

April 5, 2005

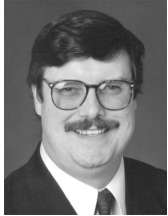
Business Intelligence Driven By Compliance, Standardization, And Performance Initiatives

by Keith Gile

MARKET OVERVIEW

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Includes Business Technographics® data and a market sizing forecast



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Business Intelligence Driven By Compliance, Standardization, And Performance Initiatives

by **Keith Gile**

with Philip Russom, Connie Moore, and Lucy Fossner

EXECUTIVE SUMMARY

The market for business intelligence (BI) reporting and analysis solutions exceeded \$5.5 billion in 2004, up from \$5.3 billion in 2003. Reporting and analysis is essential to addressing compliance and measuring corporate performance, but standardizing on a single BI platform for all reporting needs is still a few years away. Most Global 2,000 companies have between five and 15 separate reporting and analysis solutions in use, placing a strain on IT resources and calling into question the integrity of the data in any one report. Consequently, the market is transitioning from departmental tools to enterprise solutions.

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NOTES & RESOURCES

We gathered or estimated all of the following for 19 pure-play BI, applications platform BI, and database platform BI vendors: BI revenues for 2003 and 2004, BI license revenue, BI services revenue specific to these BI vendors (not consultancies or SIs), and maintenance revenue specific to these BI vendors. Revenues were calculated on a worldwide basis, and smaller vendors, privately held vendors, and platform vendors that do not break out BI revenue separately from their other product revenues without public access to revenues were estimated.

Related Research Documents

"The Emergence Of Process-Centric BI"
December 27, 2004, Trends

"North American IT Spending In 2005"
November 19, 2004, Trends

"IT Spending Outlook: 2004 To 2008 And Beyond"
August 24, 2004, Market Overview

"Grading BI Reporting And Analysis Solutions"
August 23, 2004, Tech Choices"

2005 BI MARKET DYNAMICS — IT SPENDING AND CUSTOMER EXPECTATIONS ARE ON THE RISE

Companies are planning to spend more for BI technology this year, but with a catch: There must be value associated with the BI purchase — not merely technological advances. The message from end users is loud and clear; they want BI to help them do their jobs, not just report on the data. This increase in the expectation level of end users can be seen in the drivers for BI — standardization, compliance, and top-line growth — along with IT's planned spending on BI for 2005.

BI Standardization Is Linked To Compliance And Performance

The push toward top-line growth is being balanced by the need to contain costs, and both of these are being muddled behind the veil of compliance and corporate performance. The three most important drivers for BI in 2005 include:

- **Adopting a standard BI platform for reporting and analysis.** Global 2,000 companies and large government organizations have between five and 15 separate BI solutions actively running today.¹ Why? Because most of these reporting and analysis solutions were either purchased at a departmental level to solve a single problem, such as brand analysis in CPG or customer churn in telco, or were included within enterprise applications like ERP, CRM, and financial budgeting and planning. This myopic approach to technology spending has created an overabundance of redundancy that costs companies millions of dollars and often leads to inconsistency and frustration on the part of end users.

Consequently, these organizations are making a strong effort to standardize on a single BI reporting and analysis platform. However, this can only be accomplished in a multiphased approach in which each existing solution is assessed, with value associated with each solution by those departments that use the solution — not by IT. Each phase will take between 12 and 18 months, with a realistic set of goals clearly defined, such as reducing the number of solutions from 12 to seven in the first phase and reducing the number from seven to three solutions by the end of the second phase. This will allow 24 to 36 months to wean end users off the legacy BI tools and onto the adopted standard without crippling the existing business processes.

- **BI as an enabler for corporate governance and compliance.** Industry compliance initiatives, such as Sarbanes-Oxley and Basel II, have placed an increasing amount of pressure on executives and greater scrutiny on the BI solutions used to facilitate reporting. The push for more accountability for financial reporting is also putting pressure on IT to supply a clean, integrated, accurate data set for reporting and analysis, rather than allowing each department to have ownership of separate, unreliable data sets. Although standardizing on a single BI platform may seem to solve this problem, companies need a strategy for addressing compliance and governance issues that the entire BI technology stack complements. This strategy may be embodied with analytic applications developed by services organizations that fully understand

the implications of the regulatory requirements in question. There are few, if any, off-the-shelf BI reporting solutions that address the complexities of compliance, so companies must look to trusted services organizations to supply the requisite industry knowledge to fashion a BI compliance strategy.

