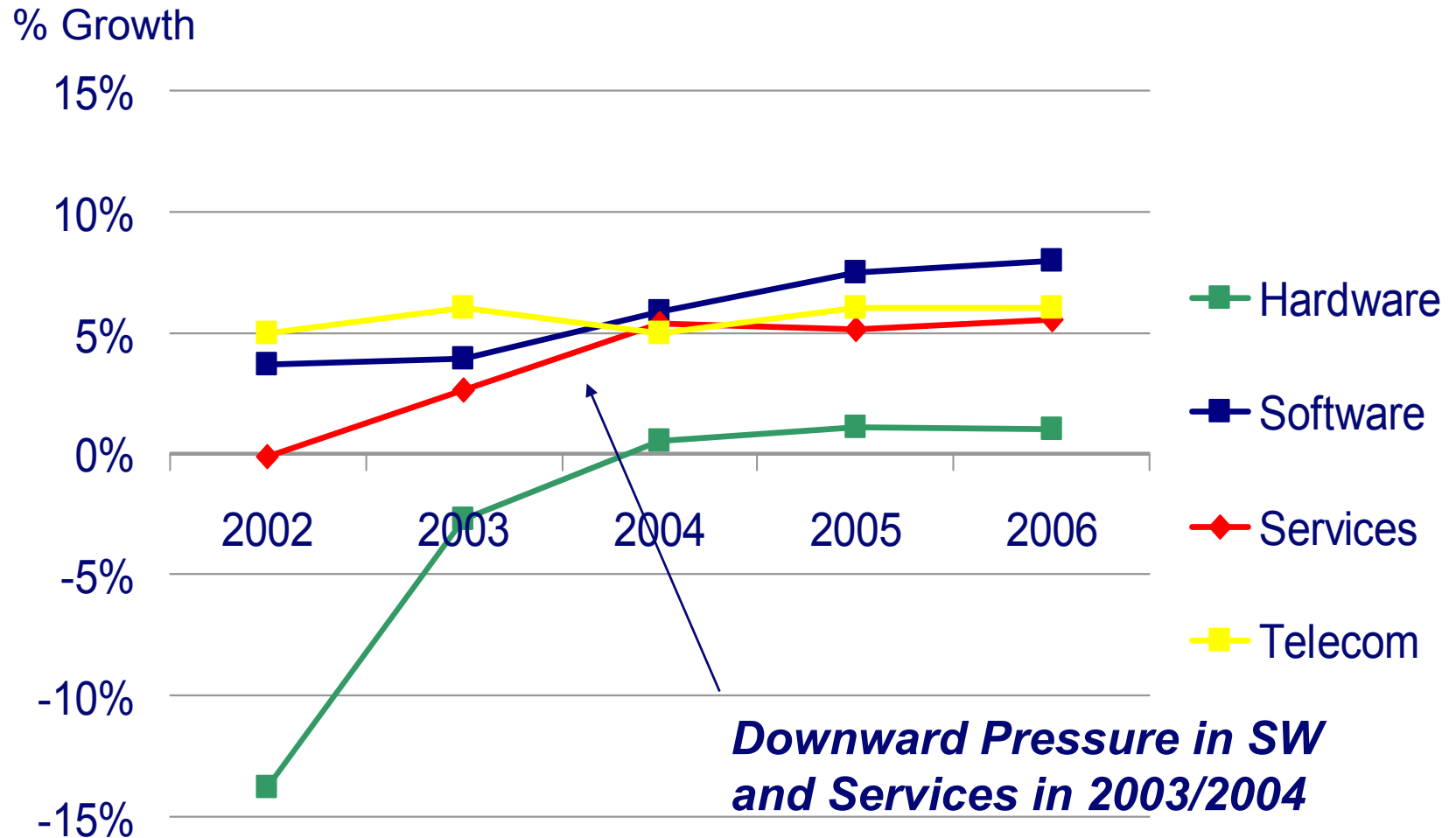


Canadian ITC Perspectives

Key Thresholds: Canada 2003 → Canada 2006

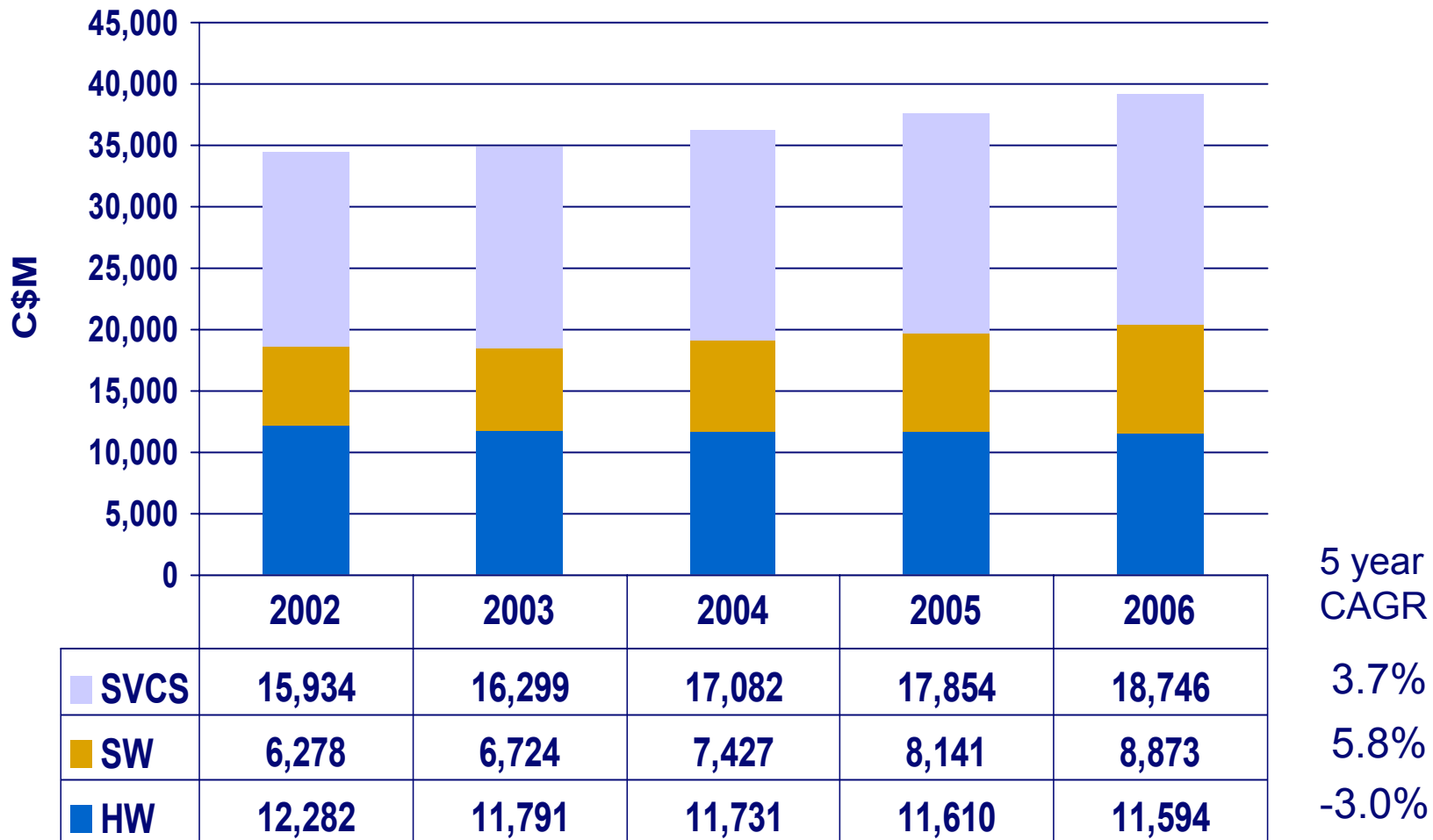
| | | | |
|--------------------------|-----------|---|----------|
| Cell Phones | > 13.5 MM | ⇒ | 22 MM |
| Internet Users | > 21 MM | ⇒ | 25 MM |
| Internet Buyers | > 7.6 MM | ⇒ | 11.6 MM |
| Mobile Internet Users | > 2.2 MM | ⇒ | 7.9 MM |
| PCs Installed | > 22 MM | ⇒ | 24.6 MM |
| Online Households | > 7.7 MM | ⇒ | 8.8 MM |
| Broadband Households | > 3.1 MM | ⇒ | 5.0 MM |
| IT Market Canada | > \$35 BB | ⇒ | \$38 BB |
| Telecom Services Canada | > \$35 BB | ⇒ | \$42 BB |
| Internet Commerce Canada | > \$92 BB | ⇒ | \$250 BB |

Canadian ITC Spending Growth



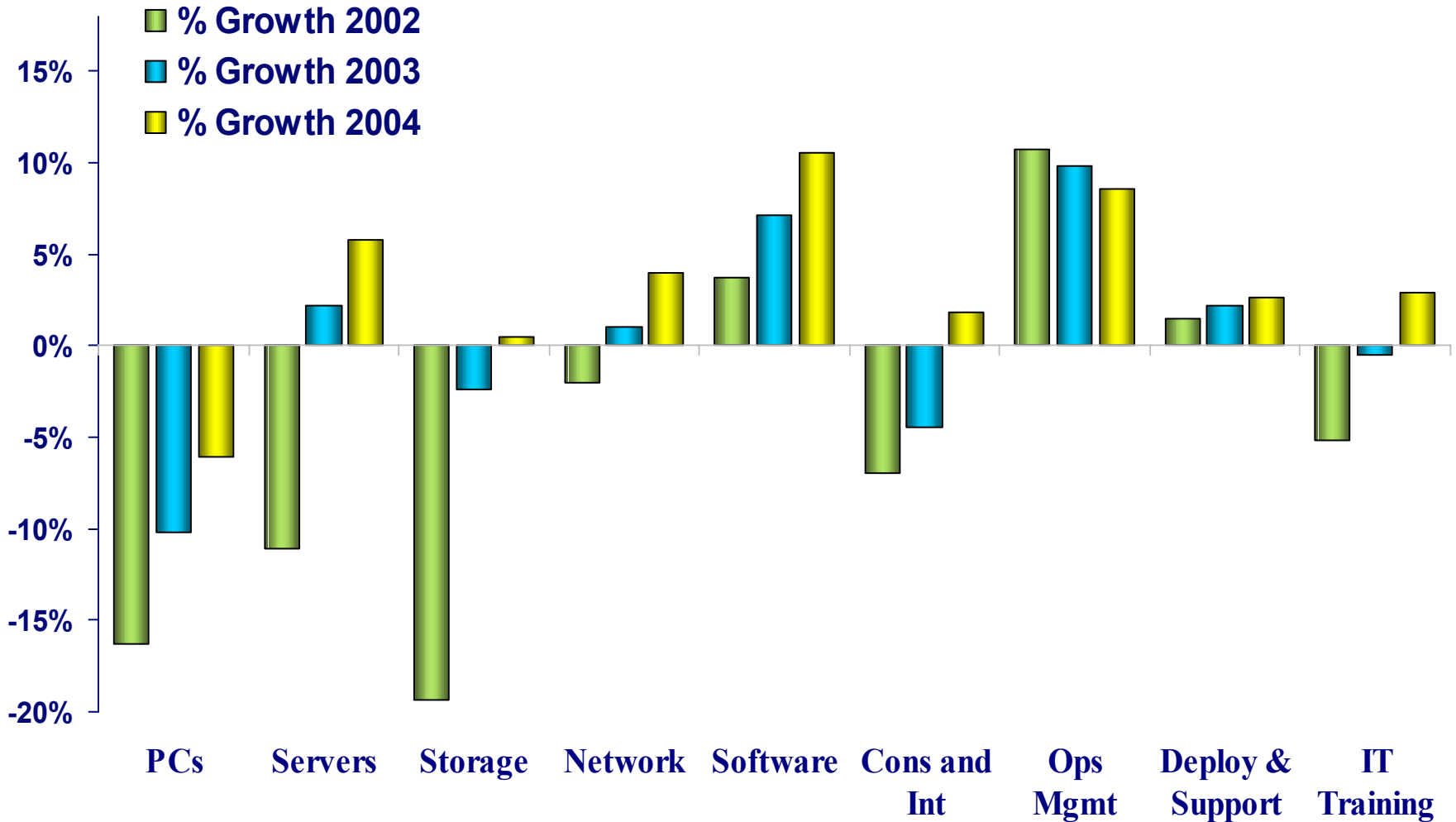
Canadian IT Forecast 2002-2006 (C\$M)

