

EXCERPT

Worldwide Business Rules Management Systems 2009–2013 Forecast Update and 2008 Vendor Shares (Excerpt from IDC #220589)

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IN THIS EXCERPT

The content for this excerpt was taken directly from the IDC Market Analysis Report, Worldwide Business Rules Management Systems 2009–2013 Forecast Update and 2008 Vendor Shares, by Stephen Hendrick (Doc # 220589). All or part of the following sections are included in this excerpt: Situation Overview, Future Outlook, and Synopsis. Also included are Tables 1 & 2, and Figures 1-3.

SITUATION OVERVIEW

The Business Rules Management Systems Market in 2008

Growth in the BRMS market was robust in the early years (up through 2006) due to the reasonably mature products delivered by the leading vendors and a relatively modest market size. This changed in 2007 as rules technology that surfaced in other software markets (notably business process management) began to compromise the advantage that the pure-play vendors had enjoyed. Although the products of the leading pure-play BRMS vendors were head and shoulders above the embedded functionality that existed elsewhere, much of this alternative functionality was sufficient to address basic rule processing needs, thereby limiting OEMing opportunities. OEMing by the leading pure-play vendors was also not common due to the slimmer margins and functional overkill relative to what the BPM and other vendors needed. However, OEMing did provide some new vendors with a useful path to significant revenue. Corticon was an example of a vendor that used the OEM model to its advantage in its early years. Although Microsoft and Oracle had rules technology by 2007, neither was promoting it strongly, and IBM had yet to make any real commitment to BRMS other than through partnering. This lack of visibility and messaging by the large platform vendors also contributed to a slowing of market momentum. Annual growth in 2007 amounted to just 10.4%, which was a significant decline from 20.5% growth in 2006.

Although 2008 began to shape up as a better year, a slowdown fueled by the credit crisis that began in 4Q08 once again tempered growth, as financial institutions simply stopped spending. Since financial services accounts for a significant portion of BRMS revenue, growth in this sector was shattered. While growth in other sectors was impacted less, visibility remained an issue for BRMS throughout 2008. Consequently, BRMS market revenue growth in 2008 was nearly a repeat of 2007. Revenue

increased from \$258.1 million in 2007 to \$285.3 million in 2008, resulting in annual growth of 10.5%, as shown in Table 1.

Revenue in the BRMS market continues to be clustered around the leading vendors. IBM (ILOG) and Fair Isaac (now renamed as FICO) continue as well-established market leaders and together account for 42.1% of BRMS revenue. CA continues to have success with Aiiion and pull-through from BPM extensions. Pegasystems, the fourth-ranked vendor, also saw spectacular revenue growth due to pull-through from its BPM products. Oracle has rapidly emerged as a force in BRMS as a result of pull-through from its Fusion middleware stack and BPM offering.

TABLE 1

Worldwide Business Rules Management Systems Revenue by Vendor,
2005–2008 (\$M)

	2005	2006	2007	2008	2007 Share (%)	2006–2007 Growth (%)	2008 Share (%)	2007–2008 Growth (%)
IBM (ILOG)	41.3	49.8	59.7	65.0	23.1	19.9	22.8	8.9
FICO (Fair Isaac)	45.1	53.5	54.1	55.0	21.0	1.1	19.3	1.6
CA	29.1	32.8	33.7	37.4	13.1	2.9	13.1	10.9
Pegasystems	12.6	12.3	15.4	21.8	6.0	25.4	7.7	41.6
Oracle	14.0	17.1	14.2	16.4	5.5	-17.0	5.7	15.5
Corticon	6.0	9.1	11.1	12.4	4.3	22.2	4.3	11.5
ESI	6.0	6.8	7.6	8.6	3.0	12.1	3.0	13.2
IDS Scheer AG	0.0	2.9	4.5	4.6	1.7	55.2	1.6	2.6
Object Connections	2.4	2.6	3.0	3.6	1.2	12.4	1.3	22.4
SAP	2.4	2.6	2.9	3.6	1.1	10.4	1.3	24.1
InRule Technology	1.1	2.2	2.5	3.4	0.9	11.4	1.2	38.7
BR Solutions	2.2	2.5	2.8	3.1	1.1	11.4	1.1	10.8
Innovations Software Technology	4.2	5.8	3.3	2.8	1.3	-43.1	1.0	-15.2
Openjaw Technologies	1.8	1.9	2.2	2.5	0.8	11.9	0.9	15.4
Sapiens USA Inc.	3.6	3.2	3.2	2.5	1.3	1.6	0.9	-22.5
Red Hat Inc.	0.3	0.3	0.8	1.6	0.3	140.2	0.6	100.0