- **Measuring performance at multiple levels of the organization.** Many decision-makers, from the C-level executives down to the first-line managers, need to closely monitor how the business is performing, based on prescribed metrics and processes. However, BI performance management applications today are being used only in isolated pockets within some companies — such as in the IT department for measuring computer assets and resources or in the finance department, where very specific rules of engagement have been defined and must be followed explicitly (e.g., the generally accepted accounting principles). The problem is that most of these BI applications address specific individual domain metrics, such as daily billings outstanding in finance, or metrics that are exclusive to the executive level of the organization, such as customer satisfaction, leaving out midlevel and first-line management.

There is a growing demand by end users to address their individual and group performance metrics. Unfortunately, the vendor marketing hype surrounding performance management is running at a fever pitch, but enterprises must remember this is still primarily a consulting engagement — *not a product*.

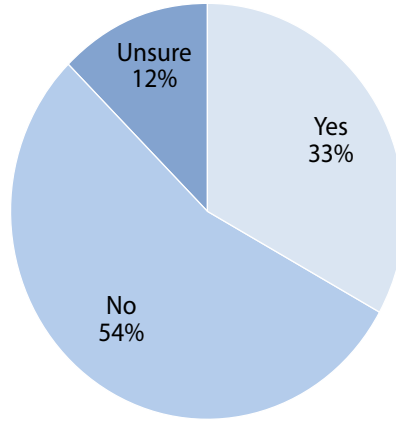
IT Expects To Increase Spending For BI In 2005

IT spending for 2005 is on the rise, and the expectation in North America is for a 7% increase in IT spending on software with an expected 5% increase in Europe.² In a survey of IT executives in North America and Europe, 33% stated that they were going to spend on BI in 2005, including new deals and upgrades (see Figure 1). This is up from 26% in 2004.

Drilling a bit deeper, 38% of the IT executives who will be purchasing BI in 2005 also stated that they were budgeting higher amounts in 2005 than their 2004 actual spending on BI, while 48% said that they would spend the same on BI in 2005 as 2004 (see Figure 2). These numbers point to the importance of BI within organizations and IT's willingness to invest in technology targeted at helping executives and management make better-informed decisions.

Figure 1 North American And European 2005 Business Intelligence Spending Plans

"In 2005, will your company purchase business intelligence software or services?"



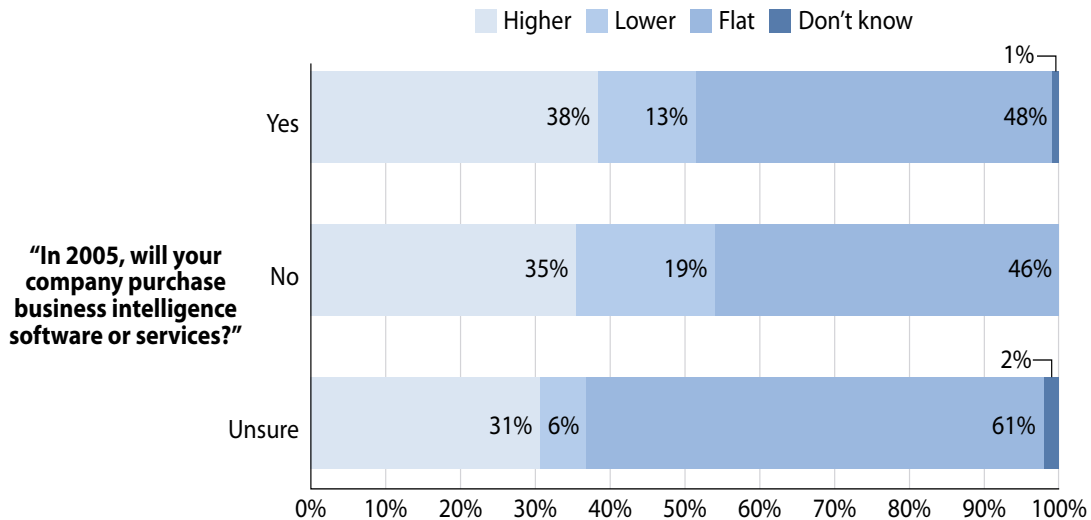
Base: 538 technology decision-makers in North American and European enterprises (percentages do not total 100 because of rounding)

