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Market Overview: The IT Management Software Market In 2008

by Jean-Pierre Garbani and Thomas Mendel, Ph.D.
for Vendor Strategy Professionals

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EXECUTIVE SUMMARY

In 2008, the IT management software market will again experience significant growth. The key trend in IT management software spending will be the widespread adoption of IT process automation technologies across the whole IT management software spectrum. The two main drivers for customers' investment will be economic considerations around a further reduction in operational IT spending and the quest to sustain competitive advantage through superior quality of service. IT management software vendors need to: 1) separate the hype and the buzzwords from the real market trends, and 2) clearly focus their marketing on those two key customer investment drivers. Vendors also need to realize that the market is in the process of separating them into four archetypes and that their overall strategy and direction need to match their respective position in the IT management software value chain.

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Forrester interviewed 14 vendor and user companies.

Related Research Documents

"Global IT 2008 Market Outlook"
February 11, 2008

"Tech Horizons: Sizing The Emerging Market For IT Process Automation Software"
November 19, 2007

"The IT Management Software Market"
March 9, 2007

IT MANAGEMENT HYPE, BUZZWORDS, TRENDS, AND DRIVERS

Since the early days of network and systems monitoring, IT management software has morphed into a highly dynamic, attractive, yet complex market with many different facets. In 2008, the IT management software market is being influenced from three directions: 1) the evolution of infrastructure and application technologies used in IT; 2) the economic factors affecting both IT and customers' buying patterns; and 3) the evolution of IT management technology.¹ The following examples are representative of these influences: The rise of application performance management is the consequence of the widespread use of J2EE application servers; the proliferation of distributed servers in IT organizations stems from a constant improvement in the price/performance ratio of hardware; and business service management (BSM) optimizes the management of infrastructure and applications.

But not all evolutionary changes are actual market drivers. Recent years offer numerous examples of technologies that were inherently interesting but for which the benefits never materialized — resulting in them eventually fizzling out.² To complicate the matter of IT management software evolution, there is hype around issues like virtualization — apply directly to every technology within striking distance — and buzzwords like support for ITIL, which hide the reality of the products.³

Hype: The Impact Of Virtualization Technologies

Virtualization is clearly a very important evolution of data center technologies, as the meteoric rise of VMware and its heavy news coverage demonstrates. The all-important question, however, is what impact it has on data centers and IT production. Citrix, IBM, Microsoft, and Sun Microsystems are all sharpening their virtualization messages, but it may be premature to paint virtualization as the universal panacea of IT production. Although enterprises have widely adopted virtualization over the past three years, it has yet to make in-roads into IT production. The fundamental reason for this lies in the very success of virtualization: It is too easy to use. While “virtualization sprawl” in development and testing is annoying, it does not have a huge impact on the enterprise's bottom line. Not so in production, where controlling the IT environment has been at the center of evolution in recent years: ITIL, the configuration management database (CMDB), BSM, and change and configuration management all aim to provide better control, avoid human error, and reveal where things are and what they do.⁴ Virtualization's ease of use means it is a potentially disruptive technology if left unchecked.

IT production is an example of Newtonian physics: For every action, there is a reaction. The key to a well-managed data center is understanding how the environment will react before we act. Virtualized servers and storage pools — in which an application is reallocated as a function of its performance needs — are certainly possible with the current technology, but there are two important questions to answer: Why should we do this and how do we control it?

The first question requires a sound economic justification of the solution — one *not* based on capacity optimization or on power and cooling limitations, for example. The second demands that the change and configuration management process controls the use of virtualization and that the world of hardware and operating systems cooperates with the world of applications and IT services.

Pending this, the major advantage of virtualization lies in data center standardization, especially when consolidating legacy Unix servers into larger and more manageable systems. Diversity is the enemy of efficient control, and data center environment normalization is a way to reduce administration costs.

This should have a strong impact on capacity planning and modeling: Understanding the behavior of small servers and modeling the end result of consolidation to verify performance should revitalize capacity planning as a discipline and promote some form of server management as a way to collect the fundamental data that capacity management uses.