TABLE 1Worldwide Business Rules Management Systems Revenue by Vendor,
2005–2008 (\$M)

	2005	2006	2007	2008	2007 Share (%)	2006–2007 Growth (%)	2008 Share (%)	2007–2008 Growth (%)
Subtotal	172.1	205.5	221.0	244.4	85.6	7.5	85.6	10.6
Other	21.9	28.3	37.1	41.0	14.4	31.3	14.4	10.3
Total	194.0	233.7	258.1	285.3	100.0	10.4	100.0	10.5

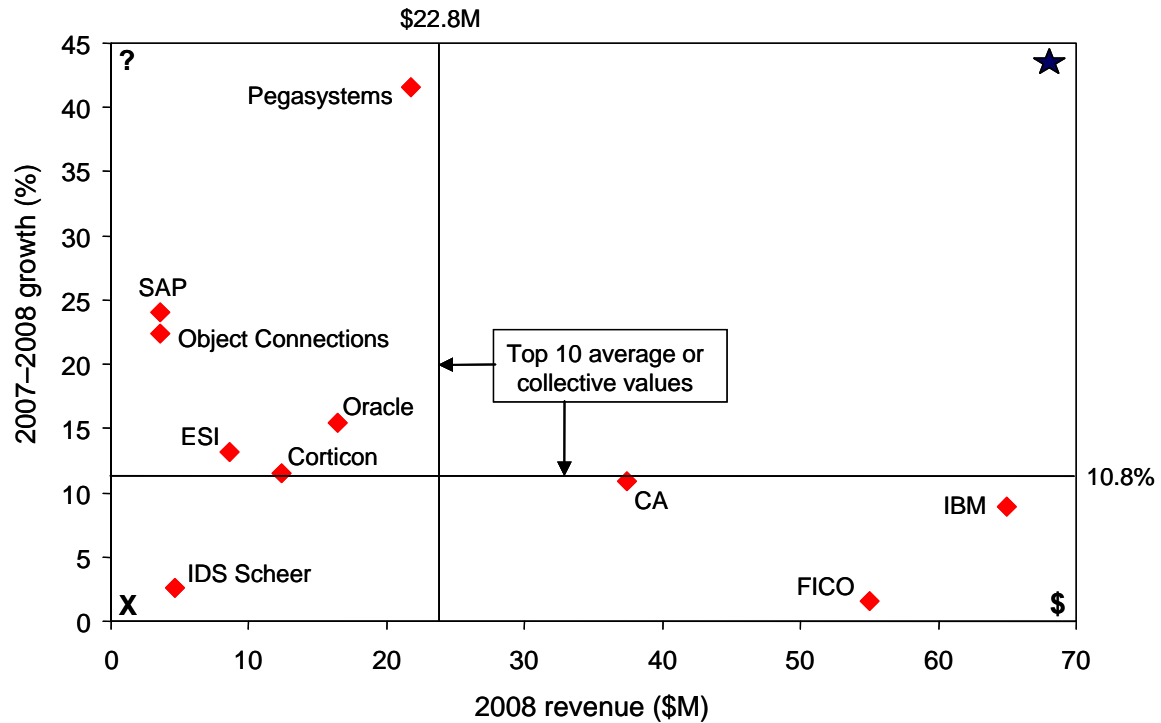
Source: IDC, October 2009

Performance of the Leading Vendors

The revenue and growth for the top 10 vendors in Table 1 is perhaps better visualized in Figure 1. The cross-hairs in Figure 1 denote the average share (x-axis) and collective growth (y-axis) of the top 10 BRMS vendors. Average revenue for the top 10 vendors is \$22.8 million, and collective growth for the top 10 vendors is 10.8%. These revenue and growth cross-hairs enable us to categorize the performance of these top 10 vendors into four unequal-sized quadrants.