Source: Forrester's Business Technographics® November 2004 North American And European Benchmark Study

Source: Forrester Research, Inc.

Figure 2 Business Intelligence Spending Patterns In 2005

"How will your company's 2005 IT budget compare with its actual spend in 2004?"




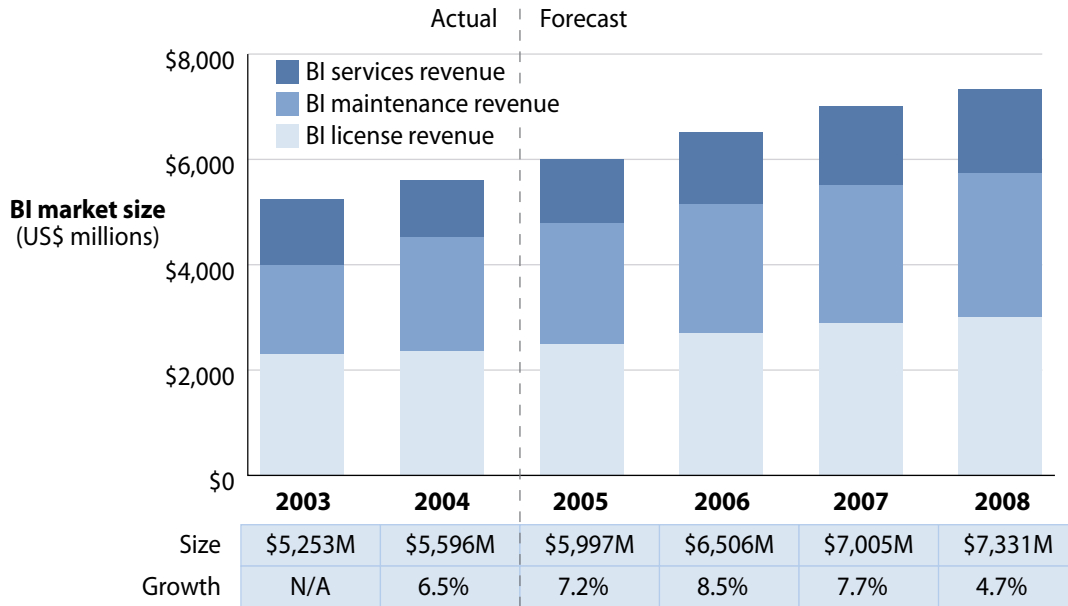
Base: 538 technology decision-makers at North American and European enterprises (percentages may not total 100 because of rounding)

Source: Forrester's Business Technographics® November 2004 North American and European Benchmark Study

Source: Forrester Research, Inc.

Figure 3 Forecast: Business Intelligence Market Growth: 2005 To 2008

 The spreadsheet detailing this forecast is available online.



Source: Forrester Research, Inc.

The BI Market Will Reach \$7.3 Billion By 2008

The size of the worldwide BI market in 2004 was \$5.6 billion (see Figure 3). At nearly 7.2% growth, the BI market is expected to outpace the software industry average in 2005; the BI market will grow more significantly in 2006 at 8.5%, slow down a little in 2007 at 7.7%, and then slow significantly in 2008 at 4.7%. The three key reasons why BI will grow to \$7.3 billion by 2008 are that:

- **Greater BI adoption will mean more users.** Increased adoption of BI solutions will fuel growth in the overall BI market. This higher adoption level will coincide with the leading BI vendors' delivery of reporting platforms that can support production levels of analytic, enterprise, and business reporting, along with products that can fully assimilate process definitions.
- **The grace period for compliance is over.** The realization that Sarbanes-Oxley, Basel II, and other compliance initiatives must finally be addressed by a large portion of Global 2,000 companies will encourage these companies to bolster their existing reporting and analysis platforms with new, more capable platforms. The increased demand for services organizations to build tactical and operational BI applications will spur the BI growth.