Driven by Software and Services

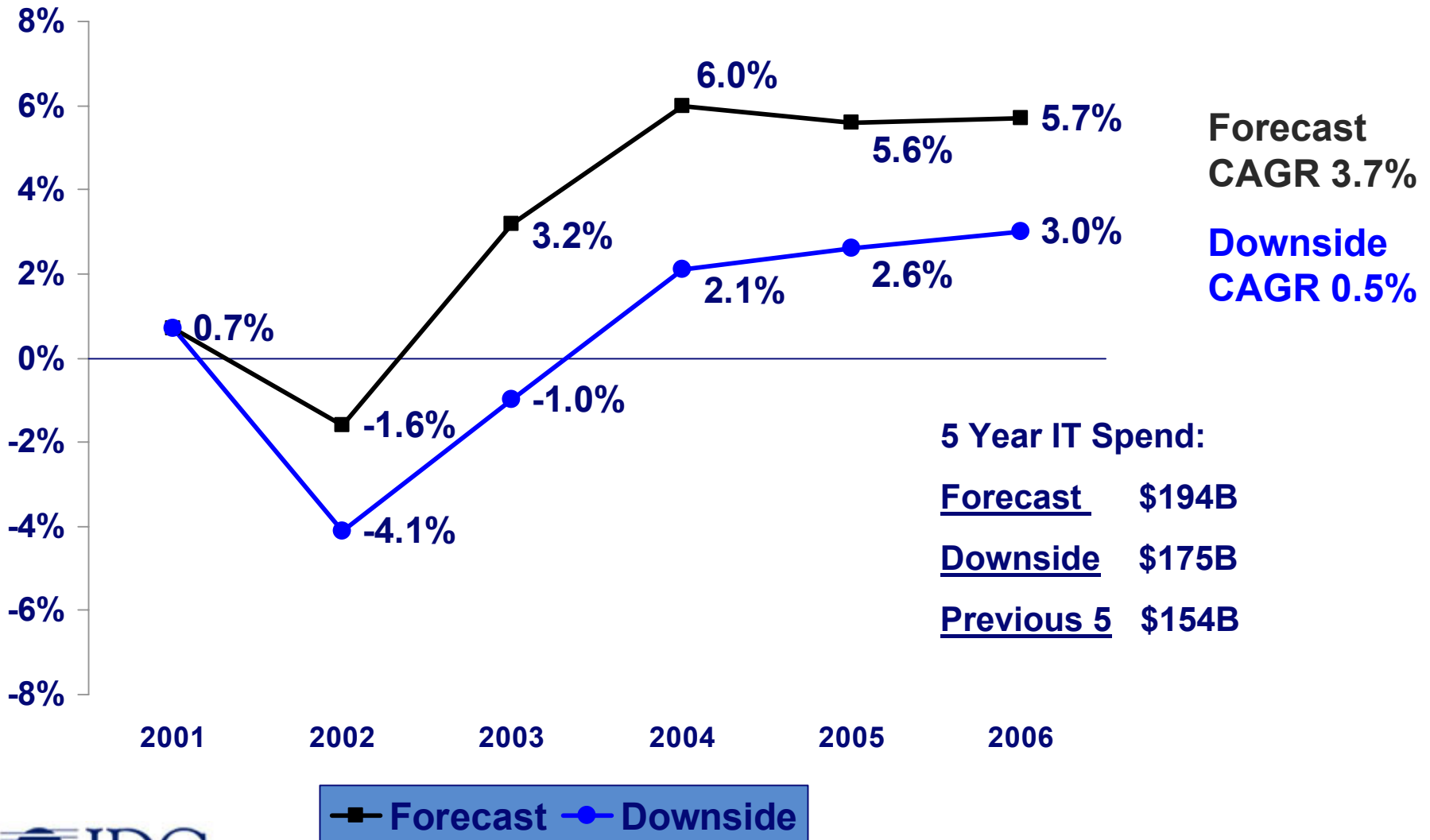


Canadian IT Growth Rates by Market

Software and Outsourcing Lead Growth

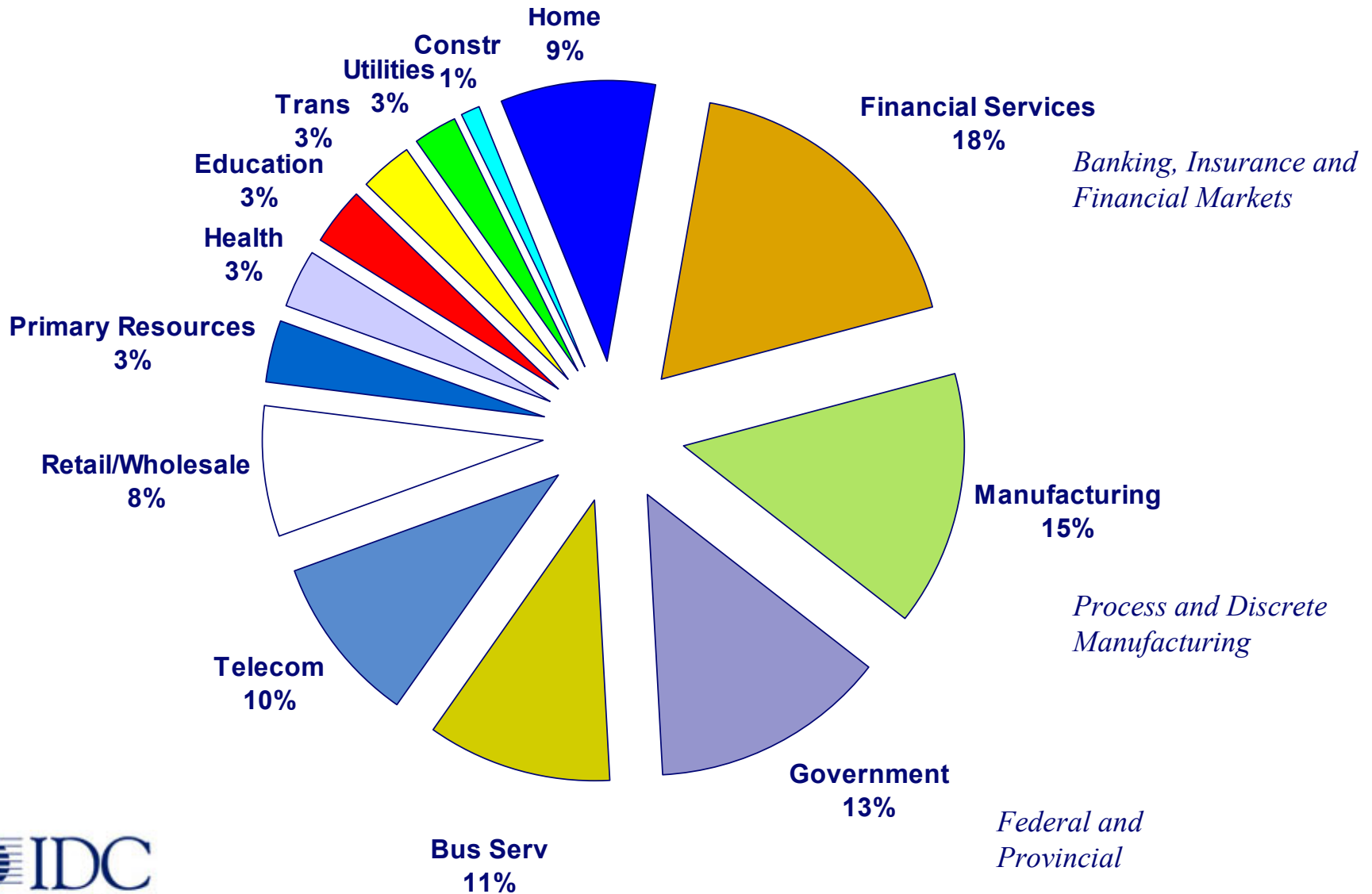


Canadian IT Market 2001 to 2006 Forecast and Downside Scenario



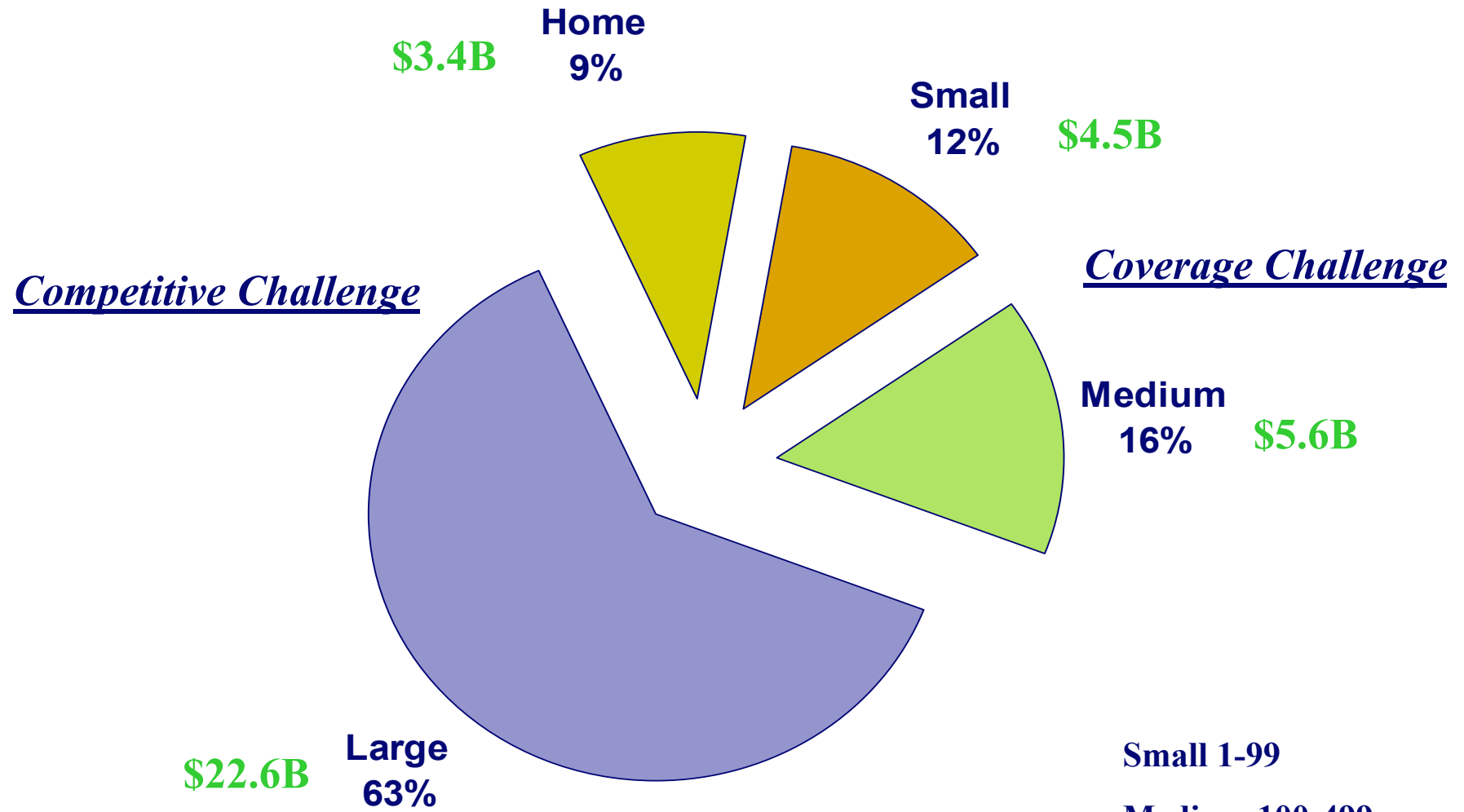
Canada - IT Spending by Industry

Total Public Sector is Largest Vertical



Canada - IT Spending by Size

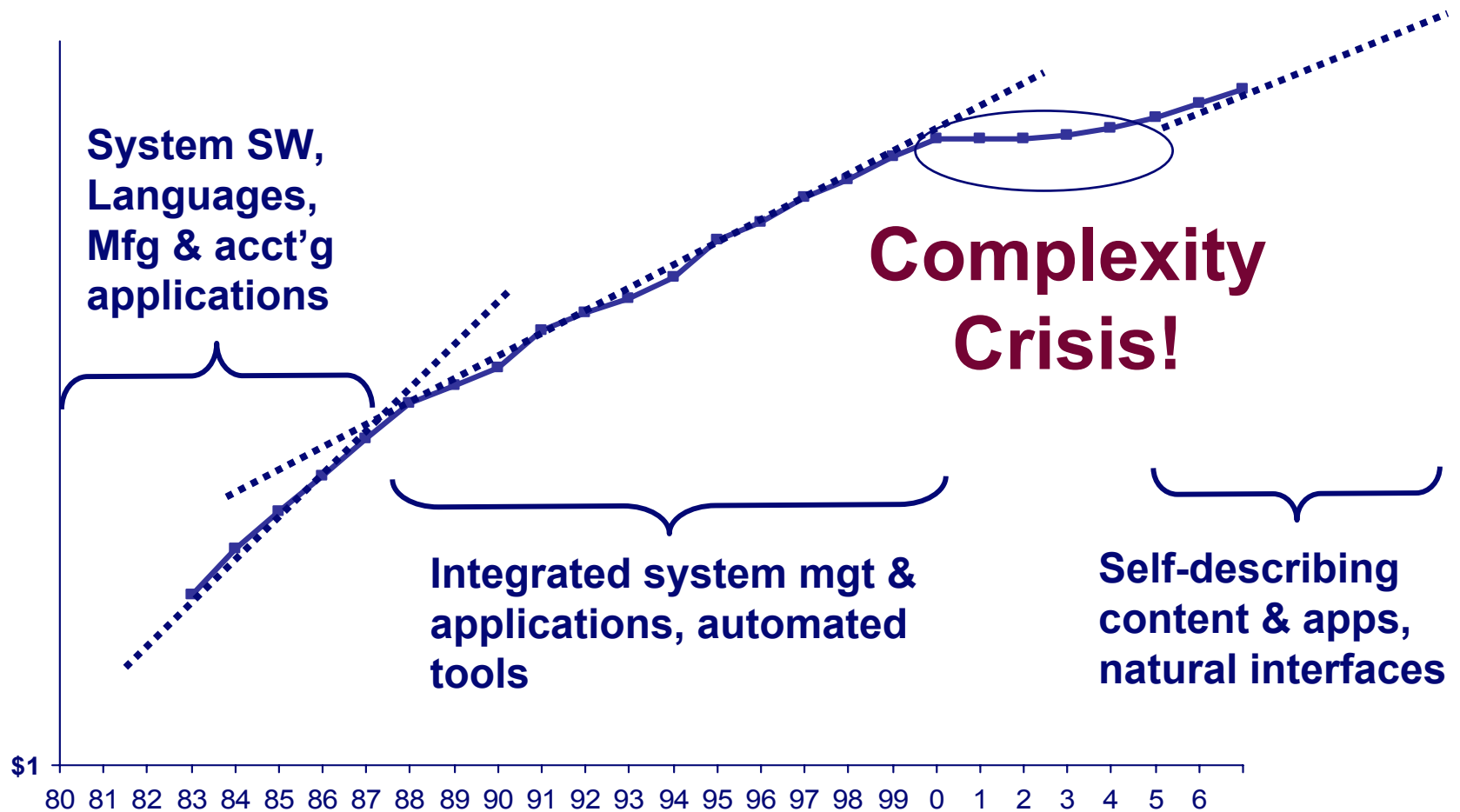
Lure of Large vs Access to SMB



Software Market Perspectives

The Software Shift

Log of WW Software Revenues



Software Market Drivers

- **Crisis of Complexity in Enterprise Software**

- Integration of new and existing SW modules is top priority

- **Software License Model**

- Annuity Model - Metrics based on business value of software

- **Business Process Management**

- Shift from physical infrastructure management to business process management

- **Focus on simplification of IT – Software Examples**

- Information search/retrieval/integration and analysis
- Device and interpersonal communication
- Security, Identity and Authentication
- Automation and Integration of Business process
- Hardware and network utilization and management

Simplification Becomes Hot

Highest Growth
Software
Markets
CAGR 2001-
2006

- Mobile **Middleware**, 50%
- XML Database **Management** Software, 44%
- Enterprise **Information Portals**, 41%
- Speech Processing Applications, 33%
- Translation/Globalization Applications, 33%
- **Messaging** Applications, 31%
- Distributed **File System** Software, 28%
- Packaged Datamart/**Data Warehouse**, 26%
- Content Mgmt & **Retrieval** Applications, 24%
- Product Information **Management** (PIM), 23%
- **Security** 3A's, 22%
- Storage Resource **Management** Software, 22%
- **Logistics**, 20%

