

## AMR Research Market Analytix Report: Market Sizing Series

### The Procurement and Sourcing Applications Report, 2005–2010

*by Mickey North Rizza, Marianne D'Aquila, and Karen Carter*

AMR Research projected the procurement and sourcing applications market segment would grow by 10% in 2005, with sourcing applications showing stronger growth than procurement applications, and our performance estimates were spot on. We expect 9% to 10% growth to continue for the next few years, with this market segment experiencing a CAGR of 8% through 2010.

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# The Procurement and Sourcing Applications Report, 2005–2010

by Mickey North Rizza, Marianne D'Aquila, and Karen Carter

The procurement and sourcing market continues to expand, with hosted applications seeing an impressive 125% growth rate in 2005 as companies of all sizes continue to focus on reducing supply costs.

The  
Bottom  
Line

## Executive Summary

In “The Procurement and Sourcing Applications Report, 2004–2009,” AMR Research projected the market segment would grow by 10% in 2005, with sourcing applications showing stronger growth than procurement applications. Our performance estimates were spot on. And although we expect 9% to 10% growth to continue for the next few years, we do see growth moderating slightly after that time. We anticipate this market segment will experience a CAGR of 8% through 2010.

Companies have continued emphasis on ensuring reliable supply, mitigation of supply risk, rising material prices, cost containment efforts, and compliance requirements. This emphasis drives the growth, coupled with the chief procurement officer's elevation of these traditional back-office functions to a strategic imperative for the entire enterprise.

Based on a more strategic role of supply management, we expect to see procurement and sourcing business application growth of at least 9% in 2006. This is good news for buyers, as they will see more dynamic competition, hopefully leading to better application functionality. ERP providers will continue to broaden their suites with more sourcing capabilities, while best-of-breed application providers will add innovative functionality to differentiate their products in the market.

## Findings and analysis

A closer look at 2005 results indicates that 11 of the 70 vendors grew total revenue by at least 10% year over year: **Ariba, A.T. Kearney, Emptoris, ePlus, IBS, ICG Commerce, Oracle, Perfect Commerce, Procuri, SAP, and Silver Oak Solutions.** Here are some of the specifics about this growth:

- **Sourcing continues to be the growth engine.** Sourcing technologies grew 13% in total year over year, representing 34% of the market in 2005. A continued emphasis on strategic supply management is driving this growth.

- **Procurement functionality remains the largest area of spend.** Procurement grew more slowly at 4% in total, but still maintains the largest revenue share at 52%. Many companies are upgrading their procure-to-pay, catalog, and supplier onboarding capabilities with more robust functionality. Those that do not have procurement applications are now moving in this direction.
- **Contract compliance growth continues.** Contract management grew 16% in total, accounting for 10% of the market. The primary motivations for this expansion are risk mitigation and Sarbanes-Oxley Act (SOX) compliance concerns.
- **Performance measurement and workflow capabilities are driving growth.** Increased focus on buyer and supplier performance delivered a 64% overall growth rate in workflow functionality and supplier scorecards, though the market share is still small at 5%.
- **Smaller customers are moving from upfront license to ongoing hosting environments.** The small company segments, representing firms under \$30M, grew by 40% and made up 11% of total market revenue. Watch for this trend to continue with more on-demand products hitting the market.
- **The large enterprise market is stalling.** Sales to organizations with more than \$1B in annual revenue grew by the relatively small amount of 4%. While this segment represents the largest market share at 45%, the focus of these organizations is shifting to supply visibility, scorecards, and portal applications. The large organizations have the core supply management capabilities and processes in place and are now pursuing broader functionality.
- **Asia-Pacific, Latin America, and Europe are big growth engines.** These three geographic regions are coming on strong in the procurement and sourcing market, representing 41% of the market and a combined growth rate of 20.7%. This will continue as companies use their overall needs across the business globally.
- **Many industry sectors are buying.** The industries with the largest growth rate are automotive, A&D, high-tech, petro products and chemicals, primary and fabricated metals, and wood products, paper, and printing.

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## Market trends

A number of key trends are sustaining the momentum from the 2004 supply management market, including an emphasis on ensuring reliable supply, mitigation of supply risk, rising material prices, cost containment efforts, and compliance requirements. Along with these drivers is the need for greater value from a back-office function that is transforming itself to the c-level. The largest competition for many software categories remains spreadsheets and manual processes, which tend to scale poorly and expose business flaws through periods of high growth. These factors will combine and continue fueling the supply management spending for the next five years.

The software-as-a-service (SaaS) phenomenon has also served as a significant market catalyst. Benefits such as ease of use, lower risk, shorter deployments, and upfront costs have helped to reinvigorate the supply management market for small and midsize businesses (SMBs). Larger enterprises, meanwhile, are augmenting their core functionality with additional applications in supply visibility, supplier scorecarding, and supplier portals. SaaS is creating more demand and increased functionality, providing users with greater product robustness at a lower cost. This trend will continue for the next five years.

An emphasis on cost reduction and containment to maintain or increase margins is enhancing the value proposition for supply management applications. Technologies in the sourcing area provide companies with the quickest and surest way to gaining immediate ROI. Smart companies are focusing their efforts on transforming their back-office functions to strategic, value-driven, c-level organizations. In these companies, transactional processing and workflow capabilities are either already in place or being put in place for automated transactions. Employees are then retrained to manage more strategic supply management responsibilities or repositioned in other areas. As the value becomes more strategic, there is a greater need for center-led organizations, sourcing applications, and commodity councils.

## Procurement and sourcing application segments, 2005

The 10% growth rate in 2005 is great news for supply management vendors as well as their customers.

Buyers increasingly demand applications that provide procurement, sourcing, workflow capabilities, scorecards, visibility, and supplier collaboration as one automated, seamless suite. This emphasis should help companies as they strive for the next level of business transformation. Providers recognize that their suites are maturing, yet enhanced functionality is still required to propel supply management further along the food chain to a strategic priority.

Customer demand and transformation efforts are fueling supply management technology growth. As organizations automate transactions and focus more on long-term strategies, vendors will continue to enhance their platforms with broader functionality.

## Sourcing and supply management

Sourcing applications, which comprise spend analytics, RFX and e-negotiation, and contract management, are an integral part of the toolset for executing supply management strategies. Increased focus on percentage of spend under management (i.e., percentage of spend under management by supply management organizations) is driving the sourcing applications growth. These products make up 44% of the total procurement and sourcing market, with a combined total revenue growth in 2005 of 13.5%.

Ariba, Emptoris, **Epicor**, **Iasta**, ICG Commerce, **Ketera**, Oracle, Perfect Commerce, **Polydyne**, Procuri, SAP's Frictionless Commerce application, and **Verticalnet** deliver full sourcing functionality. **CombineNet**, **Lawson**, and **SupplyOn** provide the sourcing functionality of e-negotiation tools and tracking. **Analytics USA**, Ariba, Emptoris, Ketera, **Silver Creek Systems**, Verticalnet, and **Zycus** offer spend analytics capabilities.