- **BI standardization will reach the mainstream in 2007.** The limitations of the reporting and analysis platforms of 2004 will be replaced by production-capable, scalable reporting platforms in 2007. All leading BI pure-play vendors, as well as the leading application vendors like SAP and Oracle, will offer viable solutions. These new platforms will be attractive to large organizations looking to standardize on a single reporting and analysis platform, and this will fuel stronger BI software growth and increased services revenue.

SPREADSHEETS, PROCESS ENGINES, AND COMPONENTS WILL SHAPE THE 2005 BI LANDSCAPE

There are three technology trends that are affecting the growth and direction of BI in 2005 and beyond:

- **The influence of the spreadsheet on BI is staggering.** Once believed to be the antithesis of BI solutions by both the vendors and many end users, the spreadsheet has become a focal point for vendors' development and a paradox for IT. Business users now demand to have data delivered by BI analytic reporting tools into a spreadsheet, either as an Excel plug-in, a spreadsheet knockoff, or an integrated solution that seamlessly passes data and metadata directly from the BI tool into a spreadsheet. Whichever approach your organization takes, the bottom line is that spreadsheets will be a big part of your BI solution going forward.
- **Process engines meet BI engines.** For all of the power and functionality that has been engineered into analytic engines, the gaping hole in this approach is process definition. For BI applications to be built using a consistent process definition, there must be a process engine, or at least a native mechanism, for importing and understanding processes and workflow from external apps like ERP or CRM solutions. The two most likely scenarios that will emerge? BI vendors will either license OEM business process management software from pure-play BPM vendors, such as Fuego, Metastorm, or Savvion, or make BI engines to understand and exploit process-definition standards, such as BPEL.³ Acquisitions are also a distinct possibility, as the leading pure-play BI vendors have cash to spend.
- **Using a component approach will shrink the BI footprint.** BI solutions leverage a rich, and at times heavy, metadata layer to make building BI applications easier for and more specific to non-IT developers. This is invaluable for strategic BI apps, less meaningful for tactical BI apps, and counterproductive for operational BI apps.⁴ The push by vendors to reduce this footprint is to make embedding BI solutions within operational applications like ERP, CRM, and SCM more feasible. The two most common approaches being espoused by the leading BI vendors are exposing additional functionality via Web services (Actuate, Business Objects, Oracle, and SAS) or creating a service-oriented architecture (SOA) as the underlying infrastructure (Cognos, Information Builders, MicroStrategy, and SAP).

THE BI VENDOR LANDSCAPE IS CONSOLIDATING, WHILE NEW ENTRANTS CONTINUE TO POP UP

The vendor landscape has changed significantly over the past two years in terms of how many distinct brands there are — but not in the actual number of products available. Gone are notable tier two vendors Brio (acquired by Hyperion Solutions) and Crystal Decisions (acquired by Business Objects), although their products live on in Hyperion Performance Suite and Business Objects XI and Crystal Enterprise V10, respectively. Newcomers to the tier three ranks include vendors targeting easy-to-use front ends for traditional OLAP engines (Panorama Software and Temtec) and a rash of vendors targeting Microsoft Excel as a BI solution (Global Soft Systems and ClusterSeven). All of the tier one vendors have made over their products and positioning (component-based and scalable), while the platform vendors continue to expand their BI offerings via small acquisitions (Microsoft acquiring Activviews, IBM acquiring Alphablox) or huge architectural changes like SAP with NetWeaver.

