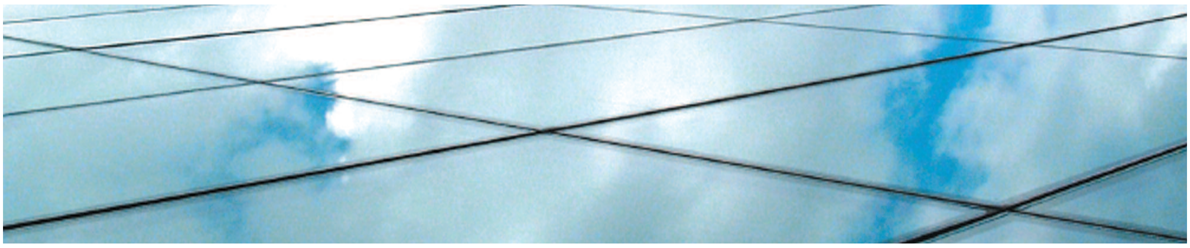
Issue 28 | June 2009

longhaus

longview

A PUBLICATION OF LONGHAUS

EDITORIAL
OPINION
REVIEWS



WELCOME

The first six months of 2009 have been made increasingly challenging for business in Australia due to the general uncertainty that permeates the supply and partner channels of our service-based economy. With services at our economic core, the knock-on effect for stalled ICT projects is increasingly fast-moving and potentially devastating.

Yet despite this uncertainty, change continues to creep into the ICT industry in the same way it has done for decades. There are winners and losers, and there are those sitting precariously in limbo.

This month, at the end of the financial year, we take a look at some of the changes that will have significant influence in how the economic recovery will affect the service and technology relationships of the world's largest companies and public sector organisations. For Australia, these changes will have significant impacts.

The bottom-line is that in this period of stalling productivity there are immediate strategic considerations for all organisations, and with less time committed to project delivery the time to position for this change is now. As always, we hope you find our insights thought-provoking and we'll see you in the market or next month in *Longview*.

Editorial

The return of PWC and KPMG technology advisory to ranks of the Big 4

Forgetting the last 9-months of economic crisis, the last 18 months have been a challenging time for the ICT industry as it has come under increasing scrutiny to return savings to the business on the back of the promise of virtualisation, software-as-a-service and more.

Pressure has mounted to deliver on technology consolidation across all sectors but especially in government. Mega-infrastructure technology investments, such as the National Broadband Network (NBN) have appropriated the mind-share and investments of technology influencers, several elections have been run and won, and Gershon-style reviews have brought renewed and razor-like focus to contractor and consultant revisions at both the State and Federal level.

As we outlined in our 2009/10 technology budget overview report the net result of all this activity, and considerably more, is that new technology investments have shrunk 7% in just 12-months from 8% in 2008 to a mere 1% this year.

But as is always the case, someone's losses usually indicate someone else's gains. In the case of global ICT Longhaus believe that one of the underlying changes taking hold of the industry is the return (though onslaught may be a better term) of Price Waterhouse Coopers (PWC), and KPMG to the ranks of the technology advisory Big 4 which also includes stalwarts Deloitte Touche Tohmatsu (Deloitte), and Ernst and Young. And it is doubtful that timing is coincidental. Two significant milestones standout as testament to the possibility that the return of these powerhouses could in fact be the most perfectly timed strategy executions in the last 10-years.

The first is obviously the expiration of the anti-compete clauses that succeeded the sell-off of their previous technology arms to IBM, and Bearing Point in the earlier part of this decade. The second is obviously the looming application replacement boom that will take hold of the industry over the next 5-years as the major ERP systems rolled out through the 1990's fall due for upgrade, or in many case replacements, with increasingly specialised line of business applications.

But what roles will the revived technology divisions of these Big 4 play and which companies are the potential winners and losers from their return? Reviewing 2007/08 annual reports of these firms, as well as well known technology advisors Gartner and Booz Allen Hamilton, makes for an interesting comparison especially when the advisory component is further analysed.

COMPANY	GARTNER	BOOZ	KPMG	PWC	DELOITTE
TYPE	Public	Private	Partner-based	Partner-based	Partner-based
TOTAL REVENUES	1,060,321,000	3,700,000,000	5,280,000,000	22,000,000,000	20,000,000,000
STAFF	7,000	17,000	105,000	149,000	135,000
FORTUNE 500 CLIENTS	400	-	360	424	424

Source: Longhaus, January 2008

For example, when audit and tax revenue from both PWC and Deloitte is stripped out (let's call it 75%), each of the companies shown above represents between USD$2B-USD$5B in revenue from pure business advisory services alone.