FIGURE 1

Worldwide Business Rules Management Systems 2008 Revenue Growth/Share Matrix for the Top 10 Vendors



Source: IDC, October 2009

We have elected to show ILOG revenue as IBM due to EU confirmation of the acquisition in November 2008 and completion of the deal on January 6, 2009. Statements from IBM senior management in the wake of the ILOG acquisition indicate significant internal interest from the various brands in leveraging ILOG BRMS technology. Leverage by the brands will act as a force multiplier in driving external visibility. IBM's large software sales organization, combined with potential widespread use by IBM's global business services, will help significantly with external visibility. With these force multipliers in place, we would anticipate a significant bump in IBM BRMS revenue after 2008.

The lower-right quadrant is characterized by high relative revenue/share and low relative growth and tagged as the "cash cow" quadrant. IBM and FICO (the new name for Fair Isaac) currently both reside in the lower-right quadrant due to revenue that is significantly higher than that of the other vendors in the market but growth for 2008 that was below the average of the top 10 vendors. Together, these two vendors account for 42.1% of BRMS market revenue. While not as advantageous as the upper-right quadrant, this is the next best quadrant to reside in, since vendors here already have an established track record, and all that is missing is a higher-than-average annual growth rate to once again obtain a "star" status. The financial crisis that began in 2008 clearly had an impact on both of these vendors due to their close relationship with the financial services market. The systemic shock to the BRMS market when IBM acquired ILOG created a brief distraction that would have slowed

sales for both IBM and FICO as prospects evaluated how this acquisition would change the BRMS landscape.

CA and Pegasystems both border the upper-right quadrant, which is defined by both high relative revenue and high relative growth. CA, also a pioneer in the BRMS market with Aiion, soldiers on with BPM extensions for workflow and business activity monitoring. CA is seeking to redirect Aiion's BRMS capabilities in the BPM direction, as others such as Pegasystems have successfully done. Pegasystems, while years ago gaining cache as a BRMS vendor, has now largely transformed into a business process management system (BPMS) vendor. However, Pegasystems continues to sell a BRMS solution, and part of its growth story is a result of pull-through from its success in BPMS. Both CA and Pegasystems remain well positioned to achieve "star" status if they can continue to show high growth by building out their BPMS agenda while at the same time investing in the ecosystem of technologies that is now forming around BRMS.

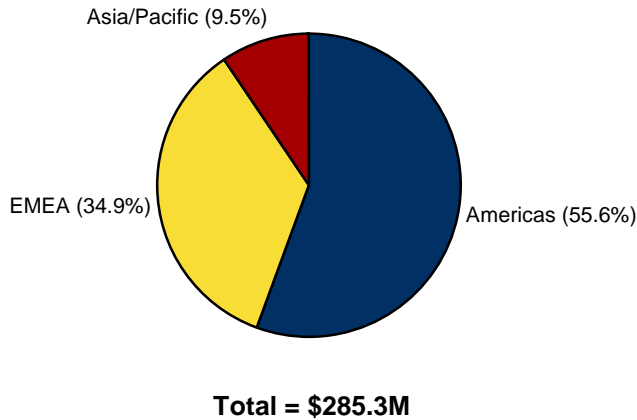
There are a large number of top 10 vendors that reside in the upper-left quadrant, including SAP (from its Yasu Technologies acquisition), Object Connections, Oracle, ESI, and Corticon. This quadrant is characterized by high relative growth and low relative revenue share. Vendors that reside here have acute growth requirements in order to remain competitive. Since revenues for these vendors are in the \$5 million to \$20 million range, the good news is that not a lot of new license revenue is required to drive high growth rates. However, the challenge is in maintaining this high growth for multiple years in order to establish the significant revenue that is necessary for "star" status.

Performance by Geographic Region in 2008

Figure 2 shows worldwide BRMS revenue shares by geography. Consumption of BRMS technology is heavily centered in the Americas, with revenue of \$158.5 million and a 55.6% market share. Europe, the Middle East, and Africa (EMEA) is also a very strong BRMS market, with revenue of \$99.7 million, which accounts for a 34.9% market share. Asia/Pacific (including Japan) generated BRMS revenue of \$27.1 million and a 9.5% market share.