BI Pure-Play Vendors Continue To Dominate The Reporting And Analysis Market

The push toward delivering a single platform to accommodate all reporting and analysis requirements will drive the tier one and tier two pure-play vendors for the next three years, leaving new feature/functionality innovations to the tier three vendors.

Tier One: Four Vendors Dominate The Pure-Play Market

The largest pure-play BI vendors have made significant acquisitions and still have lots of cash to spend to fill out their portfolios.

- **Business Objects.** Business Objects completed the acquisition of Crystal Decisions in 2004 and released the integrated Business Objects XI in early 2005. The XI release is based on a single server component supporting several Business Objects products, including WebIntelligence (analytic reporting), Crystal Enterprise (enterprise reporting), Dashboard Manager, Broadcast Agent, and the portal.⁵ This single architecture for all of the products in the Business Objects portfolio is aimed at companies looking to standardize on a single platform for all or many of their reporting needs.
- **Cognos.** Cognos acquired financial apps vendor Frango to enhance its performance management applications. In addition, it has extended the data integration capability of Cognos ReportNet by embedding Composite Software's EII solution and spent the better part of 2004 successfully selling ReportNet, Cognos Metrics Manager, and Cognos Series 7. Although Cognos is supporting two separate platforms with Series 7 PowerPlay and Metrics Manager on the traditional client server architecture and ReportNet on the new SOA, this will change in late 2005 with PowerPlay and Metrics Manager due to be released under the new SOA platform.

- **SAS.** SAS decided to take the build and repackage approach versus the buy approach when it created Web Report Studio and Enterprise Guide — all within the scope of the new SAS 9 framework. What this gives SAS is an analytic reporting mechanism that exploits the SAS analytic legacy (Base SAS, Enterprise Miner) while delivering this functionality in a more usable, consumable fashion. Still missing is an enterprise reporting solution that can compete with the leading products on the market; however, SAS has delivered SAS Add-in for Microsoft Office to further extend the analytic functionality via stored processes to Microsoft Office components.
- **Hyperion Solutions.** Hyperion Solutions made its move by acquiring Brio, a floundering tier two BI vendor, and its best-of-breed analytic reporting solution Brio Intelligence. In the process, Hyperion Solutions gained a large population of Brio users, along with an aging enterprise reporting solution in Hyperion SQR. What this gives Hyperion Solutions is an even stronger position in analytic reporting (Hyperion Essbase OLAP engine and Hyperion Performance Suite [Brio Intelligence]), and a presence in enterprise reporting (Hyperion Reports [Brio SQR]). Where this leaves customers exposed is in the adoption of Hyperion Reports as the enterprise reporting standard, and it raises the question as to how much development Hyperion Solutions will put into enhancing the legacy Brio products.

Tier Two: Vendors Are Adding Features To Extend Core Capabilities

Unlike the approach taken by the tier one vendors, the tier two vendors — or what is left of them after two acquisitions by the big guys — have more aggressively added enterprise or analytic reporting services to their core engines. This build-on-top-of-what-is-already-there attitude has actually gotten Actuate, Information Builders, and MicroStrategy closer to an integrated reporting solution more quickly. The catch is that these vendors all lack some component of best-of-breed, opting in some instances for “just good enough.”

- **Actuate.** Actuate added on Actuate Query and Actuate e.Analysis to a best-of-breed enterprise reporting and business reporting solution — to fill in any perceived gaps on the end user fulfillment side. What this gives Actuate is a consolidated analytic (Actuate Query), enterprise (Actuate e.Reporting) and business (Actuate e.Spreadsheet) reporting solution, albeit with less than completely integrated metadata support. Where this leaves customers exposed is in determining: 1) whether the analytic solution is adequate enough to supplant incumbent best-of-breed analytic reporting solutions, and 2) if this IT-centric enterprise reporting solution can fit in with companies looking more for self-service reporting by business and casual users.
- **MicroStrategy.** MicroStrategy has been very busy adding new components to its core analytic reporting engine, MicroStrategy Intelligence Server, in the enterprise reporting solution Report Services and its business reporting solution in MicroStrategy Office. Both of these components leverage the existing metadata capability of the Intelligence Server. What this gives MicroStrategy is a consolidated analytic (MicroStrategy Intelligence Server), enterprise

(MicroStrategy Report Services) and business (MicroStrategy Office) reporting solution. Where this leaves customers exposed is in determining whether the two new components are tested and mature enough to handle production enterprise reporting when data can only be sourced from RDBMS — a limitation of MicroStrategy's core technology.