Others, like **ecVision**, **Eqos**, **Freeborders**, **Jesta**, **NGC**, **Tourtellotte Solutions**, and **Tradestone**, offer the source capabilities of e-negotiation, purchase order, and supplier collaboration tracking that are tailored for retail industry requirements. Some of these suppliers also offer variations of product lifecycle management (PLM) functionality within their applications, while others like **Compliance Networks** provide supplier compliance optimization tools.

## Contract management

Contract management requirements vary by buyer. Many buyers need only a contract management application, not an integrated, complete sourcing offering that includes contract management. Applications from vendors such as **I-many**, **Nextance**, and **Upside Software** are only for contract management.

The contract management market on a standalone basis represents 10% of the procurement and sourcing market, with a growth rate of 16% total and 15% license in 2005. Contract management applications offer opportunities to mitigate risk with suppliers and comply with regulatory requirements. Watch for these applications to become larger packages of supply management and/or customer management suites. Coupled with supply scorecards, contract management applications are a great avenue to supplier compliance and tracking.

## Procurement

Procurement applications, including procure to pay, cataloging, and supplier on-boarding, represent 52% of the market share, with a 4% total growth rate and 6% licensed growth rate. While this market continues to be the largest segment in the procurement

and sourcing areas, it has declined as a percentage of total market spend over the last few years. Transactions need to be done, and procurement applications provide the workflow capabilities to do it. In addition, the payment process is secure and totally automated. Companies with procurement applications include Ariba, ePlus, Epicor, Ketera, Lawson, Oracle, **Osiris Innovations**, **Quadrem**, SAP, **SciQuest**, and **Vinimaya**. Although these vendors approach procurement from different avenues, each provides transaction automation, enabling procurement organizations to use technology for tactical functions. Others like **OB10** and **Xign** offer business settlement services, such as e-invoicing.

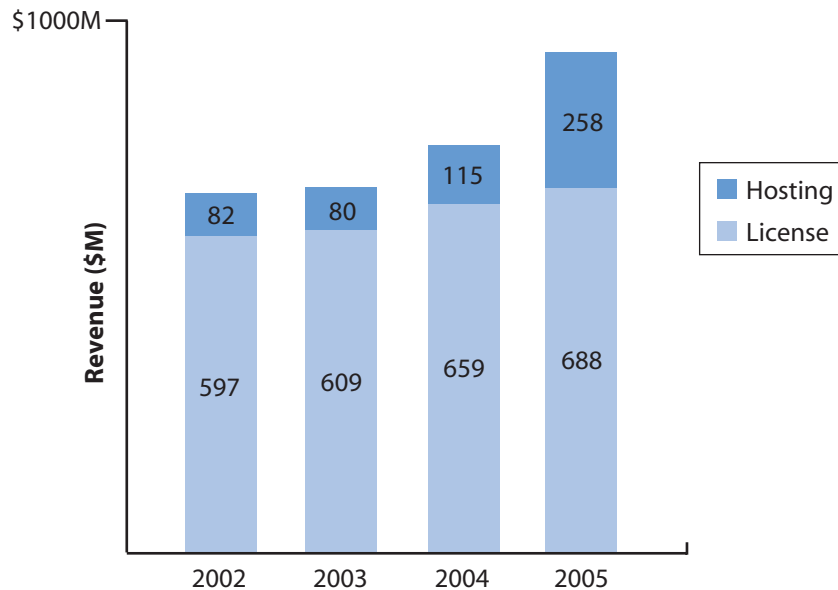
### Supplier scorecards

Supplier scorecard applications grew 64% total and 96% license growth rate in 2005—albeit from a very small base—with 5% of the total market. Our performance management spending studies indicate that scorecards and dashboards are on fire. Watch for scorecards to expand even more dramatically in the next few years. **Apexon**, Emptoris, SAP's Frictionless Commerce, **IQS**, Procuri, **Vcommerce**, and Verticalnet offer dedicated supplier scorecard functionality.

## Procurement and sourcing revenue segments, 2005

Overall procurement and sourcing application license revenue grew only 4% in 2005 after growing 8% in 2004. Combining both license and hosted software revenue, which totaled \$774M in 2004 and \$946M in 2005, the market grew 22%.

**Figure A:** Procurement and sourcing hosting and license revenue growth, 2002–2005



Source: AMR Research, 2006

Contributing to this growth is SaaS. The hosted/subscription market grew 44% in 2004 and a phenomenal 125% in 2005. Though the total market share is only 12% compared to application license market share of 32%, this does represent a major shift in buying patterns. The SaaS segment is currently \$258M, with 48% of the market share held by Ariba. The remainder is made up of revenue from other best-of-breed applications (see Figure 2a).

As SaaS grows in popularity, it's becoming increasingly meaningful to look at the growth of both license and hosting together as a barometer of overall supply management adoption. In aggregate, they represent much of the expansion in procurement and sourcing applications over the last few years. We expect SaaS-based revenue to grow substantially in the coming years. As the shift from license to SaaS continues, vendor revenue recognition should slow somewhat.

Here are other trends from this space:

- Along with the shift to SaaS, application software maintenance will decline as noted in 2005's 3% decline. Software maintenance represents only 20% of the market total in 2005, compared to 23% in 2004. Not surprisingly, as hosted platforms become more prominent, computer system hardware declines in market share from 2.26% to 1.40%, representing a 32% drop in revenue.
- Implementation, service, training, consulting, and custom development continue to be a large source of revenue in the procurement and sourcing market. Both 2004 and 2005 show this segment at a 6% growth rate, with a 35% market share in 2005. This segment will continue to grow as providers offer more services, including business process outsourcing (BPO) capabilities.
- In recent years, supply management application deployments have been primarily a large company phenomenon. The SMB market uptake has been mostly in response to larger upstream partners. We find this trend continuing in 2005. However, growth rates in companies under \$1B clearly exceed that of large enterprises.
- The procurement and sourcing market is dominated by large enterprise investments (more than \$1B in revenue). In 2005, these companies represented 45% of the market but had only a 4% growth rate. This is down considerably from 2004, indicating a spending turn from large enterprises to smaller companies.
- Midmarket sales (companies with \$250M to \$1B in revenue) represented 28% of the market with a much larger growth rate of 22% than the larger enterprises. This growth is led by hosted applications.
- The most notable change, though, is in the small market (less than \$30M), which constitutes 11% of the market but a growth rate of 40%. We find small companies are now spending money in the supply management market as applications are hosted, requiring little or no IT infrastructure assistance and offering a lower price, subscription-based model.



## Procurement and sourcing geographic trends, 2005

North America is still the largest geographic market segment, with 58%. But that growth is only 4% in total, and 7% in license revenue growth. The growth is now focused on Asia-Pacific with 22%, Latin America with 64%, and Europe 17% in total revenue growth. Though the growth rate is high in the first two regions, Europe holds the largest market share of the three, with 29%, followed by Asia-Pacific with 10% and Latin America at 2%.

Watch for the growth trends to continue in Asia-Pacific and Latin America. Driven hard by low-cost country sourcing opportunities, the application use in these regions will expand as international procurement offices are introduced and operations are started in these areas. We expect a five-year CAGR of 15% in Asia-Pacific and 31% in Latin America.