Furthermore, back in 2007 approximately 8,000 of PWC's 149,000 people represented partner-level advisors. Interestingly, the percentage split between Gartner's "partner-level" analysts (the true top-level advisors) and support staff is very similar to these consulting firms.

Jump ahead to 2009 and PwC now have approximately 5,000 people in their technology advisory group. It is a number that is continuing to rise rapidly as many pre-IBM acquisition personnel begin to return to the fold, and of course, end-user clients start knocking on their door.

They also all share an enviable slice of the Fortune 500 client base which is an excellent representation of the same companies that will be focused on both procurement and supplier rationalisation and system replacements into the second decade of the new millennium. And while the public sector is not part of the Fortune 500, these firms clearly have deep relationships there as well.

For us this highlights that the likely losers in Australia of the re-emergence of these firms are certainly the technology vendors that have been entrenched in government for the last decade in the absence or hiatus of the Big 4. One only need to think back less than two decades to remember that the current technology service providers, including IBM, were in the wilderness in terms of public sector dominance prior to the whole of government federal initiatives of OASITO.

But the re-established business advisory companies will not simply be a newer version of the same businesses that dominated the technology industry in the 90's. Nor will they have it all their own way. The Big 4 will have to learn new solutions. They will have to establish new partnerships. And they will have to carefully consider the differential between their past role as body-shop implementation specialists, and their new role of strategic technology advisors.

The pure technology advisor role is new for these firms and their ability to stick to it will ultimately be crucial to their success given the sticky collapses of global giants WorldCom and Enron, and the role of Big 4-style advisory companies in those collapses. Their past role in the body-shopping implementations of significant ERP platform renewals is a torch that will also not now be easily relinquished by the major Indian service providers and global giants that largely rose to fill that void.

For the Big 4, and especially PWC and KPMG, to succeed they will require strong investments in client re-education and commitment to independence of advice by avoiding the temptation to execute on the parcels of implementation work that will inherently lead to their door. The "we don't do that anymore" message must be loud, visible and believable.

Big winners:	PriceWaterhouse Coopers, and KPMG.
In limbo:	Deloitte (because they still do systems implementation) and Gartner (because they have the biggest slice of replaceable budget in the tech advisory market within the Fortune 500).
Big losers:	Fringe public sector technology advisors, and global advisory services arms of mega-technology vendors such as IBM.

From web browsers to mainframe tools; competition drives innovation

by Sam Higgins

Today few organisations would deny that there exists a competitive web browser market. Organisations and consumers alike can choose from multiple, viable web browser solutions for various platforms. Marketing messages based on stronger security, faster browsing and better plug-ins are just some of the areas in which differentiation occurs. But it was not that long ago that Microsoft had effectively mothballed its active investment in the web browser and sent the majority of the Internet Explorer (IE) development team off to do other things.

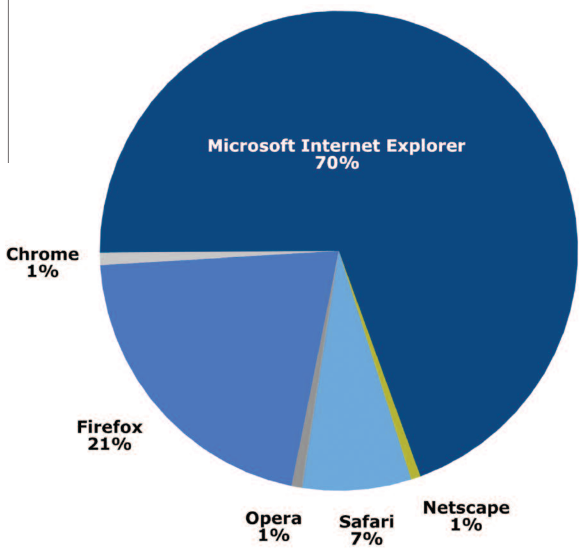
With Netscape routed and IE embedded into every edition of Windows being shipped there was no need to invest in pushing the envelope when in 2004 IE's market share had reached over 90%. Browser innovation had died and focus shifted to addressing bugs. That is until the emergence of Firefox which by 2005 had forced Microsoft to once again consider features over fixes and saw the introduction of tabbed browsing, plug-ins, and more. Today Microsoft's share of this market, even on its own Windows platform has dropped by 20% (see Figure 1).

When considering the mainframe market today it is very easy to spot the parallels to the fall of Netscape and the "age of IE" (brief as it was). IBM now has anywhere from 90 to 98% of the mainframe market, having recently put its last serious rivals in this space such as Fujitsu and Unisys, to the sword.