FIGURE 2

Worldwide Business Rules Management Systems Revenue Share by Region, 2008



Source: IDC, October 2009

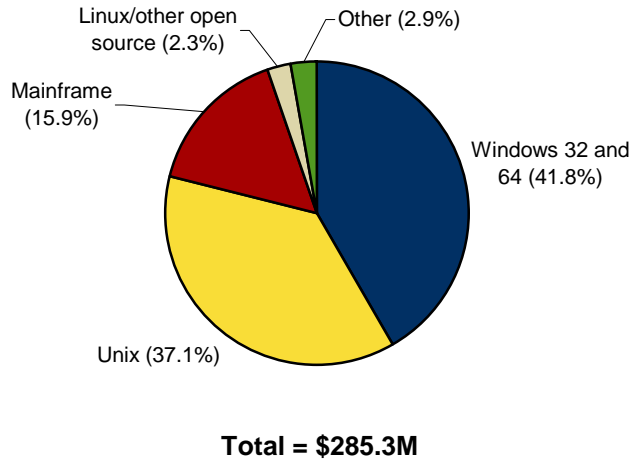
Performance by Operating Environment in 2008

Figure 3 displays worldwide BRMS revenue shares by operating environment. Business rules have a significant Windows and Unix orientation. Unix was in fact the leading deployment platform for BRMS through 2007. This changed in 2008 when Windows passed Unix. This change occurred because Windows simply provides a better user experience for authoring and development of BRMS applications and Windows has a far bigger footprint on clients than any other OS. Windows has also achieved a larger footprint in application deployment for mission-critical applications than any other operating system.

Windows 32- and 64-bit versions accounted for the majority of BRMS revenue in 2007 at \$119.2 million, which equates to a 41.8% market share. Unix was a close second, with revenue of \$105.9 million and a 37.1% market share. Mainframes continue to be a material operating environment for BRMS, with revenue of \$45.3 million, which equates to a 15.9% market share. Linux has also rapidly emerged as an open source alternative to Unix and in 2008 accounts for revenue of \$6.7 million, a 2.3% market share. All other operating environments (i5 and OS/400, other single user, other multiuser, and embedded) saw revenue of just \$8.2 million and a market share of 2.9%.

FIGURE 3

Worldwide Business Rules Management Systems Revenue Share by Operating Environment, 2008



Source: IDC, October 2009

FUTURE OUTLOOK

Forecast and Assumptions

Despite the modest overall revenue in the worldwide pure-play BRMS market, this market has matured and firmly established itself as a key construct for application development and deployment. There are a host of reasons for this, but the short list includes the better alignment of business and IT, process automation, process improvement, agility, and governance. Other key longer-term drivers include cloud computing and dynamic decision management (DDM).

This worldwide BRMS forecast is driven by a variety of key assumptions based on these trends. This forecast was built by first identifying these assumptions, defining their attributes, and vetting them within the AD&D research group. These assumptions were then quantified with respect to their impact on the worldwide BRMS market. Table 2 identifies these key assumptions and provides a qualitative assessment of their impact and certainty.

TABLE 2

Key Forecast Assumptions for the Worldwide Business Rules Management Systems Market, 2009–2013

Market Force	IDC Assumption	Impact	Accelerator/ Inhibitor/ Neutral	Certainty of Assumption
Macroeconomics				
The economy	Worldwide economic growth will plummet in 2009, from 2.5% to 1.8% worldwide, as a result of the financial crisis that became agonizingly acute in September 2008. IDC believes that all economic forecasts at the moment are likely to be subject to change, so we have agreed to create IT forecasts based almost exclusively on those in the IMF World Economic Outlook published in October. Some highlights for 2009: United States — 0%; Western Europe — 0.2%; Japan — 0.5%. The global economy is expected to return to 3.1% growth in 2010.	High. The economy is now a net inhibitor on IT spending. We expect almost all regions to experience economic shocks, not just from slower demand but also from tighter, more costly credit and from changing consumer and buyer behavior.	↓	★★★★☆
IT spending	IT spending is expected to negatively impact the BRMS market in 2009 and, to a lesser degree, in 2010. A modest recovery will follow in 2011 but won't have a material impact until 2012 and 2013. The delay in IT spending growth is due to the depth of the decline in 2009 and its subsequent impact — slowing the rate of recovery.	High. The contraction in IT spending will be felt across all IT markets and especially in markets like BRMS where the activities are focused more on planning and design and less on the tangible and physical activities associated with application development and deployment.	↓	★★★★☆