## Procurement and sourcing customer trends, 2005

### By industry

The industry sectors are definitely buying. Manufacturing grew 17% in 2005, capturing 53% of the market. The largest growth segments were in textiles, primary metals, and wood, paper, and print. With a greater emphasis on rising commodity prices, this is not surprising. The industries that shifted away from this market were machinery, pharmaceuticals, and apparel.

Non-manufacturing grew only 7%, representing 47% of the market. The largest growth was in telecommunications, services, and wholesale trade, while public administration, transportation, and retail reduced their spend the most in this market. The lower growth in non-manufacturing is not surprising since higher commodity prices typically hit manufacturing sectors first, and then trickle back to the non-manufacturing sectors.

### By market channel

We find companies are either transforming their supply management function to the c-level agenda or outsourcing via a BPO.

Companies that transform the supply management function are either starting on their three-year journey and are purchasing procurement applications to automate the transactional side of the business, or are already on the journey and recognized that the automated transactions are in place, but their strategies now require sourcing applications, employee skillset enhancement, and organizational redesign.

During the implementation phases, companies recognize skillset changes are required to enhance the value of supply management personnel. Training and education are inserted, along with organizational redesigns, to enhance the overall supply management value proposition. The supply management transformation applications are outlined previously in the overall market section.

The BPO effort encompasses the procurement transactions or the sourcing function for indirect or direct materials. BPO providers, such as **Accenture**, Ariba, **IBM**, and ICG Commerce, are leading the pack of outsourcing specialists.

## By technology

Based on 2005 results and early 2006 announcements, we expect continued acquisitions. Consider the following:

- Contract management vendors are prime acquisition candidates for sourcing vendors that need to provide broader functionality and round out their sourcing offerings.
- A merger of the sourcing and PLM applications will start to occur as direct material procurement ties even closer to product design. The pure sourcing vendors are targets for PLM vendors bridging the gap in product cycle time to market.
- Supplier scorecard applications encompassing the largest growth area in 2005 will continue the rapid growth. We expect a few new players to appear plus more functionality and alert capability in all applications. We may even see an acquisition in this area.
- Supplier cost modeling applications are making entrances into the market. Overall costs in the supply network, including the financial flow married with physical flow as well as product attribute-based, “should-be” cost modeling, are broadening the supply management functionality. **Aankhen** and **Akoya** are two firms that sit squarely in this space. Both look at should-be costs on the supply side. Aankhen focuses on the overall costs in the supply network, while Akoya’s emphasis is on the attributes of the product for the should-be cost. Two other providers, **TradeBeam** and **TradeCard**, merge the financial and physical supply network flows.
- Supplier portals will continue to be an area that companies focus on in 2006 for improved supplier reliability. Supplier portal capabilities will be further enhanced with supplier scorecards and dashboards, alert monitoring, and warranty and demand management.

## The 2005 Procurement and Sourcing Market Leaders

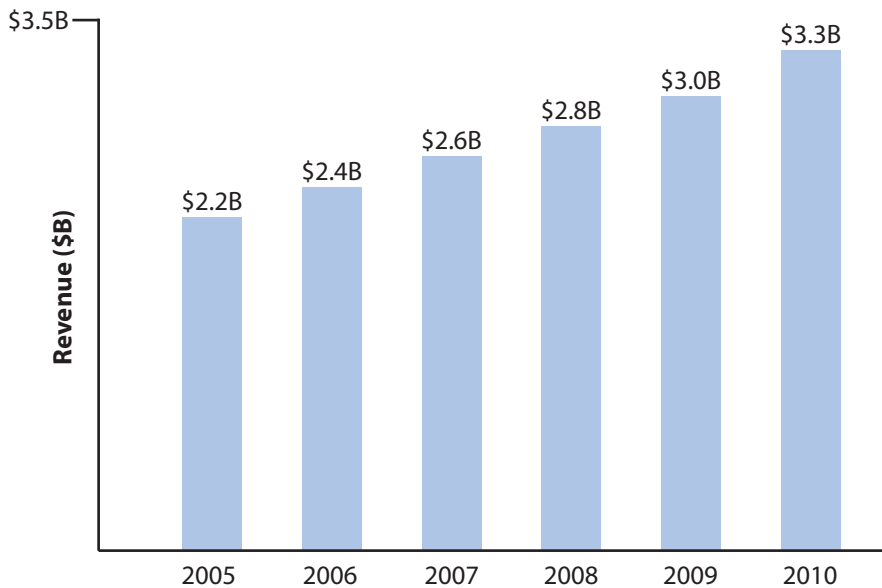
SAP, Ariba, and Oracle are the market leaders, with a combined market share of 41%. In 2005, SAP continued to be the market leader in total license revenue. We expect this to continue for the foreseeable future as SAP strengthens its foothold in supplier relationship management (SRM) hosting. Hosted SRM will open the door to the small and midsize market, providing more growth.

The next tier supported largely by supply management best-of-breed applications will continue to grow. Watch for Ariba and Emptoris to be even closer in total revenue. Ariba will continue to put much emphasis on the hosting market and its new on-demand platform. Emptoris will grow, using the **DiCarta** acquisition as the fully functional sourcing suite that includes spend analytics, RFX functionality, and contracts.

The vibrant, best-in-class vendors of the license market include those ranked No. 2 through No. 8, which have similar market shares to SAP. In 2006, we expect the ranking to change again based on additional functionality and consolidation.

Nearly 25% of the providers show little or no growth, indicating potential acquisition or merger in the space.

**Figure 1:** Procurement and sourcing market total revenue, 2005–2010 (est.)



Source: AMR Research, 2006

**Table 1:** Procurement and sourcing vendors ranked by 2005 procurement and sourcing revenue (incl. est. '06 growth)

2005 Revenue Rank	Company Name	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Forecast, 2006 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Revenue Share Forecast, 2006	Growth Rate, 2004-2005	Growth Rate Forecast, 2005-2006
1	SAP	300	337	381	15%	15%	16%	12%	13%
2	Ariba	280	312	323	14%	14%	14%	12%	3%
3	Oracle	131	258	297	7%	12%	13%	98%	15%
4	A.T. Kearney	44	60	69	2%	3%	3%	38%	15%
5	Lawson	57	55	65	3%	3%	3%	-4%	18%
6	Silver Oak Solutions	20	45	0	1%	2%	0%	125%	-100%
7	Dun & Bradstreet	42	42	45	2%	2%	2%	0%	5%
8	ICG Commerce	33	38	48	2%	2%	2%	14%	26%
9	IBS	32	37	39	2%	2%	2%	16%	5%
10	i2 Technologies	36	34	37	2%	2%	2%	-7%	10%
11	Emptoris	23	33	61	1%	2%	3%	43%	85%
12	iMany	38	32	39	2%	1%	2%	-16%	20%
13	Perfect Commerce	27	30	36	1%	1%	2%	11%	20%
14	ePlus	18	23	28	1%	1%	1%	25%	24%
15	Verticalnet	23	21	25	1%	1%	1%	-10%	21%
16	Procuri	10	18	24	1%	1%	1%	80%	33%
17	PeopleSoft*	151	0	0	8%	0%	0%	-100%	0%
<b>Subtotal</b>		<b>1265</b>	<b>1375</b>	<b>1517</b>	<b>58%</b>	<b>63%</b>	<b>63%</b>	<b>9%</b>	<b>10%</b>
<b>Other Procurement and Sourcing Vendors</b>		<b>726</b>	<b>806</b>	<b>864</b>	<b>42%</b>	<b>37%</b>	<b>37%</b>	<b>11%</b>	<b>7%</b>
<b>Total</b>		<b>1991</b>	<b>2181</b>	<b>2381</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>10%</b>	<b>9%</b>

\* Oracle acquired PeopleSoft on December 28, 2004. 2004 data has been included for reference.