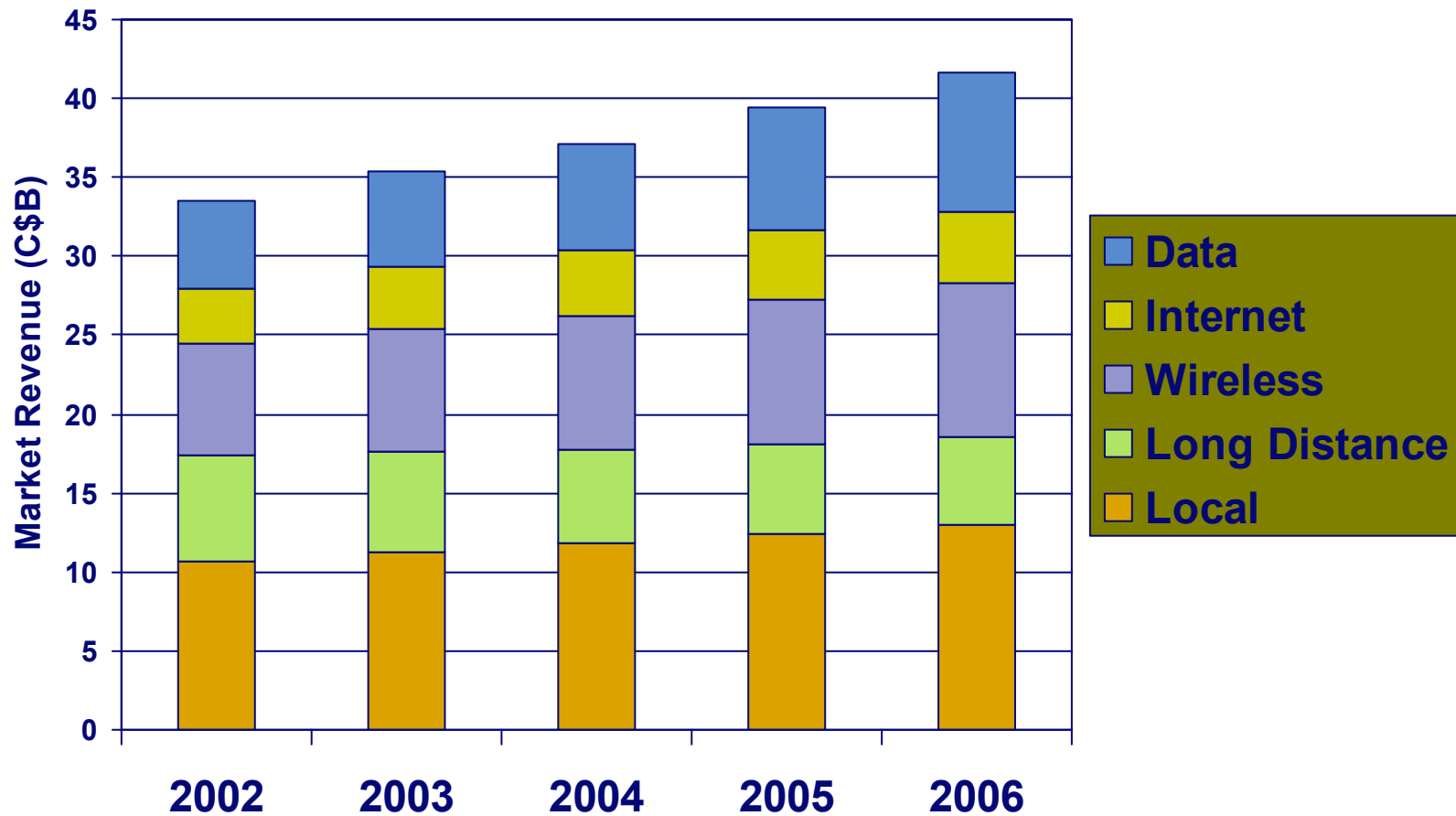
Telecommunications Services

Canadian Telecom: 2003 the Year of Inflections

- 1. The gap between revenue-versus-capex spending will widen further in 2003;**
- 2. Consumers will account for more revenue in the local telephone market than business customers;**
- 3. Telecom DSL penetration will surpass cable modems in the high-speed Internet access market;**
- 4. Global wireless adoption will exceed the wireline access lines;**
- 5. Non-PC device use will exceed personal computer penetration; and**
- 6. Migration of data network architecture to IP VPN will supplant VPN use and further drive the adoption of a single, all-IP-based platform by the end of the decade.**