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Market Force	IDC Assumption	Impact	Accelerator/ Inhibitor/ Neutral	Certainty of Assumption
Market saturation				
Market momentum	The BRMS market is a growth market due to a low penetration of the total addressable market for BRMS products and mature technology. Recent acquisitions of BRMS technology by IBM (ILOG) and Oracle (Haley) will help bring much needed visibility to this market, along with added organic growth.	Moderate. The low penetration of BRMS technology provides a challenge for vendors in communicating the value propositions regarding BRMS. The increased emphasis by leading vendors on leveraging rules-based systems will drive adoption. The complexity of rules processing based on inferencing is also a challenge for many vendors to communicate to customers if they lack advanced support for addressing referential rule integrity. The small size of the pure-play BRMS market works against its momentum.	↑	★★★★☆☆
Market characteristics				
Open source traction	Open source software (OSS) topped our list of predictions for 2009. There are currently only a few BRMS OSS products, although quality not quantity is what matters for this segment to be disruptive to the leading closed-source products. Promising BRMS OSS products include JBoss BRMS and OpenRules.	Low. The combination of tight budgets and the growing maturity of BRMS OSS suggests that these products will gain an increasing share of new license sales, thereby depressing the revenue growth of closed-source products.	↓	★★★★☆☆

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Market Force	IDC Assumption	Impact	Accelerator/ Inhibitor/ Neutral	Certainty of Assumption
Shift to business services	Enterprises are looking for ways to significantly lower the cost of supporting commodity processes — many of which are mission-critical applications supported by IT. The outsourcing of these activities to a BPO platform or business services vendor or replacement with a software-as-a-service (SaaS) product will shrink the scope and complexity of what IT is responsible for.	Low. The switching costs associated with BPO and business services alternatives will limit the impact of this assumption in the short term, but the economic benefits are hard to ignore when considered in the long term.	↓	★★★★☆☆
Shift to cloud services	SaaS describes a new approach to licensing and, in some cases, use of software assets. The SaaS model has the potential to disrupt traditional pricing models, although for this to be true, the technology must have reasonable parity and the TCO must look significantly different from traditional licensing models.	Low. Most leading vendors will pursue SaaS, but not in a way that cannibalizes existing revenue streams. Vendors that are not leaders but have good product have a first-mover opportunity that could be disruptive.	↓	★★★★☆☆
Governance, risk, and compliance	Compliance is still driving some IT spending, including Sarbanes-Oxley, Basel II, and HIPAA. We don't expect compliance spending to crowd out other IT initiatives; in fact, compliance record keeping could spur initiatives in other areas as companies clean up their act. Increased attention to sound IT governance policies and compliance with regulatory requirements will drive an increased focus on storage and data management.	Moderate. Compliance and governance will have a positive impact on spending on infrastructure software that aids in the archiving, protection, and recovery of data. Compliance spending seems to be funding itself through better-run business operations.	↑	★★★★☆☆
Business awareness	Business awareness is the importance of near-real-time decision management and remediation of IT systems	High. The BRMS market supports this need in some ways through real-time rule updates, dependencies diagrams, impact analysis, and	↑	★★★★☆☆

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Market Force	IDC Assumption	Impact	Accelerator/ Inhibitor/ Neutral	Certainty of Assumption
	issues.	simulation. However, the real goal here is better support for making decisions better and faster, which requires a tighter integration between BRMS and analytics as well as real-time, always-on support for event streams. Although this would appear to be the bastion of CEP, BRMS has an opportunity here through technology improvements that would allow it to shake its "decision service" stigma and avoid being outmaneuvered by CEP.		

Legend: ★☆☆☆☆ very low, ★★☆☆☆ low, ★★★☆☆ moderate, ★★★★☆ high, ★★★★★ very high

Source: IDC, October 2009

Synopsis

This IDC study provides a updated look at the 2009–2013 forecast for the worldwide business rules management systems (BRMS) market. While it is clear that the contraction in IT spending will significantly reduce growth in the BRMS market in 2009 and into 2010, we continue to be optimistic regarding growth opportunities due to the increasing visibility that the market will receive and needs related to business awareness, governance, risk, and compliance. However, the BRMS market has strong enough fundamentals and support from the leading vendors to quickly return to high growth.

"Despite the recession occurring in many key countries around the globe, the long-term outlook for the business rules management systems market remains positive," said Stephen D. Hendrick, group vice president of Application Development and Deployment research at IDC. "The BRMS market is beginning to receive a level of visibility commensurate with its value, which will help drive increased adoption."

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