Source: AMR Research, 2006

**Table 2:** Procurement and sourcing vendors ranked by 2005 procurement and sourcing license and hosting revenue

2005 Revenue Rank	Company Name	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
1	SAP	89	101	14%	14%	13%
2	Oracle	66	83	10%	11%	26%
3	Ariba	64	67	10%	9%	5%
4	A.T. Kearney	26	36	4%	5%	38%
5	Emptoris	20	28	3%	4%	37%
6	Perfect Commerce*	13	21	2%	3%	62%
7	ePlus*	15	15	2%	2%	0%
8	Procuri	9	14	1%	2%	56%
9	Lawson	13	11	2%	1%	-14%
10	Dun & Bradstreet	11	11	2%	1%	0%
11	i2 Technologies	5	9	1%	1%	66%
12	IBS	7	8	1%	1%	13%
13	Verticalnet	4	7	1%	1%	62%
14	iMany	11	6	2%	1%	-44%
15	Silver Oak Solutions	2	3	0%	0%	50%
16	ICG Commerce	2	2	0%	0%	0%
17	PeopleSoft**	36	0	5%	0%	-100%
<b>Subtotal</b>		<b>394</b>	<b>422</b>	<b>60%</b>	<b>57%</b>	<b>7%</b>
<b>Other Procurement and Sourcing Vendors</b>		<b>265</b>	<b>317</b>	<b>40%</b>	<b>43%</b>	<b>20%</b>
<b>Total</b>		<b>659</b>	<b>739</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

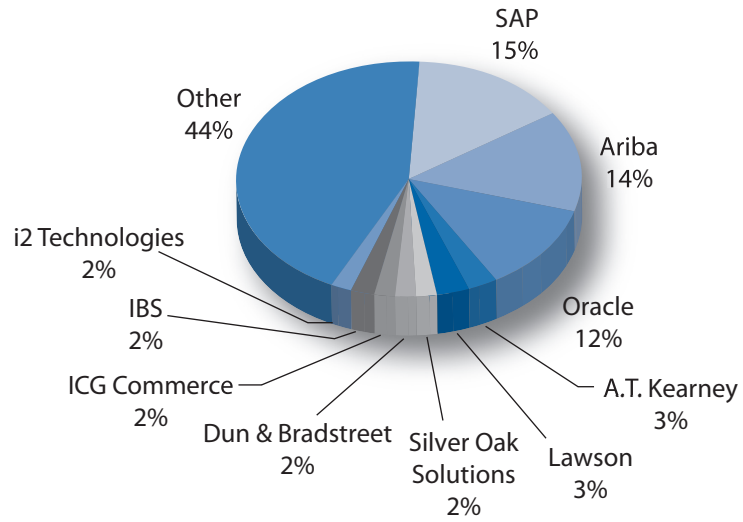
\* Includes hosting revenue.

Source: AMR Research, 2006

\*\* Oracle acquired PeopleSoft on December 28, 2004.

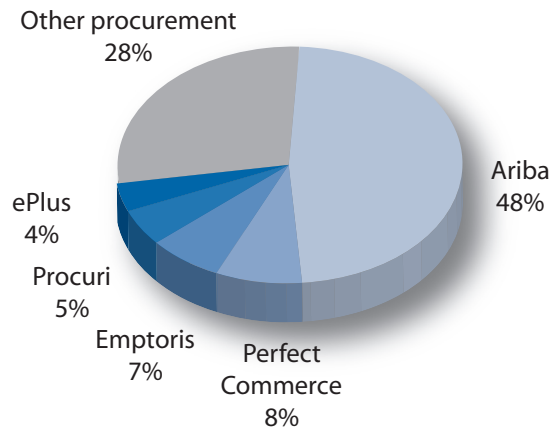
2004 data has been included for reference.

**Figure 2:** Top 10 procurement and sourcing vendors by 2005 total revenue share



Source: AMR Research, 2006

**Figure 2a:** Procurement and sourcing hosting revenue share, 2005



Source: AMR Research, 2006

## Procurement and Sourcing Market Forecast, 2005–2010

The procurement and sourcing market should remain strong, with a projected growth rate of 9% in 2006. As part of that growth, we expect to find continued expansion of supply execution technologies. **i2 Technologies**, **Intuitive Manufacturing**, and **ClearOrbit** are centered in the management of the factory and divisional spend in the vendor contract relationships.

### Growth drivers

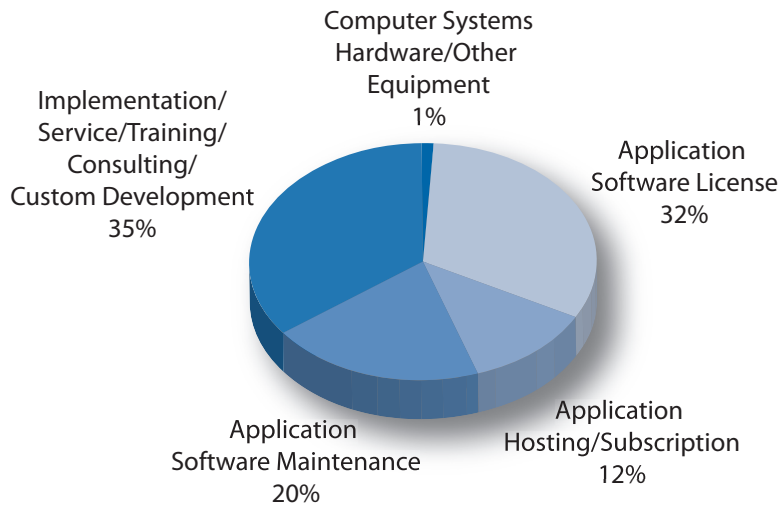
- Services spend applications will also continue their market penetration. **IQNavigator** and **Click Commerce** are two application providers that initially focused on contingent labor, but have now broadened their suites with all types of project-based billing and management. Others, like **Four51** and **Noosh**, fully engage in the marketing print services markets. **Rearden Commerce** focuses on employee services such as package shipping and travel and entertainment management, including airlines, hotels, car rentals, parking, car services, and event tickets.
- Supplier networks, meanwhile, will continue to drive adoption. Ariba, **Exostar**, **MFG**, Oracle, Perfect Commerce, and SciQuest are a few of the many supplier networks in the market. The networks provide opportunities for new sources of supply that may lead to lower costs and better services.
- Similar to the supplier networks is **Thomas Global**, which provides an internet global supplier search engine for buyers looking for the right supplier in particular commodities and locations.
- Continued growth in SaaS is expected at a 26% five-year CAGR.
- Supply management suites will become more integrated, covering all areas of spend: direct, indirect, MRO, and services.
- Supply risk management, propelled forward by the global natural disasters of 2005 and market volatility, will continue to be a targeted area to ensure reliable supply. Watch for greater functionality in supplier scorecards, dashboards, and alerting mechanisms. Third parties like **Dun & Bradstreet** will become more integral in the applications.
- Supplier portal technology that encompasses everything from procurement, sourcing, collaboration, execution, and performance management will become the norm. Alert mechanisms and dashboards for both the buyer and supplier will be standard.
- Spend visibility and spend management applications will continue as mainstays in the supply management function. Watch for more capabilities as they stretch into master data management (MDM).