- **Information Builders.** Information Builders has been the most quiet in terms of big announcements, but it continues to add incrementally to what is arguably a hybrid reporting solution in WebFOCUS, offering some analytic reporting functionality and solid enterprise reporting features — but not necessarily best-of-breed in either. What this gives Information Builders is a consolidated analytic, enterprise, and business reporting solution in WebFOCUS on top of a best-of-breed data integration component in the iWay ETL component that is embedded within WebFOCUS. However, this leaves its customers with the same issues as Actuate's: determining whether the analytic solution is adequate enough to supplant incumbent best-of-breed analytic reporting solutions and if this IT-centric solution can fit in with companies looking more for self-service reporting by business and casual users.

Tier Three: Vendors Target Specific Niches In Functionality

The large volume of tier three vendors continues to deliver creativity for targeted solutions rather than trying to solve all of the problems themselves. Some of the tier three BI vendors include:

- **Temtec.** Temtec's Executive Viewer is a front-end tool for Hyperion Essbase and Microsoft Analysis Services OLAP engines. The company's approach is to make it easy for anyone to get value out of its existing OLAP engines, and its customers rave about it. In one case, a large North American financial institution has distributed more than 3,000 copies of Executive Viewer for self-service reporting and analysis on its Hyperion Essbase implementation.
- **ProClarity.** ProClarity offers several server-based BI solutions (Analytics Server, Business Logic Server, and Dashboard Server) — all to front-end Microsoft SQL Server Analysis Services.
- **Applix.** Applix offers one of the top OLAP databases in TMI, with financial applications for budgeting and planning built on the engine. The result is a focused solution, targeted at ease of use and low cost of ownership.
- **ClusterSeven.** ClusterSeven has developed a server-based solution for managing and auditing work done within an Excel spreadsheet. This mechanism logs all activity at the cell level within the spreadsheet; stores this information in a database; and tracks, alerts, and reports on anomalous activities. The result is a solution used by financial services organizations to help audit and monitor compliance issues.

What the movement in the other two tiers means to the tier three vendors is that new ideas and low cost of ownership will always be attractive to end user organizations, even when a corporate standard has been adopted.

Database And Application Platforms: Vendors Go After Operational BI

BI reporting and analysis functionality is no longer the exclusive domain of the BI vendors, as is evidenced by the activity within the enterprise application and database platform arena. In some instances, these solutions are only partially complete, while others are so new as to be unproven as an enterprise-class consolidated reporting and analysis solution. Although the offerings by these platform vendors may never achieve parity with the pure-play BI vendors, they will lay the groundwork for extending BI to a broader audience via operational BI apps.

- **SAP.** SAP Business Intelligence, including SAP BW, has evolved to the point where it is a combination of metadata, operation data stores, master data models, and OLAP functionality — all with the BEx front end. It has a solid data foundation but a limited end user deployment option.
- **Oracle.** Oracle is pushing as much functionality as is technically feasible into its database and app server. The problem is that Oracle finds itself halfway there with some components delivered as BI Beans (java applets) and others still in tool form (Discoverer).
- **Siebel Systems.** Siebel has been promoting the capabilities of its analytic engine Siebel Business Analytics as a standalone best-of-breed engine. The strength of Siebel Analytics lies with its analytic reporting functionality, so the company still has to prove that prospects are willing to view this as separate from, and not dependent on, Siebel enterprise applications.
- **IBM.** IBM's acquisition of tier three BI vendor Alphablox gives it a component-based BI tool for developing operationally focused BI applications. Although Alphablox was not a competitor to the pure-play BI vendors, the intent is clear: IBM wants to actively participate in the BI market with DB2 Cube Views, DB2 OLAP Server, and now DB2 Alphablox.
- **... and then there is Microsoft.** What other vendor could enter a market with a version 1 product and immediately influence every other vendor in the space? By delivering Microsoft Reporting Services, Microsoft has let it be known that it intends to do to reporting what it did to OLAP — commoditize it. This work in progress will be the focus of many early adopters, which will help Microsoft develop this product into a credible and competitive reporting and analysis solution over the next two years.