Even the irrepressible march of the x86 based Linux and Windows machines seems to have failed to dent the global appetite for mainframe processing with global MIP usage growing at between 18-20% year-on-year. According to CA, MIP usage fell to an all time low around 2000, but has since grown back to its 1996 peak level s and continues to rise. In growth markets adoption of mainframes to support financial services and other economically critical processing has seen revenues for System Z grow by close to 40% in these regions.

It is this type of buying behaviour in both traditional and emerging markets which lead the Computer & Communications Industry Association (CCIA) to point out just how critical mainframes are to modern society, and therefore how important it was that regulators should monitor competition in this market. According to the CCIA "the backbone of the world's financial markets is built on mainframe computers" and specifically they noted "that over 80% of the world's corporate and government data resides on mainframes

WHAT IS THE CURRENT USAGE LEVEL OF WEB BROWSERS WORLD WIDE?
Usage as at May 2009



Source: Longhaus, Markertone and Net Applications

Figure 1: Today competition has returned to the browser market

(see www.ccianet.org/artmanager/publish/news/IBM_Tightens_Stranglehold_Over_Mainframe_Market_Gets_Hit_with_Antitrust_Complaint_in_Europe.shtml).

The increasing use of virtualisation and cloud computing will only further the opportunity for public and private cloud providers alike to re-consider the stalwart of the mission critical data centre. Not to mention IBM's highly successful Linux on System Z strategy opening the mainframe platform up as a platform for consolidation of traditional mid-range and x86 workloads. At a recent briefing on their visions for the data centre of the future EMC's Chief Technology Officer for Asia Pacific, Par Botes noted that continued consolidation will ultimately seek to target fewer highly reliable servers than many commodity servers.

Given that many of our clients are counted among the mainframe users of today, Longhaus received a briefing from CA on their Mainframe 2.0 strategy at CA Expo 2009 in Melbourne this month. CA has made no secret that they are re-investing in their extensive portfolio of mainframe tools with announcements on the Mainframe 2.0 strategy made earlier this year. This commitment has now been followed-up with a demonstration of the tangible outputs from this investment in the form of their CA Mainframe Software Manager.

Unlike traditional mainframe tools which for many years have languished with terminal-based inputs or dressed up with some Web 1.0 lipstick via screen scraping, CA's new approach represents a re-think of the role description for the modern mainframe support person. Specifically CA have recognised that the modern mainframe system administrator is often also supporting other non-mainframe platforms and performs functions that in the last century were done by multiple people. In the face of such a shift functions of traditional mainframe tools should logically be consolidated, the interface upgraded and made to look, feel and integrate into the suite of tools people have come to expect on Linux, Unix and Windows.

Like Firefox, CA is forcing innovation from a competitor whose software tools are deployed on a platform where they have a stranglehold in the market. Like Microsoft's use of its Windows dominance to saturate the browser market, IBM's dominance of the mainframe hardware and operating system business has allowed it to accept fixes over features when it comes to mainframe management tools.

If the rate of compound growth for Firefox in the web browser market since 2004 is anything to go by, then CA is poised to see their existing market share grow by over 50% per annum over the next 2-4 years. In our view this is good news for enterprises seeking ICT management innovation in what has always been a mission critical platform of choice. It is an innovation wakeup call for CA's competitors, including IBM itself.

UNDERSTANDING LONGHAUS' RANGE OF SERVICES

The formalisation of the 5-year commercialisation agreement with the Queensland Government in May this year provides an opportune time to revisit the different services that Longhaus now offer in the Australian and near-shore ICT advisory market. To aid you in your thinking, the following table provides a quick guide to the most comprehensive ICT analyst services available to specifically service the local market.

IF WHAT YOU ARE LOOKING FOR IS:	THE LONGHAUS SERVICE IS:
Technology Research and Advisory Services	**ACCESS ALL AREAS** Your backstage pass to Australian ICT
Strategic Consulting and Technology Market Scanning Services	**LAST MILE MARKETS** Avoid the ivory tower of global industry analysis when researching the local market
Government Technology Research and Advisory Services	**LONGHAUS BASELINE** The benchmark in public sector ICT research
Technology Economic Measures and Research	**AUSTRALIAN TECH INDEX** Index measuring the health of the Australian ICT economy
Statistically significant ICT data points about the Australian Large, Medium and Small Enterprise markets	**RAPID RESPONSE RESEARCH** The data service for ICT marketing and decision making professionals

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