# Procurement and Sourcing Graphics

**Table 3:** Procurement and sourcing total revenue and share by revenue type, 2004–2005

Revenue Type	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
Application Software License	659	688	33%	32%	4%
Application Hosting/Subscription	115	258	6%	12%	125%
Application Software Maintenance	450	438	23%	20%	-3%
Implementation/Service/Training/Consulting/Custom Development	722	766	36%	35%	6%
Computer Systems Hardware/Other Equipment	45	31	2%	1%	-32%
<b>Total</b>	<b>1991</b>	<b>2181</b>	<b>100%</b>	<b>100%</b>	<b>10%</b>

**Figure 3:** Procurement and sourcing total revenue share by revenue type, 2005



Source: AMR Research, 2006

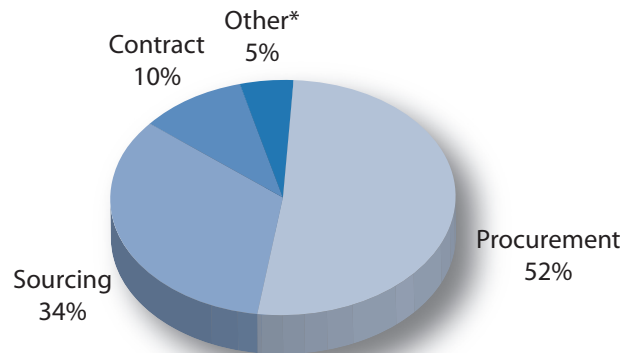


**Table 4:** Procurement and sourcing license revenue and share by application segment, 2004–2005

Application	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
Procurement	362	384	56%	52%	6%
Sourcing	219	251	32%	34%	15%
Contract	61	70	9%	10%	15%
Other*	17	33	3%	5%	96%
<b>Total</b>	<b>659</b>	<b>739</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

\* Includes supplier scorecards.

**Figure 4:** Procurement and sourcing license revenue share by application segment, 2005



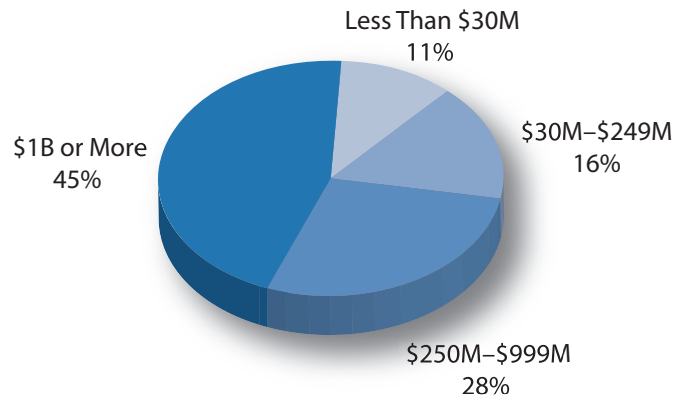
\* Includes supplier scorecards.

Source: AMR Research, 2006

**Table 5:** Procurement and sourcing license revenue and share by customer company size, 2004–2005

Customer Revenue	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
Less Than \$30M	58	81	9%	11%	40%
\$30M–\$249M	112	118	17%	16%	5%
\$250M–\$999M	169	207	26%	28%	22%
\$1B or More	320	333	49%	45%	4%
<b>Total</b>	<b>659</b>	<b>739</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

**Figure 5:** Procurement and sourcing license revenue share by customer company size, 2005

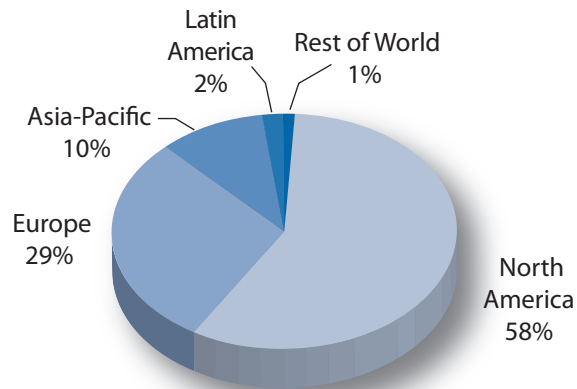


Source: AMR Research, 2006

**Table 6:** Procurement and sourcing license revenue and share by geographic region, 2004–2005

Region	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
North America	402	430	61%	58%	7%
Europe	180	214	27%	29%	19%
Asia-Pacific	59	74	9%	10%	26%
Latin America	9	11	1%	2%	23%
Rest of World	9	10	1%	1%	7%
<b>Total</b>	<b>659</b>	<b>739</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

**Figure 6:** Procurement and sourcing license revenue share by geographic region, 2005



Source: AMR Research, 2006

**Table 7:** Procurement and sourcing license revenue and share by vertical industry, 2004–2005

Industry	Revenue, 2004 (\$M)	Revenue, 2005 (\$M)	Revenue Share, 2004	Revenue Share, 2005	Growth Rate, 2004–2005
<b>Manufacturing</b>	<b>331</b>	<b>388</b>	<b>50%</b>	<b>53%</b>	<b>17%</b>
Textiles	15	23	2%	3%	53%
Apparel	11	9	2%	1%	-22%
Wood Products, Paper, Printing	10	14	2%	2%	40%
Petro Products, Chemicals, Plastics	22	27	3%	4%	24%
Pharmaceuticals/Biotechnology	31	29	5%	4%	-7%
Primary/Fabricated Metal	10	13	1%	2%	34%
Machinery (Farm, Construction, Factory)	21	15	3%	2%	-29%
Computers and Electronics (Peripherals, Communication Equipment, Semiconductors)	76	95	12%	13%	25%
Automotive and Auto Parts	37	47	6%	6%	28%
Aerospace and Defense	28	38	4%	5%	32%
Food, Beverages, Consumer Packaged Goods	41	46	6%	6%	12%
Other Manufacturing	29	32	4%	4%	12%
<b>Non-Manufacturing</b>	<b>328</b>	<b>351</b>	<b>50%</b>	<b>47%</b>	<b>7%</b>
Resource Extraction (Metal Ore, Oil and Gas, Coal)	13	15	2%	2%	13%
Utilities (Electric, Gas, Water, Sewer)	23	25	3%	3%	8%
Telecommunication Services	20	29	3%	4%	43%
Wholesale Trade	19	23	3%	3%	21%
Retail Trade	58	53	9%	7%	-8%
Transportation and Warehousing	18	17	3%	2%	-4%
Information (Publishing, Media, Info. Services, Excluding Telecommunication Services)	20	23	3%	3%	15%
Finance and Insurance	56	63	8%	9%	13%
Healthcare and Social Assistance	25	24	4%	3%	-4%
Education	9	9	1%	1%	5%
Public Administration	38	32	6%	4%	-15%
Other Services	29	37	4%	5%	27%
<b>Total</b>	<b>659</b>	<b>739</b>	<b>100%</b>	<b>100%</b>	<b>12%</b>