Buzzwords: ITIL Is A Driver For Business Service Management

Enterprises and vendors still frequently refer to ITIL to justify moving to better and more efficient management solutions. It is clear that managing IT services and using a CMDB seem to support the direct links between BSM and ITIL.⁵ But there is still a deep disconnect between the processes that ITIL expresses and the solutions that BSM promotes. BSM has firmly moved in the direction of high-level control, as witnessed by the growth rate for change and configuration management and the abundance of high-level dashboards. In doing so, BSM is drifting away from the process operator, who is in dire need of a decision support mechanism. IT process automation, with its data aggregation capabilities and its ability to follow a low- and high-level process, may be just the ticket to propel BSM to the next stage.

Trends: IT Process Automation

This is a typical example of the internal progress of IT management. It certainly has more potential than its original name of run book automation indicates: While automating low-level processes is an interesting and necessary application, we believe that process automation reaches beyond this limited horizon. As many enterprises acquired IT management solutions almost on a whim, they are now facing a multiplicity of products, which is proving counterproductive. IT process automation is a solution that can actually interconnect products in an intelligent scheme and aggregate data to be delivered to the right user. The most important announcement to date around this integration potential has come from NetIQ Aegis: It is proposing an architecture that combines data collection from different sources with a process automation layer able to deliver the right information to the right user in the context of an ITIL process. While this is an inherent capability of all IT process automation products available on the market, NetIQ is the first IT management software vendor to take the concept to logical and full implementation.⁶

The main role of IT process automation is to tie the world of processes (as in ITIL) to the world of management control (BSM) and the capabilities for action (data center automation). Today, these are fragmented disciplines; paper processes link them together, and they essentially rely on human skills. Tomorrow, IT process automation will not only aggregate information for analysis and thus support decision-making, but it will also tie in the remediation actions that are only loosely coupled with infrastructure control today.

Drivers: Economic Considerations And Quality Of Service

The uncertainty of the 2008 economic situation is certainly not conducive to lavish IT spending. Forrester's IT spending outlook for 2008 forecasts that software investments will fare better than average, with 8% growth in 2008 compared with 11% growth in 2007. However, the dominance of US-based IT management software companies and the weakness of the dollar against other currencies — especially the euro — will actually boost the dollar revenues of US-based companies with a strong presence in Europe, the oil-rich Middle East, and the fast-growing Asia Pacific markets.⁷ Hence, the impact of exchange rate fluctuations on the IT management software market will reflect the diversity and heterogeneity of the wider IT market.

- **Enterprises engaged in reducing IT operation costs will continue to do so.** Many enterprises have realized that the cost of IT operations weighs heavily on their IT budget. The typical answer is a three-pronged strategy: 1) reduce the diversity in the data center; 2) adopt best practices and, in particular, adopt ITIL; and 3) rationalize the tool set in IT operations with BSM. These enterprises will not disengage from their improvement strategy, as it already aims to cut costs; they will instead actually accelerate the transformation of their IT operations into a more efficient model.

“We cut our IT ops budget by 25% over the past three years while still maintaining our service levels — all through strict standardization and automation.” (IT operations manager, European manufacturing company)

- **Enterprises for which quality of service is a competitive advantage will also invest.** In many industries — and especially financial services and insurance — Web-based applications are now a major business channel. Quality of service, although not the main differentiator, is still perceived to give companies a competitive edge. Forrester therefore sees investments in this area forging ahead.

“If our Web applications do not perform below a threshold of a few seconds, we lose business to the competition. This is why we will continue to invest in the most advanced management technologies as they come to market.” (CIO, global financial services company)

- **Enterprises using IT management at the tactical level will have mixed feelings.** Although we see a major trend toward moving IT management tools to the strategic category, the vast majority of enterprises still acquire them in reaction to immediate issues. Some of these enterprises will continue to acquire new tools as needed, but we expect many of them to defer tool acquisition — or, at the very least, tool renewal. We also expect some of these enterprises to shop for better deals from smaller infrastructure management vendors: This would have an impact on specific areas of the IT management software market, primarily fundamental monitoring products like server management and network management in particular.