Canadian Telecom Market Forecast 2002-2006

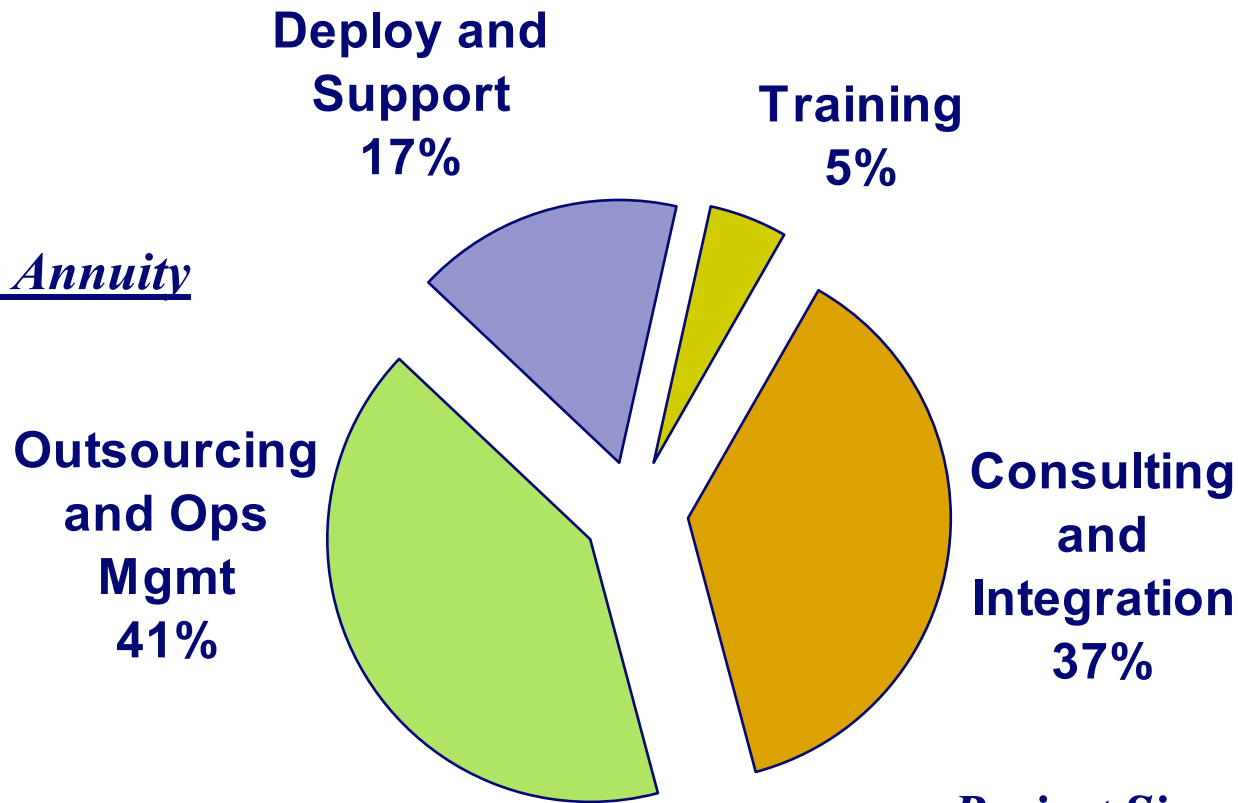
Wireless and Data Drive Growth



IT Services Perspectives

Canada Services Spend 2003 - \$16B CDN

Outsourcing largest spending segment by 2003

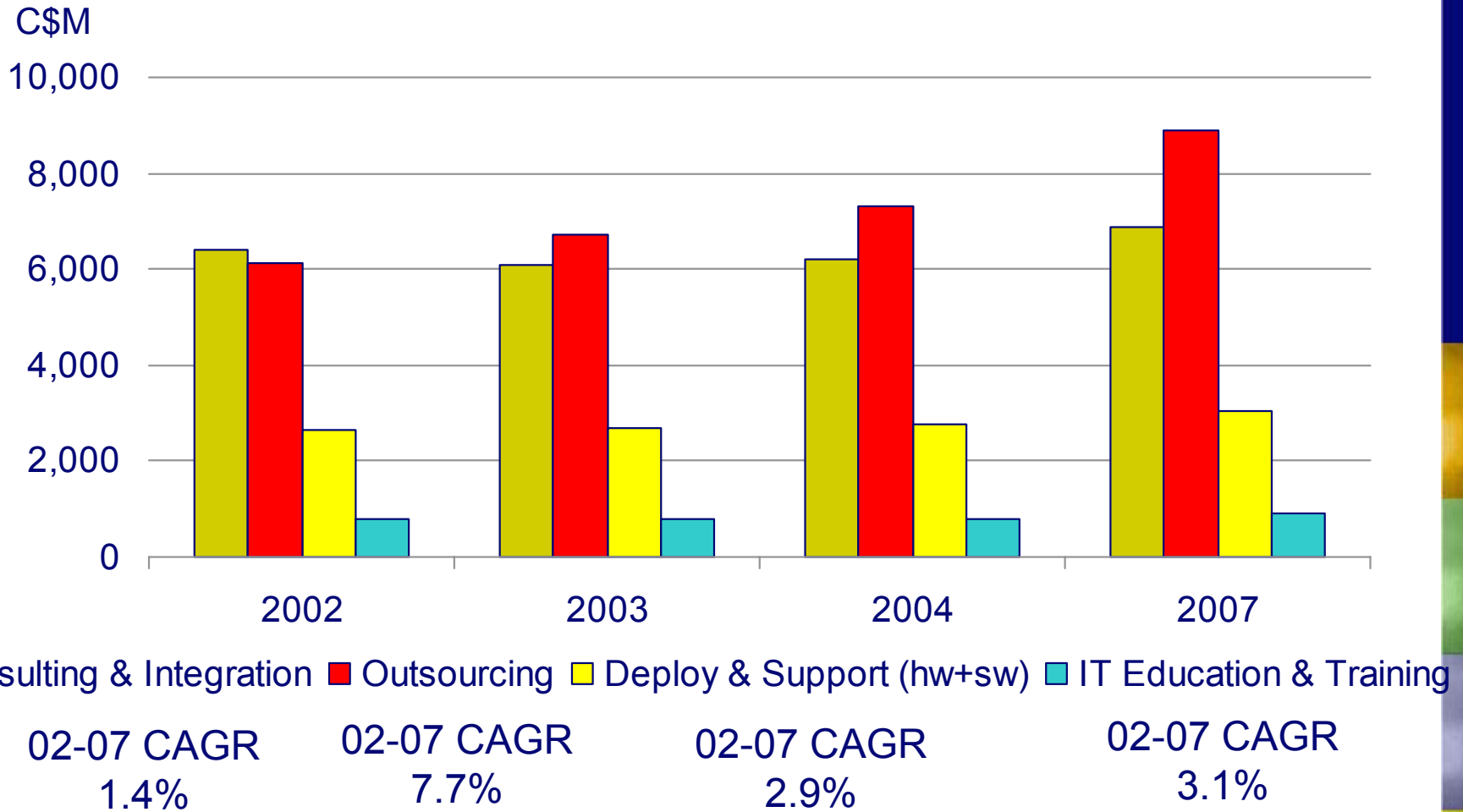


Declining Annuity

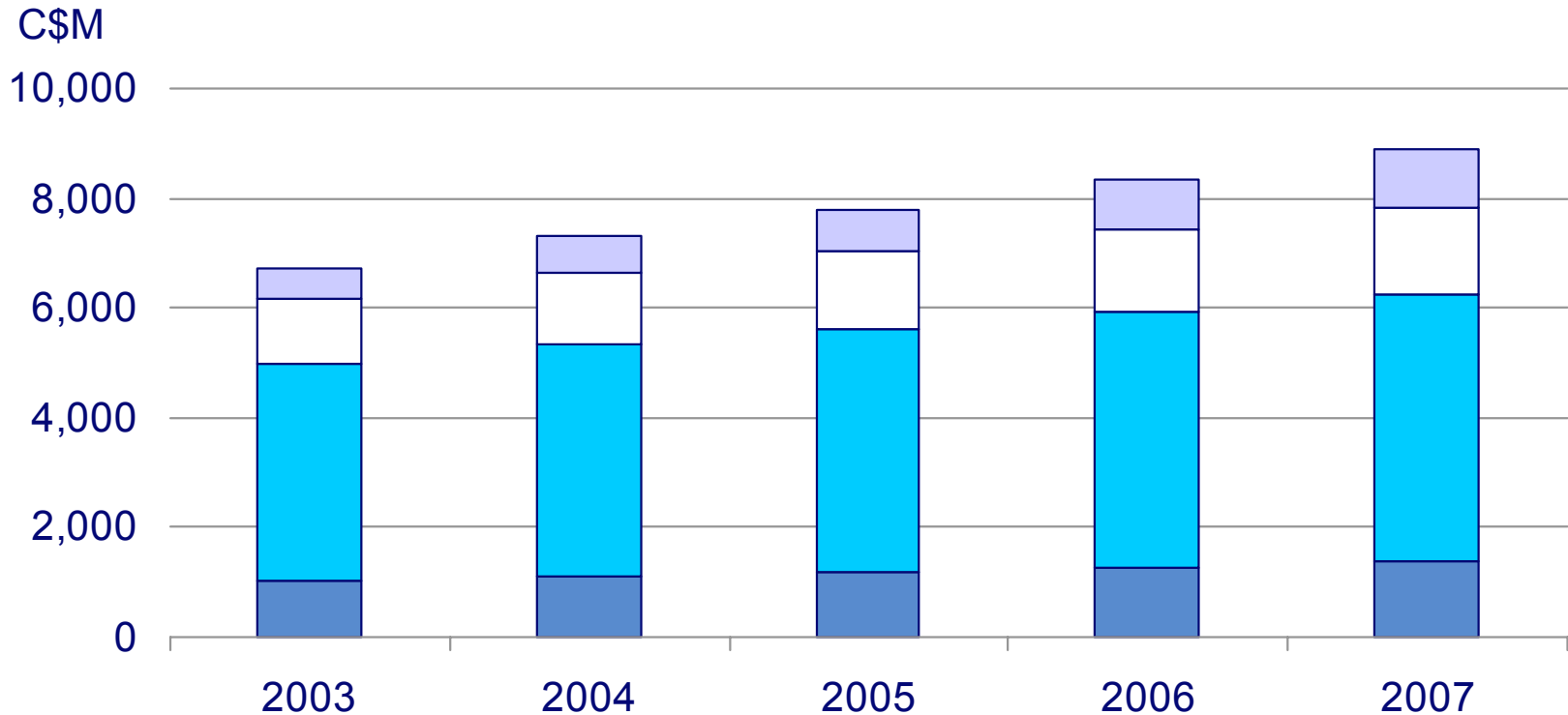
Project Size and Competition Challenge

New Delivery Models

Canadian IT Services Spending

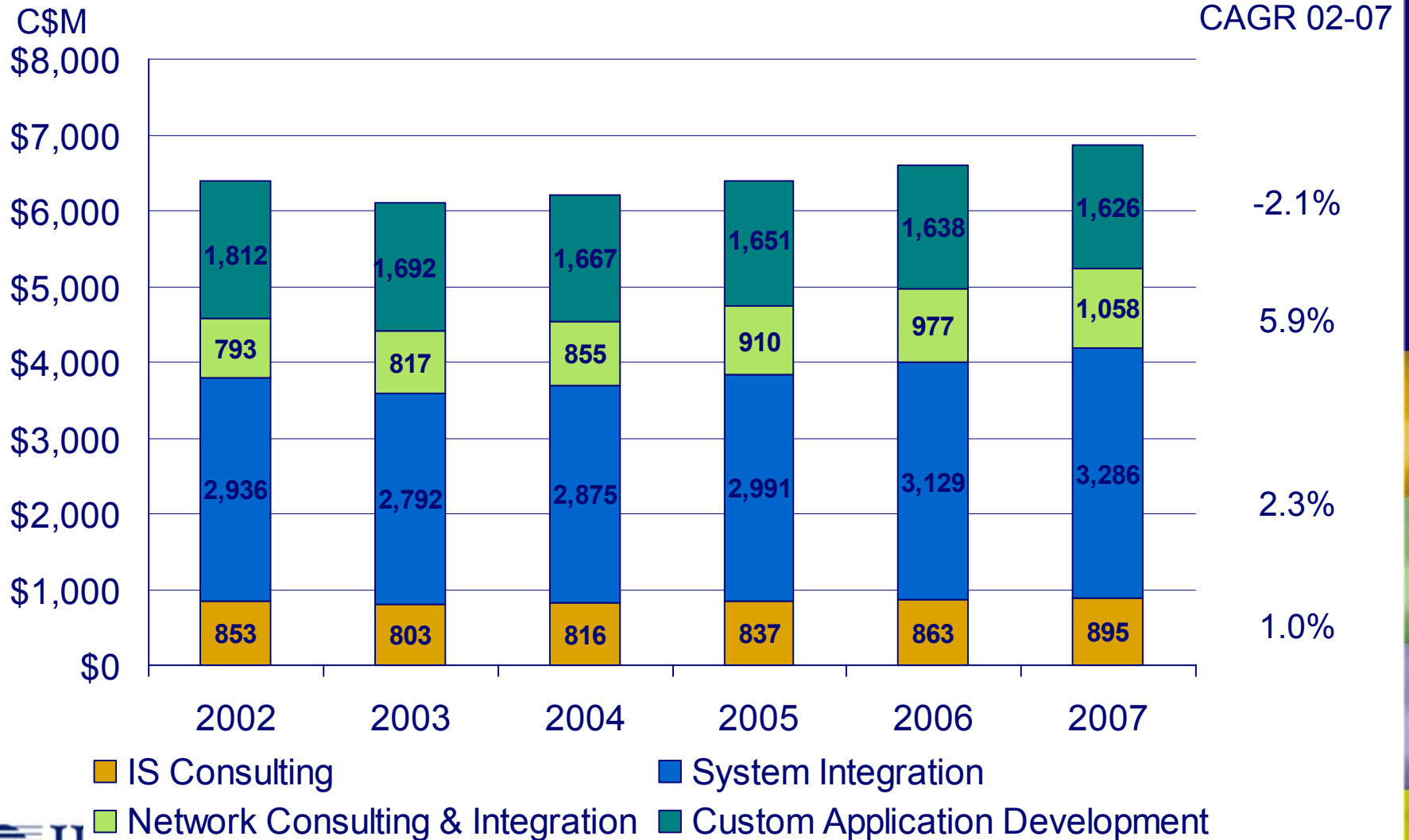


Canadian Outsourcing Services Spending



- IT Services XSPs (Sys. infrastructureSP + AppInSP)
- Network and Desktop Outsourcing
- IS Outsourcing
- Application Management

Canadian Consulting and Integration



Focusing on Consulting & Integration

Currently contracting market

- No killer app
- Lower future growth
- More intense competition
- Severe Price pressure

Consolidation continues

Strategic sourcing growing in importance

Spending on services solutions (CRM, BI/KM, SCM, etc.) is growing faster than the professional services market as a whole.

Increasing focus on upper mid-market space

Target niches and specialize by industry

Top Canadian IT Services Firms

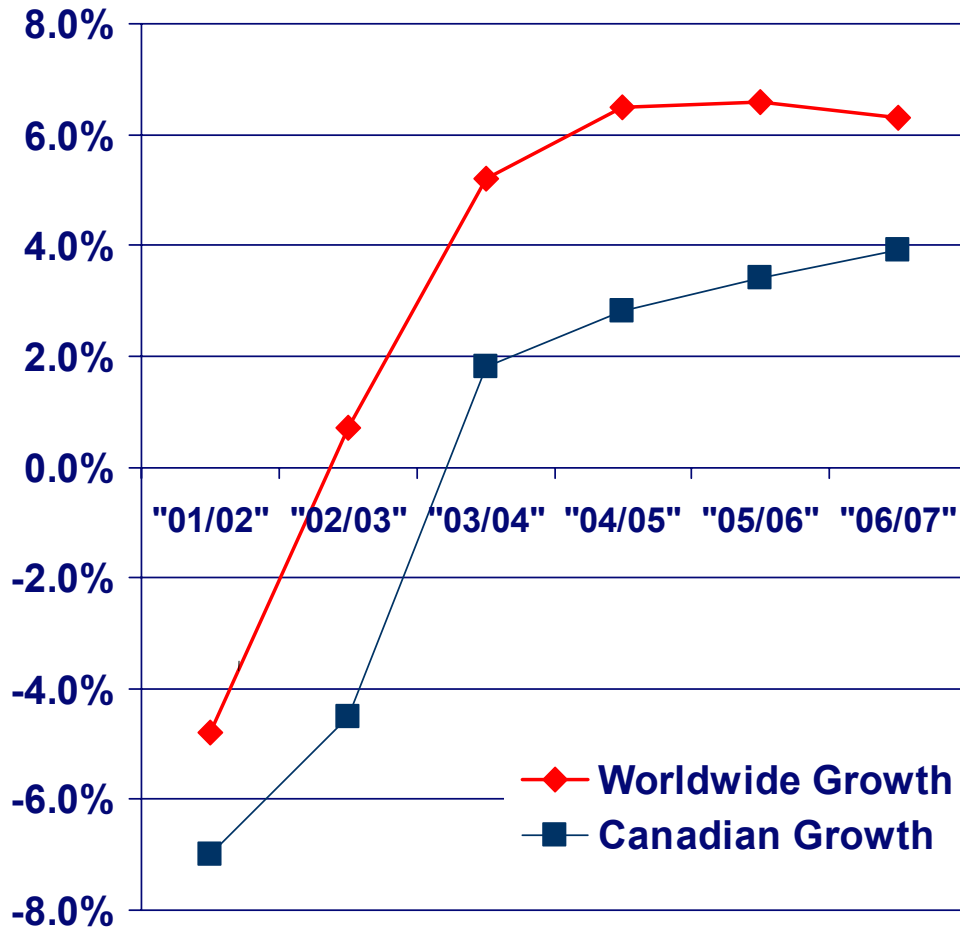
| <u>Estimated Canadian Services Revenues*</u> C\$M | <u>FY2002</u> | <u>C&I%</u> |
|--|---------------|-----------------|
| 1. IBM Global Services Canada (incl. PwC Consulting) | 2,885 | 30% |
| 2. CGI Group | 1,568 | 24% |
| 3. EDS Canada | 1,220 | 34% |
| 4. HP Services Canada (not incl. Intria-HP) | 850 | 19% |
| 5. Cap Gemini Ernst & Young | 380 | 34% |
| 6. Cognicase | 375 | 32% |
| 7. Accenture | 307 | 75% |
| 8. TELUS | 293 | 9% |
| 9. CSC Canada | 284 | 5% |
| 10. Fujitsu Consulting | 260 | 76% |

Others: DC/Braxton \$218m; BearingPoint \$140m (90%+)

Source: IDC, 2003

IT Consulting & Integration Services

On the Road to Recovery



Single digit vs. double digit growth

Inhibitors

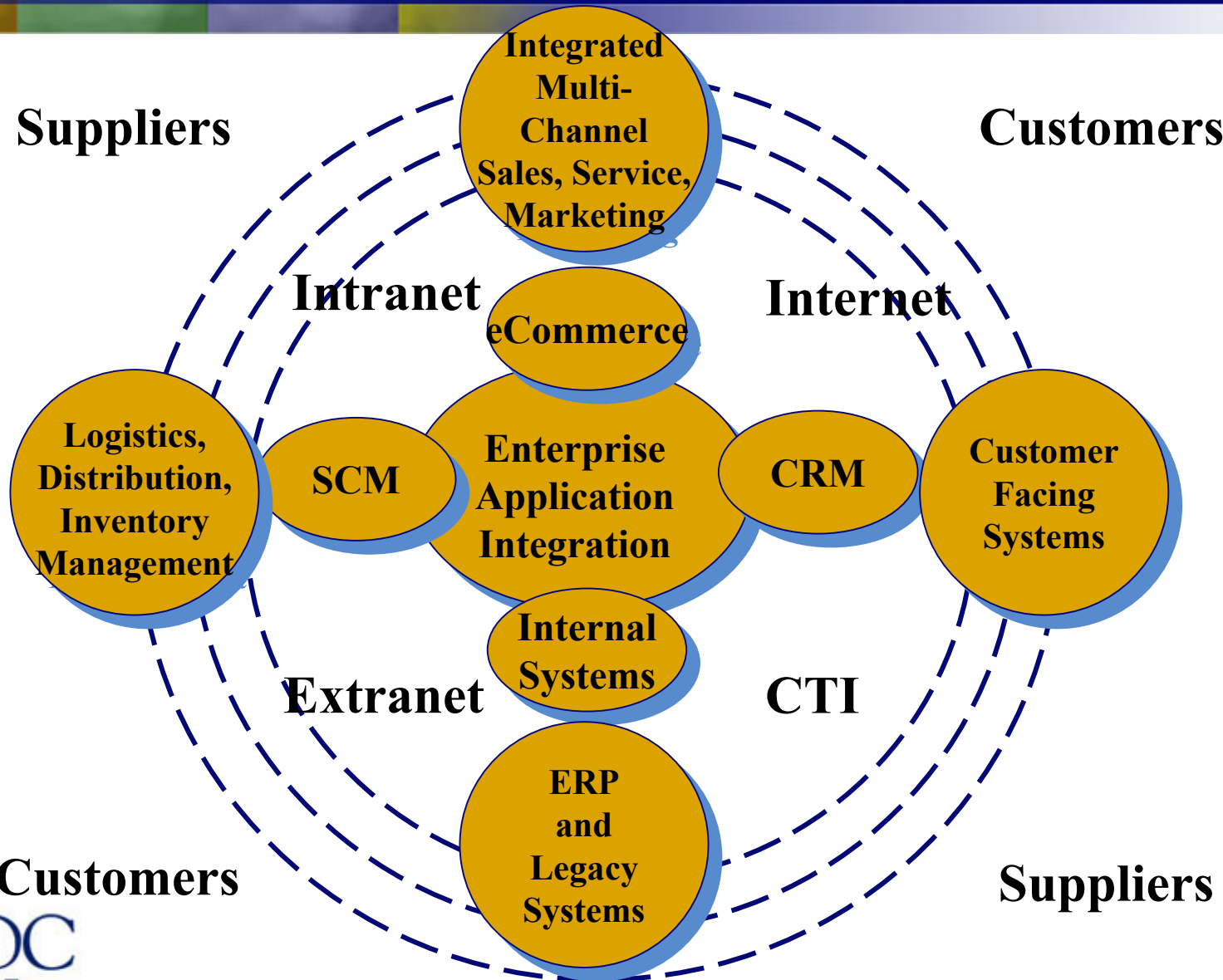
- Capital Investment dependent
- Declining business confidence in new projects
- Solution Integration scaled back to critical elements

Drivers

- Network consulting and integ high priority
- Infrastructure reliable and secure