Source: AMR Research, 2006

**Table 8:** Procurement and sourcing total revenue forecast by revenue type, 2005–2010

Revenue Type	Revenue, 2005 (\$M)	Revenue, 2006 (\$M)	Revenue, 2007 (\$M)	Revenue, 2008 (\$M)	Revenue, 2009 (\$M)	Revenue, 2010 (\$M)	Five-Year CAGR
Application Software License	688	779	797	832	869	906	6%
Application Hosting/Subscription	258	310	389	476	575	687	22%
Software Maintenance	438	452	493	533	545	556	5%
Implementation, etc.	766	810	882	925	999	1079	7%
Hardware and Other Equipment	31	31	34	36	39	43	7%
<b>Total</b>	<b>2181</b>	<b>2381</b>	<b>2595</b>	<b>2803</b>	<b>3027</b>	<b>3269</b>	<b>8%</b>

Source: AMR Research, 2006

**Table 9:** Procurement and sourcing total revenue share, 2005–2010

Revenue Type	Revenue Share, 2005	Revenue Share, 2006	Revenue Share, 2007	Revenue Share, 2008	Revenue Share, 2009	Revenue Share, 2010
Application Software License	32%	33%	31%	30%	29%	28%
Application Hosting/Subscription	12%	13%	15%	17%	19%	21%
Software Maintenance	20%	19%	19%	19%	18%	17%
Implementation, etc.	35%	34%	34%	33%	33%	33%
Hardware and Other Equipment	1%	1%	1%	1%	1%	1%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: AMR Research, 2006

**Table 10:** Procurement and sourcing total revenue growth rates, 2005–2010

Revenue Type	Growth Rate, 2005	Growth Rate, 2006	Growth Rate, 2007	Growth Rate, 2008	Growth Rate, 2009	Growth Rate, 2010	Five-Year CAGR
Application Software License	4%	13%	2%	5%	4%	4%	6%
Application Hosting/Subscription	125%	20%	26%	22%	21%	19%	22%
Software Maintenance	-3%	3%	9%	8%	2%	2%	5%
Implementation, etc.	6%	6%	9%	5%	8%	8%	7%
Hardware and Other Equipment	-32%	1%	9%	8%	8%	8%	7%
<b>Total</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>

Source: AMR Research, 2006

**Table 11:** Procurement and sourcing total revenue forecast by geographic region, 2005–2010

Region	Revenue, 2005 (\$M)	Revenue, 2006 (\$M)	Revenue, 2007 (\$M)	Revenue, 2008 (\$M)	Revenue, 2009 (\$M)	Revenue, 2010 (\$M)	Five-Year CAGR
North America	1269	1398	1483	1537	1620	1741	6%
Europe	632	643	727	813	878	948	10%
Asia-Pacific	219	262	287	312	363	392	15%
Latin America	33	42	52	63	76	90	31%
Rest of World	28	37	47	78	91	98	26%
<b>Total</b>	<b>2181</b>	<b>2381</b>	<b>2595</b>	<b>2803</b>	<b>3027</b>	<b>3269</b>	<b>9%</b>

Source: AMR Research, 2006

**Table 12:** Procurement and sourcing total revenue share by geographic region, 2005–2010

Region	Revenue Share, 2005	Revenue Share, 2006	Revenue Share, 2007	Revenue Share, 2008	Revenue Share, 2009	Revenue Share, 2010
North America	58%	59%	57%	55%	54%	53%
Europe	29%	27%	28%	29%	29%	29%
Asia-Pacific	10%	11%	11%	11%	12%	12%
Latin America	2%	2%	2%	2%	3%	3%
Rest of World	1%	2%	2%	3%	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: AMR Research, 2006

**Table 13:** Procurement and sourcing total revenue growth rates by geographic region, 2005–2010

Region	Growth Rate, 2005	Growth Rate, 2006	Growth Rate, 2007	Growth Rate, 2008	Growth Rate, 2009	Growth Rate, 2010	Five-Year CAGR
North America	4%	10%	6%	4%	5%	7%	6%
Europe	18%	2%	13%	12%	8%	8%	10%
Asia-Pacific	22%	20%	10%	9%	17%	8%	15%
Latin America	64%	27%	25%	22%	20%	19%	31%
Rest of World	1%	30%	27%	68%	16%	8%	26%
<b>Total</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>9%</b>

Source: AMR Research, 2006

**Table 14:** Procurement and sourcing total revenue forecast by application segment, 2005–2010

Application Segment	Revenue, 2005 (\$M)	Revenue, 2006 (\$M)	Revenue, 2007 (\$M)	Revenue, 2008 (\$M)	Revenue, 2009 (\$M)	Revenue, 2010 (\$M)	Five-Year CAGR
Procurement	1134	1179	1212	1275	1338	1438	4%
Sourcing	742	833	934	1037	1150	1242	12%
Contract	207	250	311	336	363	392	15%
Other*	98	119	138	154	176	196	24%
<b>Total</b>	<b>2181</b>	<b>2381</b>	<b>2595</b>	<b>2803</b>	<b>3027</b>	<b>3269</b>	<b>9%</b>

Source: AMR Research, 2006

**Table 15:** Procurement and sourcing total revenue share by application segment, 2005–2010

Application Segment	Revenue Share, 2005	Revenue Share, 2006	Revenue Share, 2007	Revenue Share, 2008	Revenue Share, 2009	Revenue Share, 2010
Procurement	52%	50%	47%	46%	44%	44%
Sourcing	34%	35%	36%	37%	38%	38%
Contract	10%	11%	12%	12%	12%	12%
Other*	5%	5%	5%	6%	6%	6%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: AMR Research, 2006

**Table 16:** Procurement and sourcing total revenue growth rates by application segment, 2005–2010

Application Segment	Growth Rate, 2005	Growth Rate, 2006	Growth Rate, 2007	Growth Rate, 2008	Growth Rate, 2009	Growth Rate, 2010	Five-Year CAGR
Procurement	4%	4%	3%	5%	5%	8%	4%
Sourcing	13%	12%	12%	11%	11%	8%	12%
Contract	16%	21%	25%	8%	8%	8%	15%
Other*	64%	21%	16%	12%	14%	12%	24%
<b>Total</b>	<b>10%</b>	<b>9%</b>	<b>9%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>	<b>9%</b>

\* Includes supplier scorecards.