Today's reality is that there is no vendor that has a proven production platform that delivers all of the required BI functionality in all three of the reporting categories — analytic, enterprise, and business — for all five user communities — IT, power users, business users, casual users, and extended enterprise users. But this will change over the next 24 to 36 months, as platform and pure-play BI vendors will deliver reporting and analysis platforms capable of supporting analytic, enterprise, and business reporting requirements.

RECOMMENDATIONS

GET MORE THAN REPORTS FROM BI

- **The trend is to spend.** Many companies are increasing their spending on BI solutions to attain a competitive advantage and grow the top line. Look for ways to use BI for more than reporting and for more business applications that are tactical and operational.
- **Technology enhancements point to consumers.** BI solutions have been targeted at producers of reports and analysis, almost to the exclusion of the large data-consuming audience. Choose BI solutions that integrate with spreadsheets, as these are the most popular productivity tools for working with data. Also, look for BI technology that can understand and define business processes and workflow, as most business and casual users are measured by how well they perform based on processes, and not just the data that supports those processes.
- **Understand that a smaller footprint means bigger opportunities with BI.** Look for ways to embed BI solutions within your existing enterprise apps. To do this, look for BI solutions that are built on a service-oriented architecture or solutions that expose greater functionality as Web services without requiring a heavy metadata influence. Packaged analytic apps are an option, but kick the tires first. Consider BI packaged applications for specialized situations like compliance, as these apps are generally built with more intellectual property by vendors that specialize in a specific niche industry or area.

WHAT IT MEANS

BI WILL GROW FASTER THAN OTHER SOFTWARE CATEGORIES WILL

IT executives are looking to spend more on BI in 2005 than they did in 2004. The impact will be:

- **Greater focus on standardizing on a single BI platform.** Companies want more BI value while desiring fewer BI solutions. This will take a few years, but look for immediate activity in moving to a standard BI platform.
- **BI vendors want to be *the one*.** The vendors are keen to be chosen as the standard for reporting and analysis and are making acquisition, or extending core technology to pull it off.
- **Compliance will play a key role in 2005 BI market.** With a greater understanding of what is actually required in terms of Sarbanes-Oxley and Basel II, companies will be looking to BI and platform vendors to help ensure that reporting and analysis capabilities match the compliance requirements.

SUPPLEMENTAL MATERIAL

Online Resource

The underlying spreadsheet detailing the forecast in Figure 3 is available online.

ENDNOTES

- ¹ The number of BI reporting and analysis solutions varies dramatically from company to company depending on size and industry, however anecdotal evidence from client inquiries points to the average number of reporting solutions between five and 15 for Global 2,000 companies.
- ² Information-enabling software is expected to exceed 8% growth in North America based on survey results of 538 technology decision-makers. See the November 19, 2004, Trends “North American IT Spending In 2005” and see the December 15, 2004, Data Overview “2005 Enterprise IT Outlook: Business Technographics® North America.”
- ³ Business Process Execution Language (BPEL) is an execution language that orchestrates business processes using Web services. See the October 18, 2004, Trends “Business Process Management Standards Alphabet Soup.”
- ⁴ BI applications are developed at one of three strata — strategic, tactical, and operational — and each has separate and distinct characteristics. See the December 17, 2004, Best Practices “Target BI Applications At The Right Organizational Layer For Maximum Adoption.”
- ⁵ Business Objects was able to complete the integration of its core analytic reporting solution (WebIntelligence) with its enterprise reporting solutions (Crystal Enterprise) in less than one calendar year. See the January 11, 2005, Quick Take “Business Objects Delivers XI Under Extreme Conditions.”

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