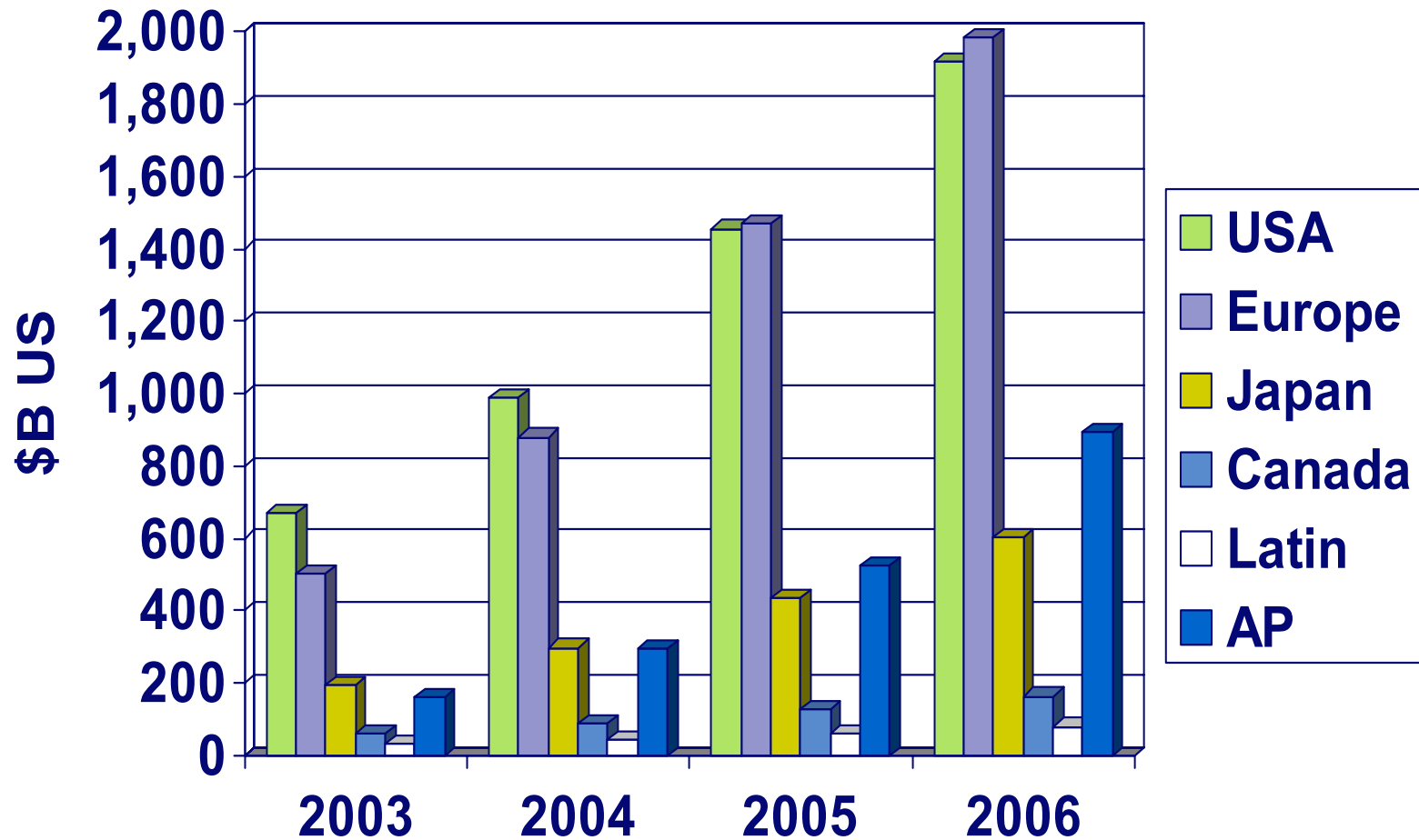
eBusiness and Solutions Services

The Extended Enterprise - eBusiness

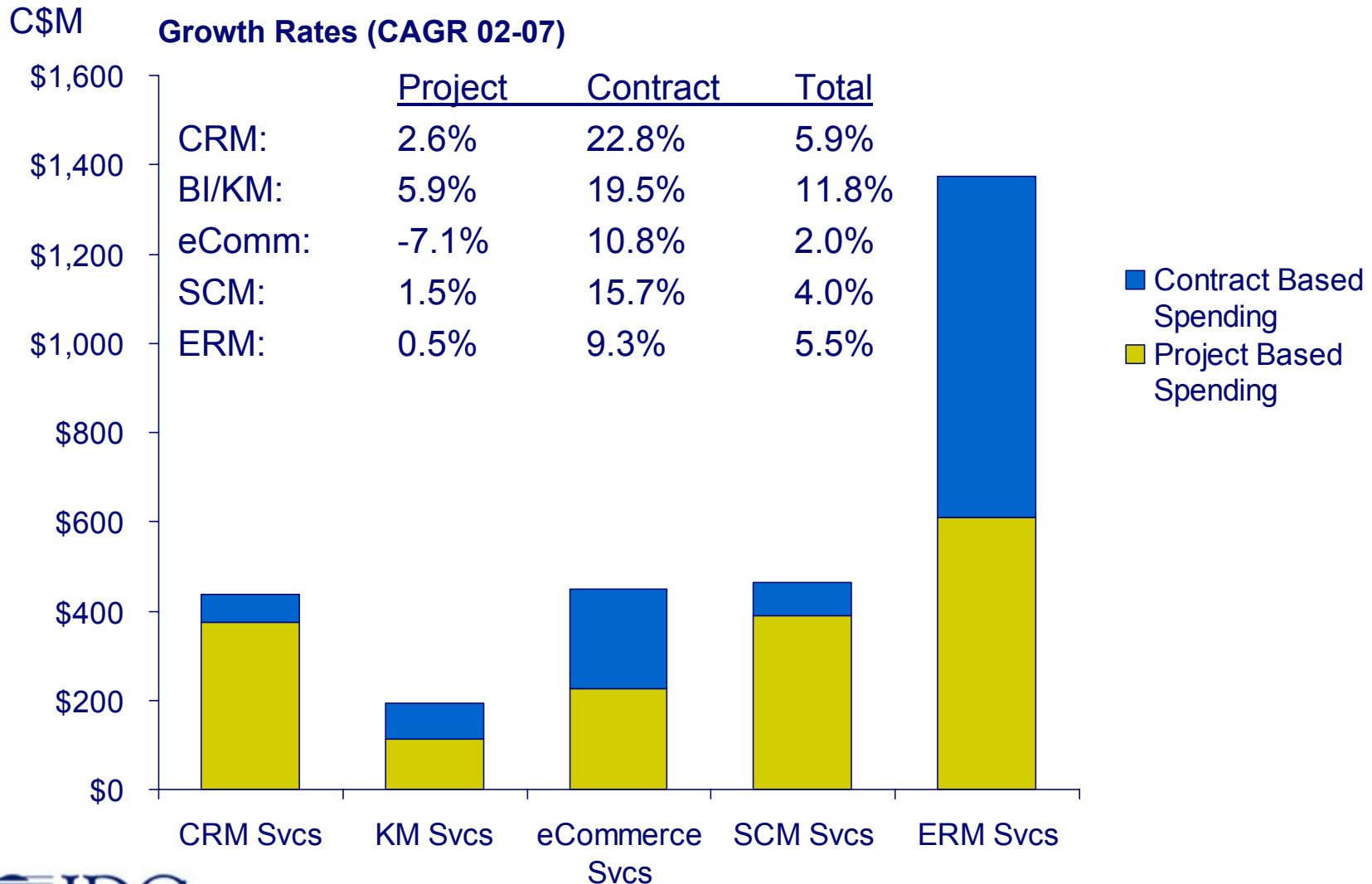


Internet Commerce

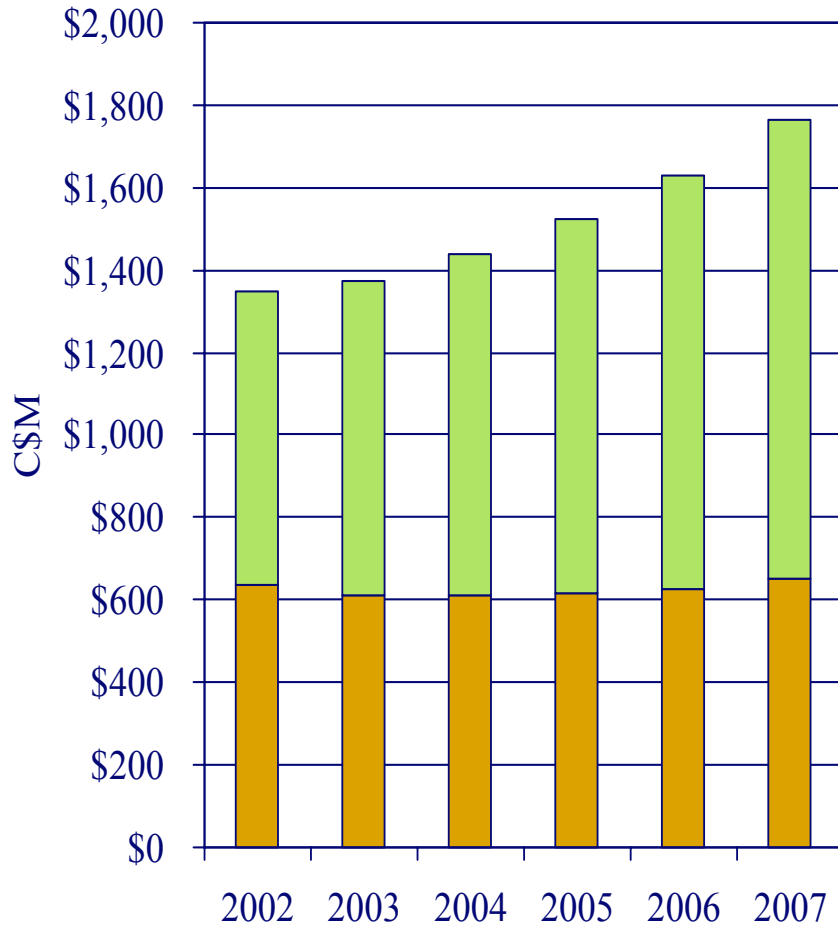
CAGR of 51% - Reaching \$4T WW by 2005



Canadian 2003 Solution Services Forecast



ERP Solutions



Most mature solutions market segment

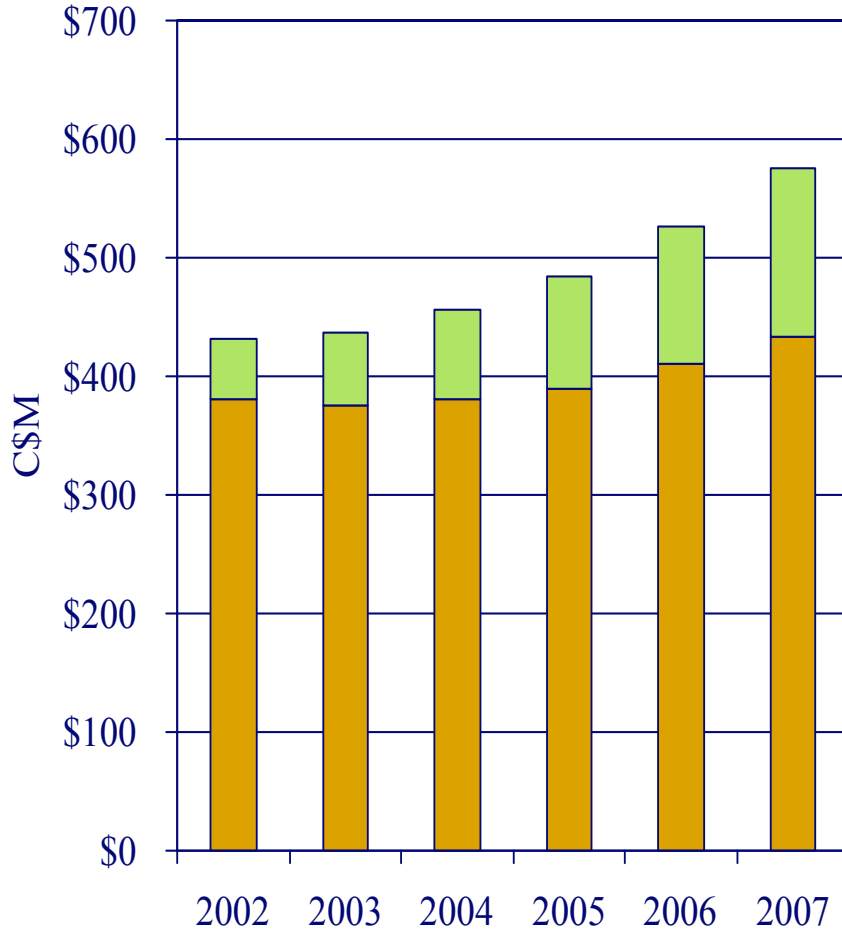
Highly penetrated in large business segment

Significant growth opportunity in the contract-based services category, namely application management/outsourcing

Mid-market segment next battleground

Mid-market characterized by small deal sizes partially offset by higher volume license sales and maintenance/support contracts

CRM Solutions



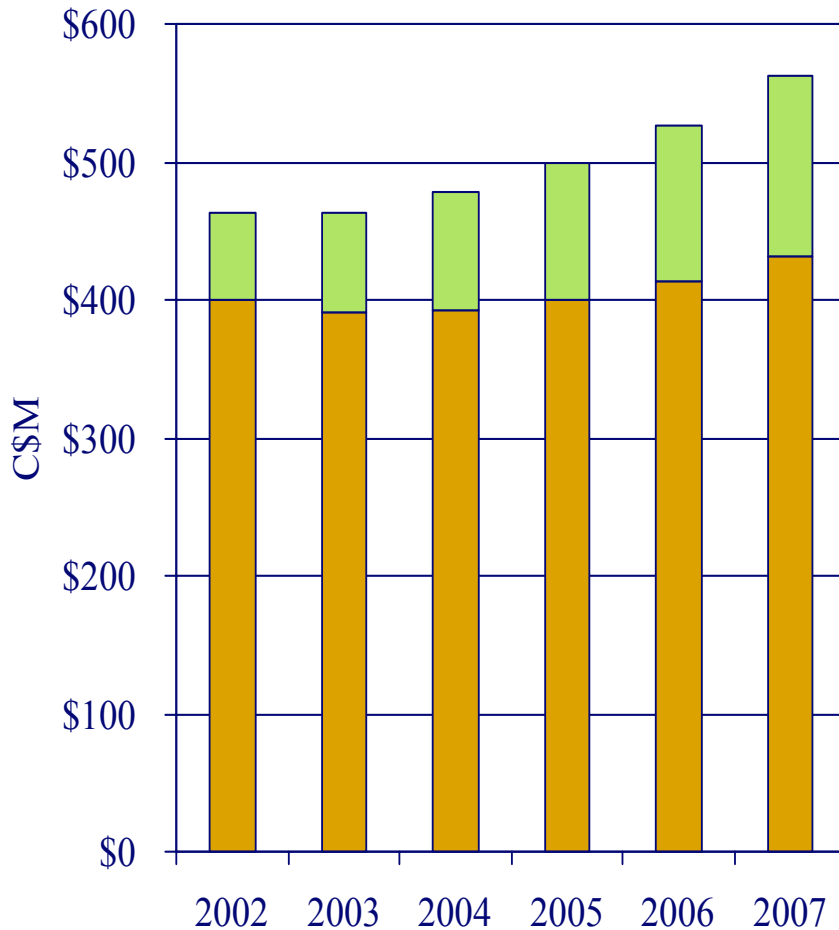
Integration dominates the services opportunity in CRM

Project-based services still expected to grow throughout the forecast period

Smaller, targeted solutions (SFA, MA, Call Center) provide opportunities in wide range of business size categories

Strong ties to complementary IT solutions, i.e., wireless

SCM Solutions



Targeted SCM offerings fairly recent offering (as separated from ERP)

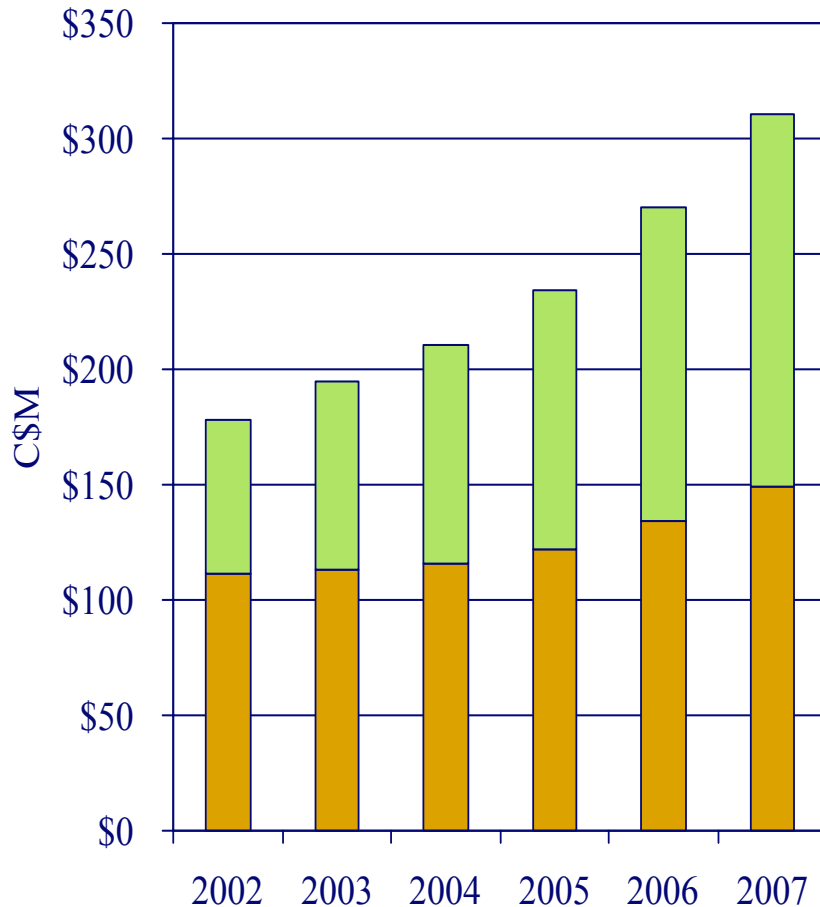
Dominance of process and product industries