Source: AMR Research, 2006

## Appendix A: Related research

### Market Sizing Series

The following vendor survey-based Market Sizing Reports will be available from the AMR Research Market Analytix Service:

- The Enterprise Resource Planning Report, 2005–2010
- The Supply Chain Management Applications Report, 2005–2010
- The Product Lifecycle Management Applications Report, 2005–2010
- The Human Capital Management Applications Report, 2005–2010
- The Procurement and Sourcing Applications Report, 2005–2010
- The Customer Management Applications Report, 2005–2010
- The Global Enterprise Applications Market, 2005–2010

These Reports present views on specific markets by software vendor, technology, customer base, and market forecast through 2010.

- Software vendors
  - Revenue and growth rates from 2004 to 2006
  - Revenue from software licensing, hosting or subscriptions, software maintenance, implementation service/training/consulting/custom development, computer systems hardware and other equipment, and other
  - Revenue by software application segment
- Technology
  - Revenue by operating environment
  - Revenue by database system
- Customer base
  - Revenue by customer company size
  - Revenue by geographic region
  - Revenue by vertical industry
- Forecast, 2005–2010
  - 2006 revenue forecast for individual software vendors
  - Five-year forecast of market revenue by revenue type
  - Five-year forecast of market revenue by application type
  - Five-year forecast of market revenue by geographic region



## **IT Spending Series**

This essential market research reference is focused on the demand for information technology and software. Based on an annual survey of technology end users, the study provides insight into purchasing trends by industry and company size. The IT Spending Reports include the following:

- U.S. Enterprise IT Spending, 2006–2007
- U.S. SMB IT Spending, 2006–2007
- European SMB IT Spending, 2006–2007

## **Application Spending Series**

This customer-driven, demand-side research is focused on understanding application-level trends in adoption, investment, and future deployment. Based on an annual survey of technology end users, the study provides insight into application purchasing trends by industry and company size. The Application Spending Reports include the following:

- The Enterprise Resource Planning Spending Report, 2006–2007
- The Supply Chain Management Spending Report, 2006–2007
- The Customer Management Spending Report, 2006–2007
- The Human Capital Management Spending Report, 2006–2007

## **Market Trends Series**

The business world of the technology user is full of changes, from increasing government regulations to constantly shifting business priorities. The Market Trends research focuses on areas such as compliance spending or the service-oriented architecture to help software vendors and service providers understand evolving customer demands and their place in the market. The Market Trends Reports include the following:

- Spending in an Age of Compliance, 2006
- Outsourced and Offshore Engineering Services Spending Trends, 2006
- Trends in Performance Management Spending, 2006

## Appendix B: Research methodology

AMR Research's Market Analytix group tracks the enterprise software market from the bottom up. For this purpose, we have developed a database of software vendors that provide applications to enterprises worldwide.

### Selection criteria for application software vendors

AMR Research's goal is to capture the leading 90% (by revenue) of enterprise application software vendors that are actively pursuing business within the United States. To be included in AMR Research's effort, vendors must meet the following qualifications:

- Develop and sell packaged application software products either directly to end users or through a third-party distribution channel (this excludes third-party distributors and developers that OEM source code exclusively)
- Achieve a minimum of \$1M in total annual revenue or provide a fast-growing new technology or functionality—for example, Internet-enabled advanced planning and scheduling (APS) applications
- Provide packaged software applications in the following segments: enterprise resource planning (ERP), procurement, supply chain management (SCM), customer management, human capital management (HCM), and product lifecycle management (PLM)
- Provide systems hardware as part of a turnkey solution only (this excludes hardware vendors like Sun, which does not provide application software)
- Provide implementation services, including consulting, customization, system integration, and training, as part of its application software business and not as stand-alone services only

### Information collection

Information on application software vendors is derived from a number of sources:

- Software vendor surveys distributed in February
- End-user surveys that detail application software suppliers and company spending
- Vendor and end-user communications with AMR Research
- Annual reports, 10Ks, 10Qs, and initial public offering (IPO) prospectuses
- Trade publications, seminars, and conferences
- The Internet

AMR Research has developed a Vendor Information Request survey form that is distributed to each company in our software vendor database. AMR Research then follows up with these companies to ensure the timely return of the completed survey. Inconsistencies or questions are resolved between AMR Research and each company before the data is entered into our database.

It is easier to gather detailed company information from publicly held companies or those close to filing IPOs than from privately held companies. In cases where companies do not share performance information with AMR Research, we estimate financial information based on a number of factors. These include, but are not limited to, customer information, information by business partners, competitors, resellers, and analyst estimates. AMR Research shares these estimates with the company for confirmation or correction before entering them into the database.

Companies that do not want their revenue published or that are smaller than \$1M in total revenue are included in the Other segment.

### **Database for software vendors**

Based on the selection criteria outlined above, AMR Research has built a software vendor database that provides detailed information for each company on the following metrics:

- Total company revenue and revenue by product type (software licenses, hosting or subscription, maintenance, implementation, hardware, and other)
- Number of existing and new customers
- Software revenue by application segments
- Software revenue by operating system
- Software revenue by database management system
- Software revenue by customer size
- Software revenue by geographic region
- Software revenue by vertical industry
- Software revenue by distribution channel

## Company revenue by revenue type

Most application software vendors sell more than software licenses. They also provide installation, implementation, training, and other services, including turnkey solutions. In order to understand a software vendor's business model and its future revenue potential, AMR Research determines the share of its revenue derived from each of the following segments:

- Application software licenses generally provide the highest profitability and signal future growth opportunities. Application software license revenue can be derived either from licenses paid in full or from one-year license fees/leases. Application software license revenue does not include revenue from middleware, database runtime licenses, or one-of-a-kind software products developed for a specific customer.
- Hosting or subscription revenue captures revenue from application service providers (ASPs) for the leasing or hosting of software.
- Software maintenance provides a stable revenue stream. However, a maintenance share higher than industry average can indicate a lack of new customer growth or market momentum. Generally, software maintenance includes free upgrades, bug fixes, access to bulletin boards, and some software support. It does not include implementation service, training, consulting, software customization, or custom development, among other things.
- Revenue from implementation services, training, consulting, and custom development, among others, is harder to manage and generally provides lower profitability than software licenses. Most application software vendors prefer to hand off a share of these revenue opportunities to system integrators (SIs) or value-added resellers (VARs).
- Revenue from computer hardware sold by software vendors has been decreasing the last few years. However, market niches remain for midrange manufacturers that demand complete systems. AMR Research does not include computer hardware sold without application software by companies like Sun Microsystems in this Report.