Project-based services relatively flat

Higher growth, smaller size (currently) in application management services

Procurement and collaboration commerce components still have room to grow

KM Solutions



■ Project ■ Contract

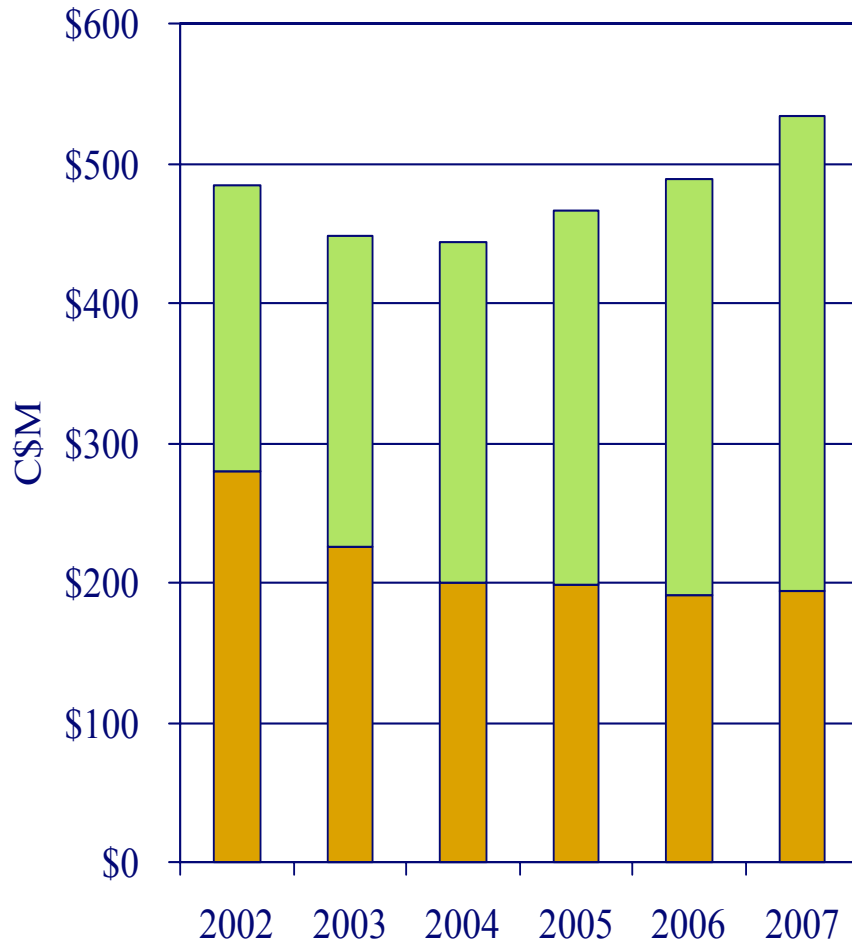
Strongest performer of major solution offerings

Benefiting from the cost reduction/process improvement business imperative

Growth in associated application areas: content management & document management

Significant consulting requirements due to importance of business process optimization and people (using and capturing organizational knowledge)

eCommerce Solutions



Market potential damaged by the failure of dot.com businesses

Businesses reassessing and postponing B2C ecommerce projects

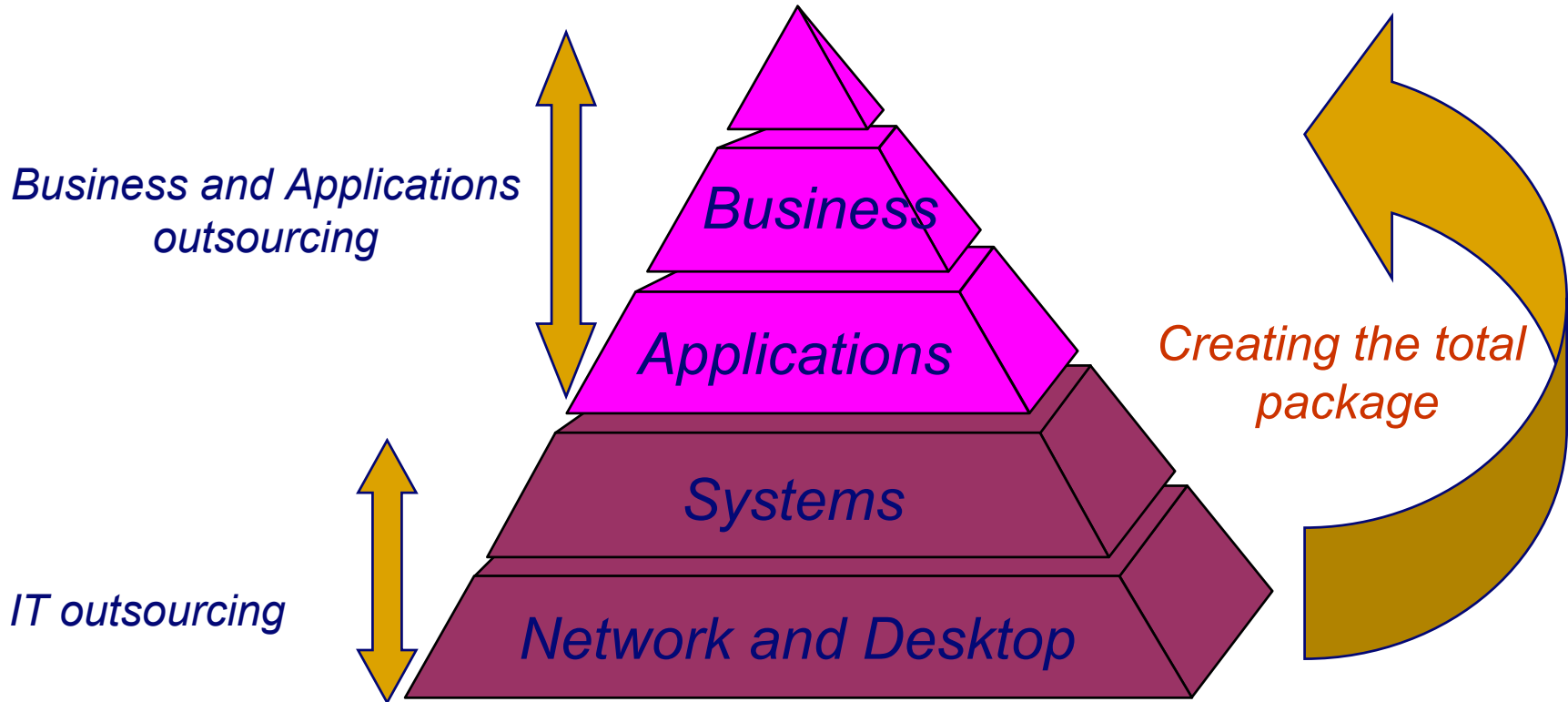
Those with operating projects are engaging suppliers for management services (applications (deployment/support and AM) and IT)

Strong ROI and business case requirements

Outsourcing

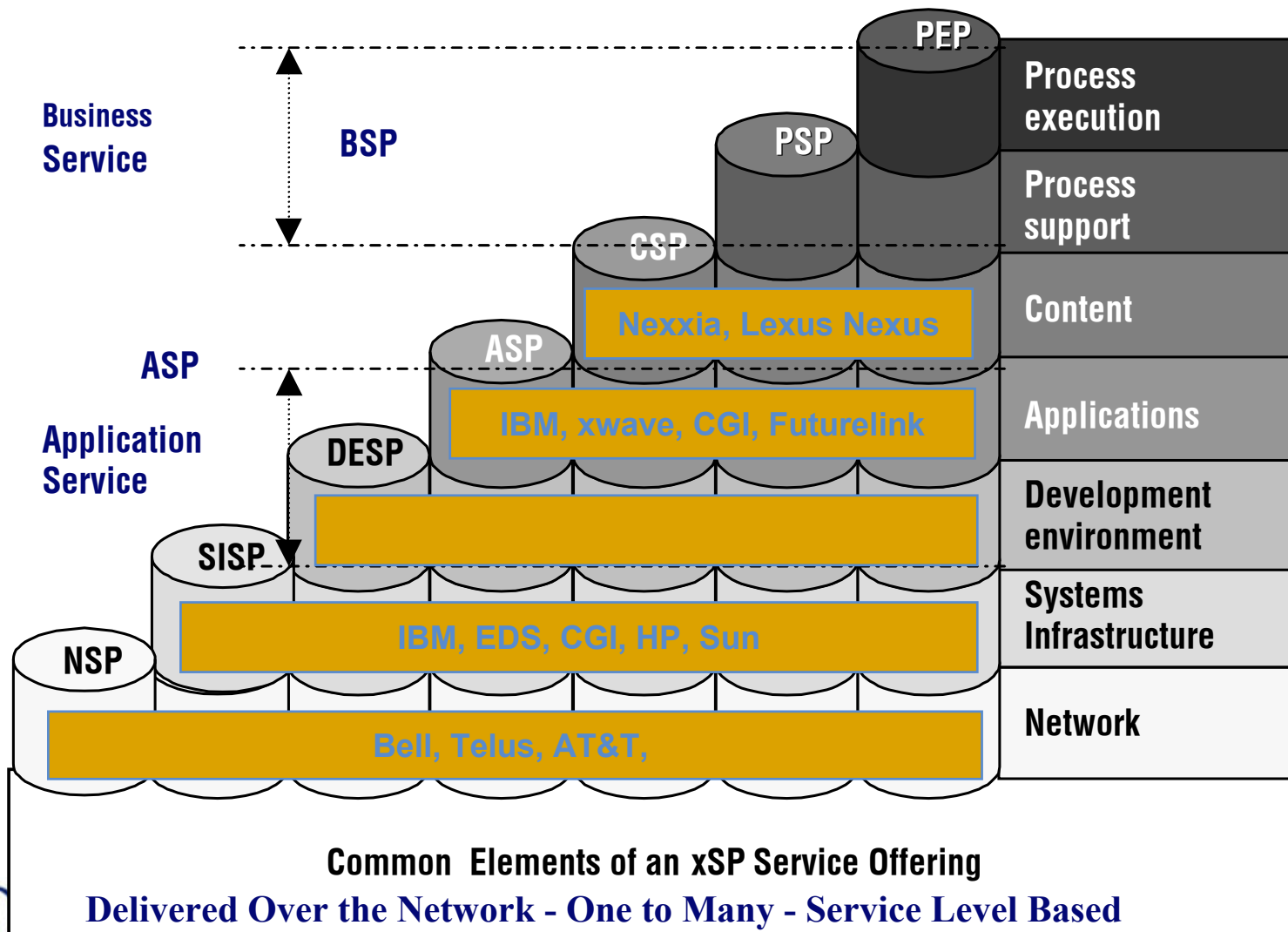
The Big Picture in Outsourcing

Driving towards BPO Model



Driving towards Utility Model

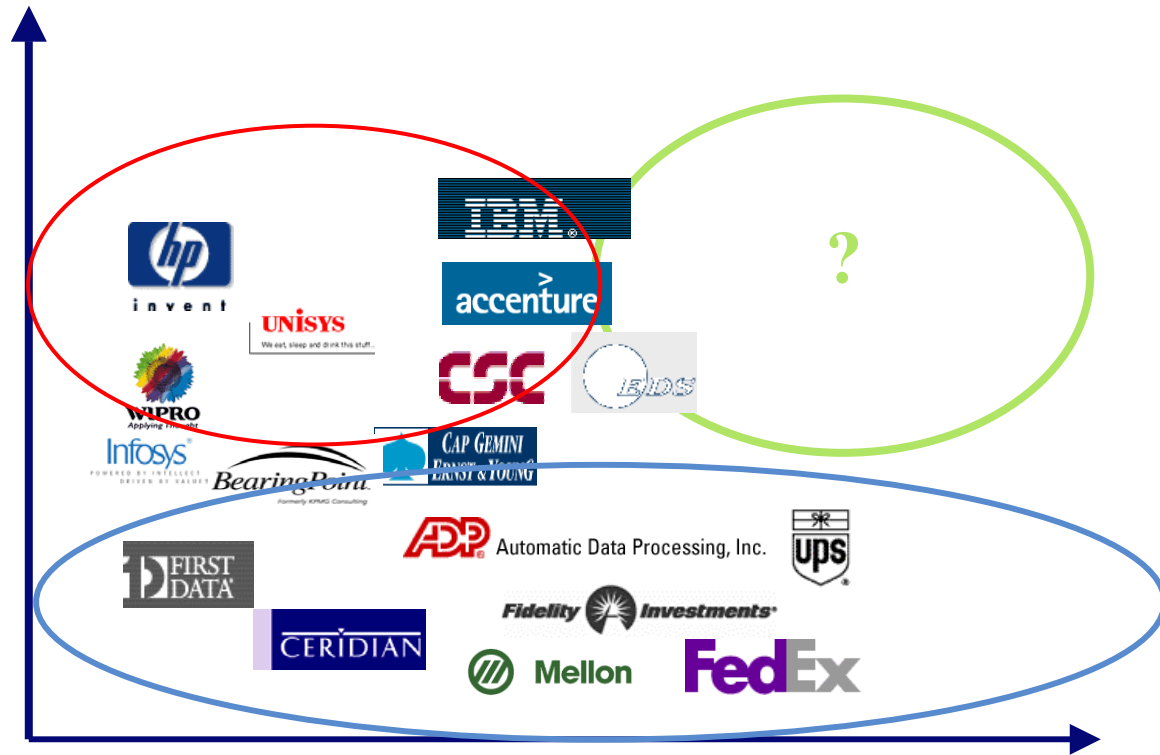
The Model of Hosting/Utility Delivery: The xSP



Leadership Grid for New BPO Players

Ability to Gain Share

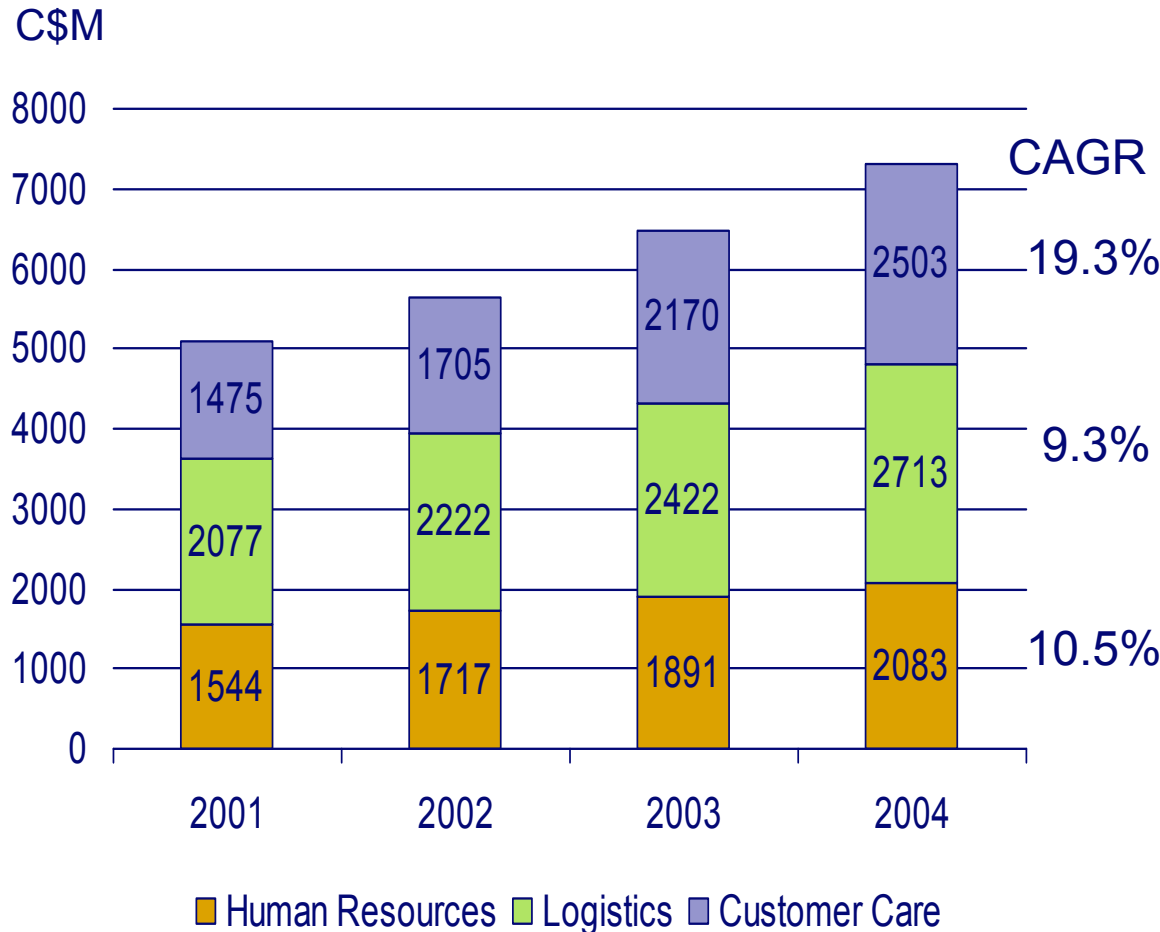
1. Deep Technology Skills
2. Financial Strength
3. Cultural Fit
4. Change Management
5. Offshore delivery



Opportunity Alignment

1. Deep Process Skills
2. Breadth of BPO value chain coverage
3. Lower Operating Costs
4. Responsive and meets SLAs

Selected Canadian Business Outsourcing Opportunities



Large businesses now seeing BPO as acceptable

Human Resources

- Most spending on payroll, benefits and pension admin
- Companies look at outsourcing HR activities above others

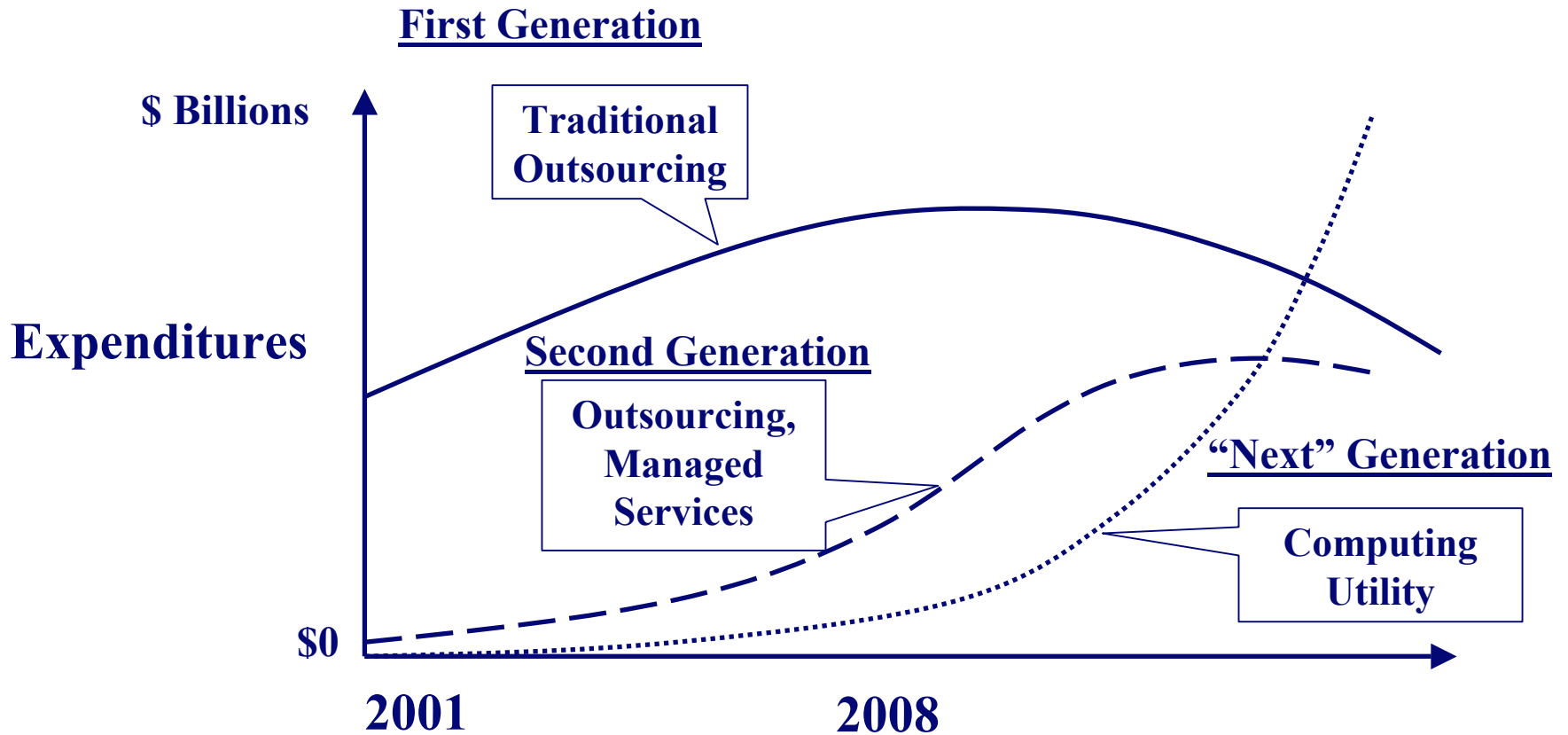
Logistics

- Logistics planning and IS management still small but growing

Customer Care

- Canada is low-cost delivery model for U.S. clients

Utility Computing: An Evolution

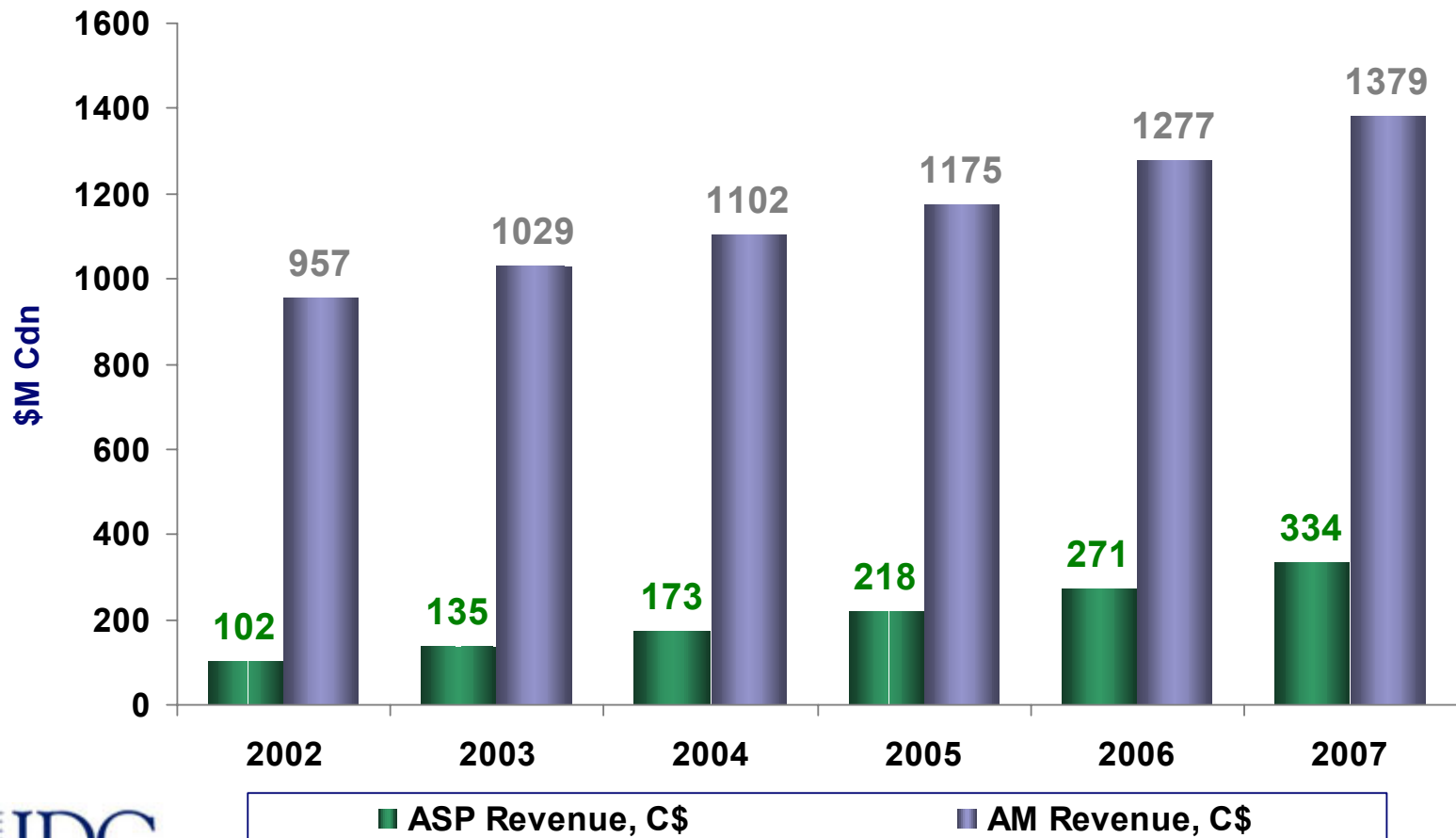


Application Outsourcing

Application Outsourcing Market Forecast

Total AO Spending Approaches \$1.7B by 2007

AM forecasted to grow at a CAGR of 7.6%, revenue close to C\$1.4 billion
ASP more aggressive adoption rate needed to grow revenue, CAGR of 26.8%



Key Apps Outsourcing Trends

Buyers:

- A total of 45% of Canadian businesses surveyed spent less than 10% on application outsourcing
- Focusing on core competencies still key reason to outsource apps
- Retaining control still key concern

Vendors:

- Competition for sustainable market share accelerates
- Contributing factors include lower contract values, shorter periods, greater number of wins needed

Key Apps Outsourcing Trends

Opportunities:

- ❑ *Almost one third of application outsourcing revenue is earned from contracts outside of Canada*
- ❑ *Percentage expected to increase as Canadian providers capitalize on US based outsourcing*

Trends:

- ❑ *Appetite for selective apps outsourcing increases, customers look for rapid and economical solutions*
- ❑ *Vertical application outsourcing is an important vendor strategy*
- ❑ *Low brand recognition cited as an important inhibitor by a number of outsourcers*
- ❑ *High renewal rates can no longer be taken for granted, need to accommodate frequent renewals*

Nearshore Services

Defining the Terms

- Outsourcing:

- The transfer of ownership by an organization to a third-party supplier for the management and enhancement of ongoing operations for all or part of its IT infrastructure, IT functions, business processes, or business solutions.

- xshore outsourcing:

- An IT or business process that is being performed by a service provider that makes use of resources in a foreign country.
 - Offshore outsourcing typically refers to service provider operations in countries in Asia, Eastern Europe, and South America.
 - Nearshore outsourcing refers to service provider operations in a country in close proximity to the clients country of operations, i.e., Canada and the U.S.

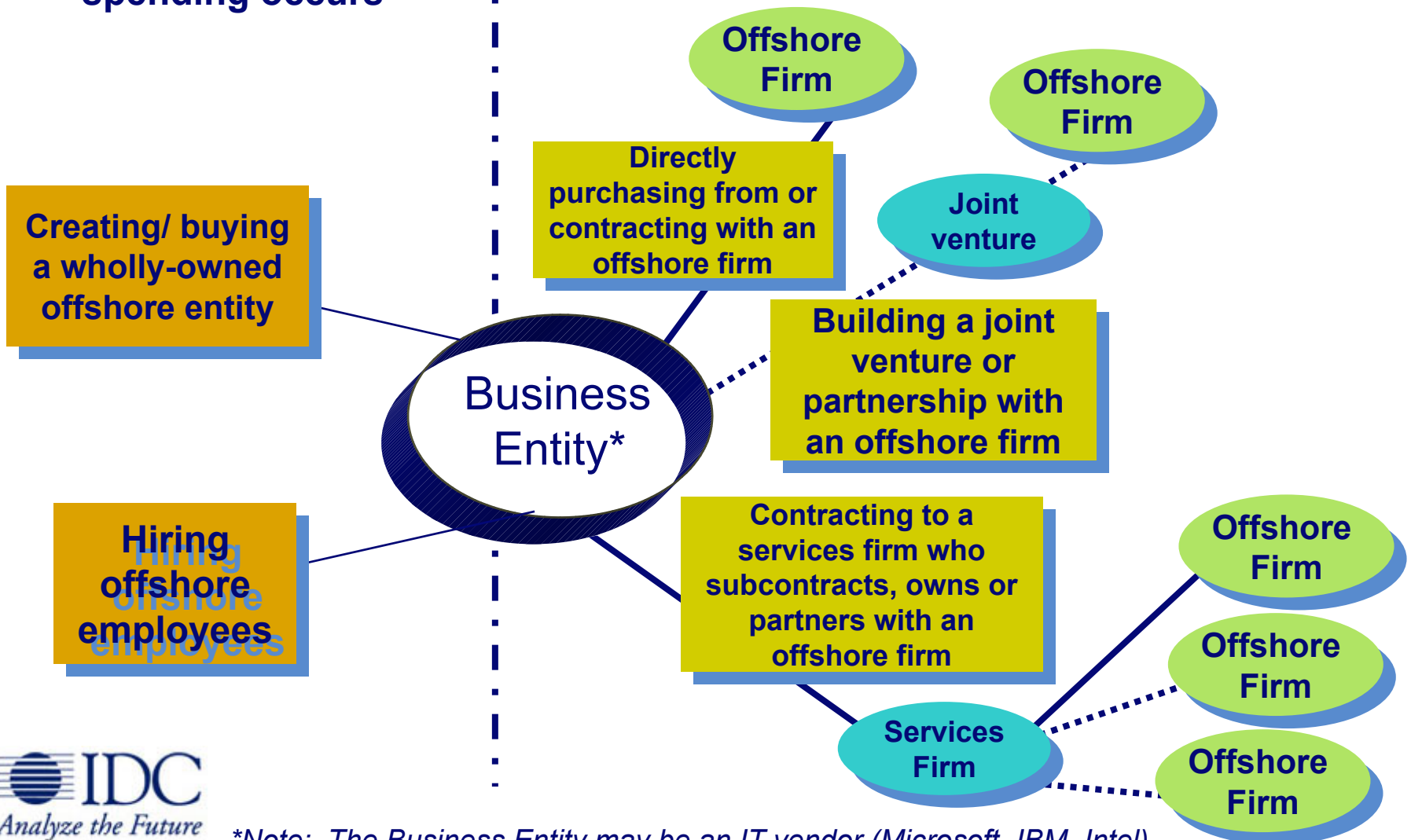
Why Examine the Nearshore Services Market?