## Application segments

### *Enterprise management*

- Core ERP (including core financials)
- Finance and revenue management (stand alone)

### *Supply chain management*

- Supply chain network design and simulation
- Order management
- Order promising (CTP, ATP, CTD)
- Transportation management
- International trade logistics
- Warehouse management
- Supply chain event management and visibility
- Manufacturing and distribution planning (supply planning and multifacility optimization)
- Production scheduling
- Demand planning and forecasting
- Collaborative forecasting
- Sales and operations planning systems
- Inventory configuration and inventory policy
- Service parts management and replenishment
- Vendor-managed inventory (VMI) systems
- Supply chain performance management

### *Customer management*

- Marketing automation
- Pricing management
- Order management entry
- Sales force automation (SFA)
- Online sales/e-commerce suites
- Customer service
- Call center infrastructure (i.e. call routing, universal queue, CTI, interactive voice response, etc.)
- Web self-service applications
- Field service
- Channel management
- Marketing analytics
- Trade promotion management

### *Human capital management*

- Core HR
- Talent acquisition and recruiting
- Employee performance management
- Workforce development
- Enterprise incentive management (EIM)
- Workforce scheduling and optimization
- Professional services automation

### *Product lifecycle management*

- Product data management
- Portfolio management/program management/decision support
- Collaborative design/engineering
- Customer needs management
- Computer-aided design/manufacturing (CAD/CAM)

### *Procurement and sourcing*

- Indirect procurement management
- Direct procurement management
- Sourcing
- Contract management
- Supplier scorecard and performance management

## **Geographic revenue distribution**

AMR Research provides information on vendors' worldwide revenue distribution by five main geographic regions. (Vendors included in this analysis are active within the United States and Europe, although their headquarters may be elsewhere.)

- North America—United States, Canada
- Europe—Western and Eastern Europe, including Russia and other parts of the former Soviet Union
- Asia-Pacific—Australia, China, Hong Kong, India, Japan, Korea, New Zealand, Singapore, Taiwan, Thailand, among others
- Latin America—Mexico, Central America, the Caribbean, and all of South America
- Rest of World—e.g., Africa, the Middle East

## Customer base by revenue size

AMR Research reports on application software revenue derived from sales to companies within the following ranges of annual revenue:

- Less than \$30M
- \$30M to \$249M
- \$250M to \$999M
- \$1B or more

This allows AMR Research to be up-to-date with trends relating to the movement toward the middle market.

## Vertical industries

AMR Research has divided the addressable market into 24 industries. The guiding principle behind this segmentation is to group together industries that require similar functionality, and thus those that can be serviced by the same software vendor or the same sales force.

AMR Research's vertical industry segments are as follows:

- Resource extraction—metal mining, coal mining, oil and gas extraction, nonmetallic mineral mining
- Utilities—electric, gas, water, sewer
- Telecommunication services—voice or data communication services, internet service providers (ISPs)
- Textiles manufacturing—textile mill products, broadwoven fabric mills, carpet and rugs, similar products
- Apparel manufacturing—clothing of all kinds, curtains and draperies, leather products
- Wood products and paper manufacturing, printing—saw mills, millwork, plywood, pulp and paper mills, printing and publishing
- Petroleum products, chemicals, plastics—petroleum refining, asphalt, chemicals and allied products, biological products, paints, fertilizers, adhesives, plastics, plastic films, rubber and like products (This is the traditional continuous process market, with large dedicated plants and extensive control automation producing bulk fuels, petrochemicals, and chemicals.)
- Pharmaceuticals/biotechnology—pharmaceutical preparations, medicinal chemicals (Pharmaceuticals are characterized by stringent regulatory requirements, including detailed recordkeeping on both materials and processes.)

- Primary/fab metal manufacturing—steel works, iron foundries, smelting, rolling or drawing of metal, fabricated metal products (e.g., cans, hardware, sheet metal, screw machine, springs), similar products
- Machinery manufacturing—internal combustion engines, farm machinery, construction machinery, machine tools, elevators, wood or metal working machinery, and other industrial machinery
- Computer and electronics—computers, computer storage and peripherals, office machines, electronic equipment, appliances, lighting, electronic components (semiconductors, capacitors)
- Automotive and auto parts manufacturing—motor vehicles, trucks, trailers, associated parts
- Aerospace and defense (A&D) manufacturing—aircraft, aircraft engines and parts, tanks
- Food and beverage, consumer packaged goods (CPG)—meat, poultry, dairy, fruits, vegetables, cereal, baked goods, beer, wine, soft drinks, prepared foods, tobacco products, soaps and detergents, cosmetics (CPG products have recipe-based processes, followed by high-speed discrete packaging to feed the supply chain.)
- Other manufacturing—motor homes, boat building, motorcycle and bicycle manufacturing, instruments and clocks, jewelry, sporting goods
- Wholesale trade—trade of durable and nondurable goods
- Retail trade—hardware stores, department stores, supermarkets, auto dealers, clothing stores, furniture stores, eating and drinking places, miscellaneous stores including Internet retail stores
- Transportation and warehousing—railroads, motor freight, warehousing, courier services, water and air transportation
- Information—radio, telephone, television, cable, communication services, motion pictures
- Finance and insurance—depository institutions, credit institutions, security and commodity brokers, insurance carriers and agents
- Healthcare and social assistance—health services, hospitals, medical offices and laboratories, social services
- Education—elementary and secondary schools, colleges and universities, vocational schools
- Other services—real estate, hotels, personal services (laundry, beauty and barber, repair shops), business services, auto repair, miscellaneous repair, amusement and recreation services, legal, engineering, management services
- Public administration—executive, legislative, judiciary, public order, taxation, human resource administration, environmental and economic programs, national security



## Forecasting

AMR Research provides two forecasts. The first is a one-year forecast by revenue for each software vendor included in AMR Research's database. The one-year forecasts are rolled up into growth projections for the overall market for the vendors that AMR Research covers. The second is a five-year forecast by type of revenue.

- One-year forecast—The one-year forecast is developed by AMR Research with input from a number of sources:
  - Vendors' own growth expectations
  - End-user spending plans
  - Wall Street analysis
  - AMR Research's competitive analysis
  - Regional and worldwide economic growth expectations
- Five-year forecast—The five-year forecast focuses on revenue of all major software vendors active within the United States and Europe, based on long-term growth expectations. These growth projections are primarily based on the following factors:
  - Past and present performance by application segment
  - End-user IT investment plans
  - Emerging/declining technologies
  - Worldwide business drivers

# Acronyms and Initialisms

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## Research and Advice That Matters

AMR Research is the No. 1 advisory firm focused on supply chain, enterprise applications, and next-generation architecture. Founded in 1986, AMR Research provides advisory services and peer networking opportunities to supply chain and technology executives in the consumer, life sciences, manufacturing, and retail sectors. More information is available at [www.amrresearch.com](http://www.amrresearch.com).

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**AMR-R-19573**

A&D	Aerospace and defense
APS	Advanced planning and scheduling
ASP	Application service provider
BPO	Business process outsourcing
CAD	Computer-aided design
CAGR	Compound annual growth rate
CAM	Computer-aided manufacturing
CPG	Consumer packaged goods
EIM	Enterprise incentive management
ERP	Enterprise resource planning
HCM	Human capital management
IPO	Initial public offering
ISP	Internet service provider
MDM	Master data management
MRO	Maintenance, repair, and overhaul
PLM	Product lifecycle management
ROI	Return on investment
SaaS	Software as a service
SCM	Supply chain management
SFA	Sales force automation
SI	Systems integrator
SMB	Small and midsize business
SRM	Supplier relationship management
SOX	Sarbanes-Oxley Act
VAR	Value-added reseller
VMI	Vendor-managed inventory