- Canada is emerging as an important source of lower cost and much-needed services for the U.S. market
- Nearshore services is an approach proven to be particularly successful in many project-based application endeavors
- Previous IDC research demonstrates a unique Canadian value proposition including such considerations as familiar culture, proximity, time zone similarity and lower services costs
- Global sourcing is emerging as a key component of IT services delivery and understanding the role of Canada is critical

The Offshore Landscape: Multiple Options for Engagement

No external services spending occurs

External services spending occurs



*Note: The Business Entity may be an IT vendor (Microsoft, IBM, Intel)

The Evolving Competitive Ecosystem



Top Predictions

Drivers For Growth



The Internet



Business integration



Mobile & wireless



Security



Globalization

Hot Spots



Wireless LANs will take off – and put another hurdle in the way of the rollout of 3G services

Rationale

Wireless LANs adoption picking up (mostly 802.11b),

Carriers start using visitor-based networks ("hot spots") for high-speed Internet - new services revenues.

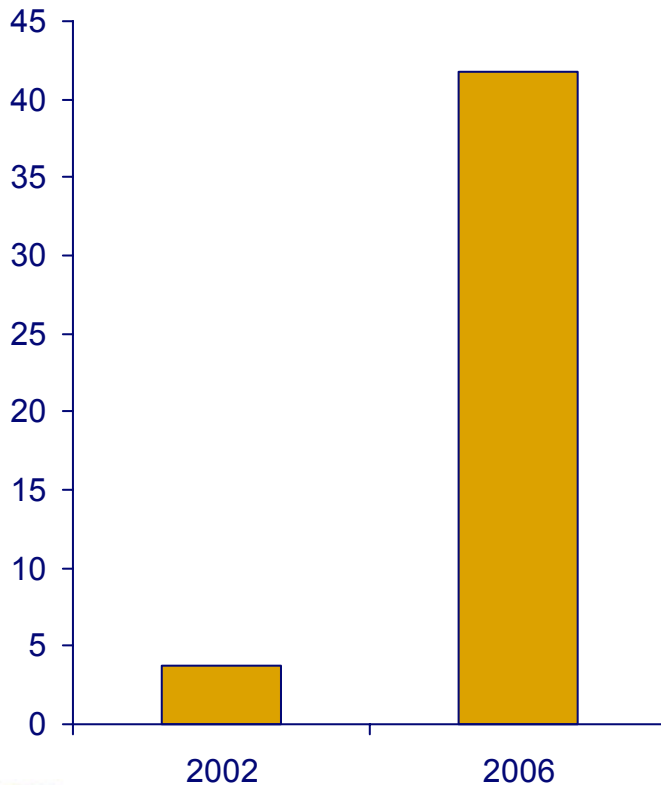
This will slow investment in 3G

Wireless LAN Adoption

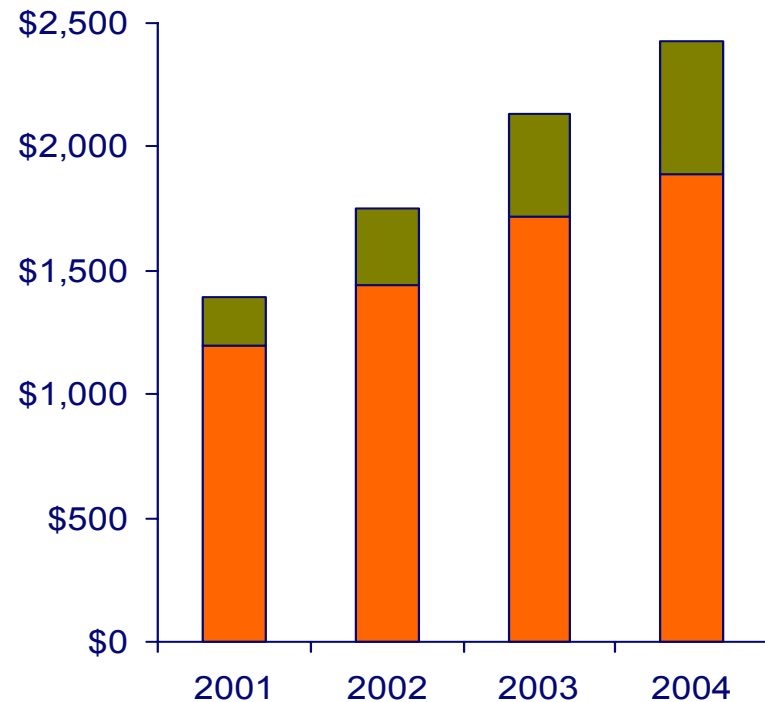
US Wireless "Hot Spots"

WW LAN Equipment

Thousands



\$Million



Business Consumer

Online Messages



Rationale

Guarantee: Online messages will go up
No guarantee: productivity will go up

Total number of emails sent in 2003 to grow 30% to 40 billion a day

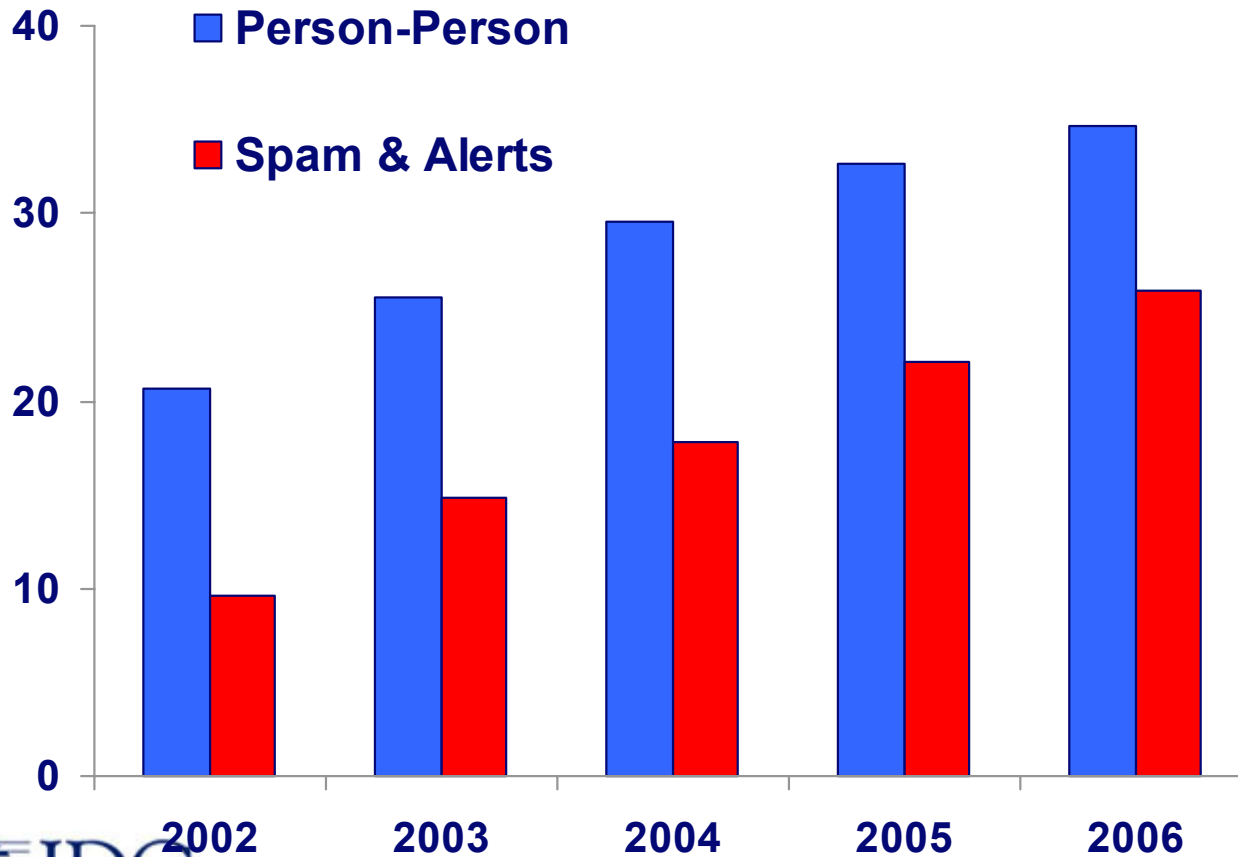
Corporate Instant messaging users will grow 100% to 30+ million

IM will add another channel and complexity requiring attention

Messaging Growth

Worldwide eMail Messages Daily

Billions



>40% of all messages sent are spam or automatic alerts

Maturing IT Market



Impacts vendor strategies

Excess capacity, decreasing margins, lower demand

Strategy for growth no longer based on market growth

Drive for profit gives no relief

Vendor Strategies in Maturing Market

Volume Provider

Enter/Create new commodity markets

Integrated Provider

Expand breadth of expertise + Vertical Focus

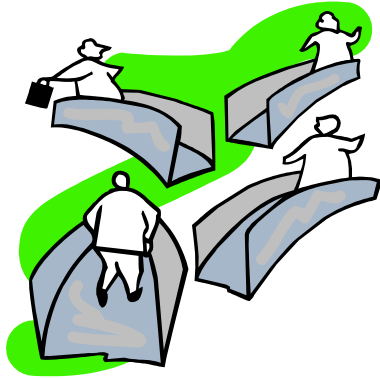
Pure Play Services

Expand breadth of offerings + Partner

Software

Stake claims on major markets + Partner

The Canadian Advantage



Rationale

Gains traction and results in action

Lower cost of operations

World leading infrastructure

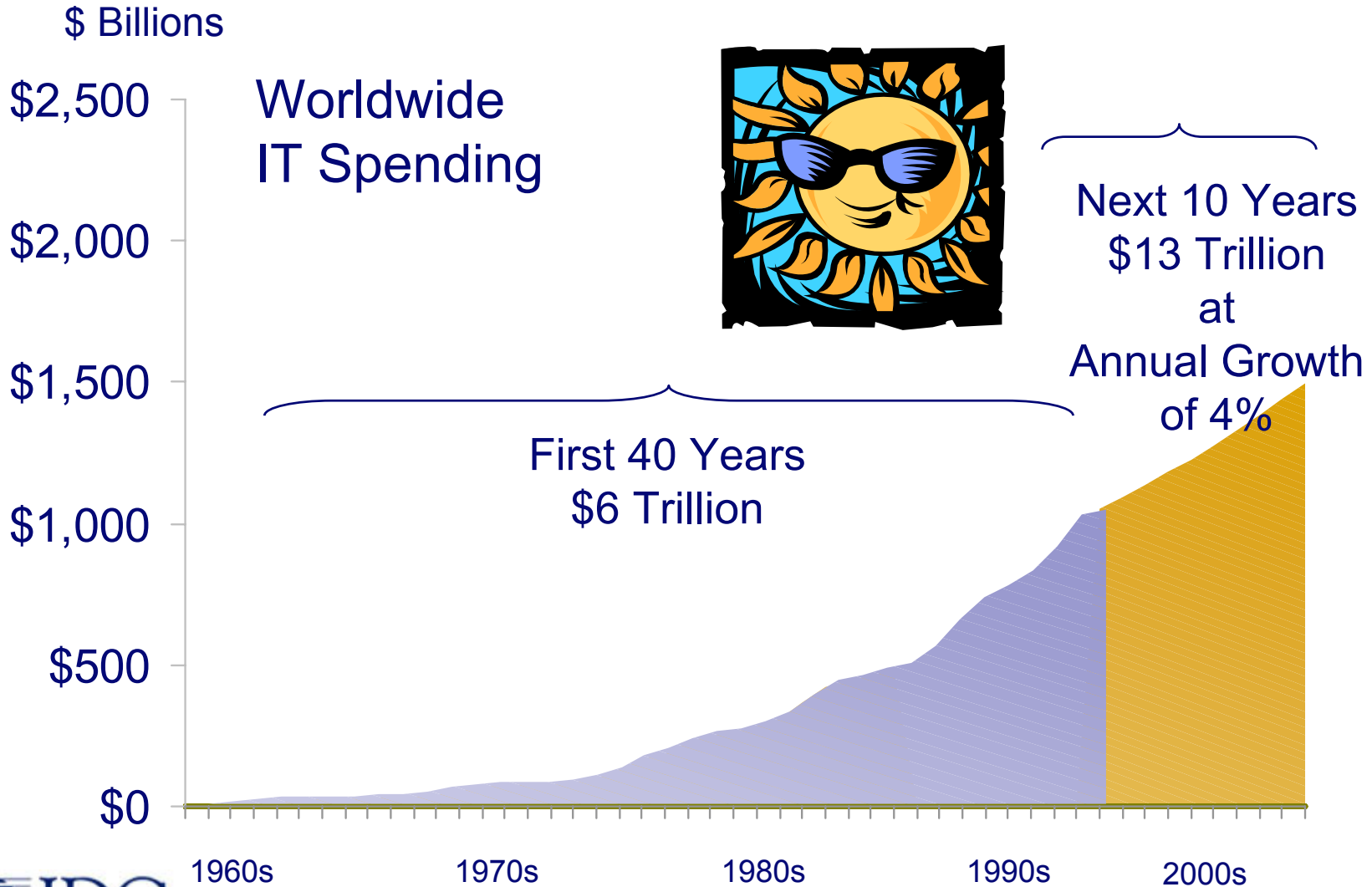
Skilled labour force

Access and Cultural/Business Alignment to the US



**Why are we in this
business?**

The IT Industry and its Bright Future!



Thank You!

Questions?

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