“I decided to freeze investment in IT management software for 2008. This year, we will investigate cheaper yet more holistic options for our management needs.” (IT manager, South American cement manufacturer)

THE IT MANAGEMENT SOFTWARE VENDOR LANDSCAPE

The IT management software vendor landscape is increasingly evolving in two opposite and yet complementary directions.

- **BMC Software, CA, HP, and IBM are increasingly dominant at the top of the pile.** The four megavendors are increasing their share of the IT management software market by acquiring smaller companies. In 2007, they represented 43% of the market. HP’s acquisition of Mercury alone represented a significant gain in market share for the big four. All four companies now offer a portfolio that spans all 12 IT management software categories.
- **Smaller vendors are increasingly present at the bottom of the pile.** As the major markets in North America, Europe, and parts of Asia Pacific move toward ITIL and BSM, smaller companies increasingly commoditize monitoring fundamentals like network management and server management. They sometimes use an open source base to provide a well-rounded and capable monitoring solution at a fraction of the cost of a proprietary one. This of course attracts midmarket enterprises and an increasing number of large enterprises.
- **Being caught in the middle is increasingly dangerous.** The middle of the pack is quite heterogeneous. Most of the time, vendors are either building a portfolio of IT management software products or are becoming very successful at selling a unique product. The big challenge for these vendors is to determine their next market move, as they are increasingly competing on two fronts against the big and small vendors.

The overall market results clearly reflect this: The market share of the top 10 vendors grew significantly in 2007, to the detriment of the “other” vendors in the space (see Figure 1).⁸

The Polarization Of The IT Management Software Market

Using Forrester’s demand-side data on IT spending plans and taking into consideration the market categories, Forrester estimates the global market for IT management software licenses and maintenance revenues to be more than \$18 billion in 2008. We show how the different market categories participate in this global picture (see Figure 2). The consequence is that the IT management software market, while still experiencing significant growth, is becoming increasingly polarized (see Figure 3). Forrester sees four main vendor archetypes emerging:

- **The “megavendors” drive the market.** Four major IT management software companies dominate the market. Their rich portfolios allow them to successfully compete in tactical

sales with point solutions and in strategic sales driven by BSM and ITIL. They are increasingly defining the market's direction, as BSM shows. Their ultimate role and challenge is not to innovate directly but to determine the next direction in which to take the market — and to acquire either the innovators that are spearheading the trends or the specialists that will help them increase their customer base. The megavendors have the money and the market presence to push current and next-generation products. Consequently, they must base their strategies on the management of their product portfolios and on the effective diffusion of their market strategy: where to sell their products, what they need to acquire to complement their portfolios, and what they need to shed or put on the back burner.

- **The “challengers” build their portfolios.** Seven companies are capitalizing on their core competencies to build up an IT management software portfolio: ASG, Compuware, EMC, Microsoft, Oracle, Quest Software, and Symantec. The four megavendors have already set the direction, making the challengers' job easier. However, building portfolios will take time, money, and other resources: As in a game of chess, challengers have to define their ultimate objective and create a strategic plan to reach it — yet be flexible enough to quickly react to the moves of the four major vendors. Success is both a matter of money — and some of these challengers are actually very wealthy — and the ability to read the future market trends better than the megavendors. If the challengers do not succeed in their bid against the four megavendors, they will eventually revert to specializing in less lucrative segments.
- **The “innovators” expect to be acquired.** These are the new kids on the block, such as ClearApp and OpTier. They have bright ideas about IT management processes and the ways in which they should and could be improved. An innovator has the choice of two directions: be acquired at some point in the future by a megavendor or challenger, or become a specialist. The choices are not mutually exclusive: Building up a specialist business and being a leader in a niche market may well be a path to eventual acquisition, as Smarts and Wily have shown. The key to success here is to create awareness. To be successful with either strategy, an innovator should concentrate on gaining large customers' attention and not scattering its marketing efforts too widely.
- **The “specialists” focus on a specific market.** These vendors aren't innovators, but they are capable of fighting against any type of competition on a price/value/quality basis. Examples include Indicative Software, NetQoS, Nimsoft, and Solarwinds, as well as innovators that have grown larger, such as BladeLogic and Managed Objects. Usually, these vendors have selected a niche market where large vendors do not have a substantial advantage — either because: 1) the technology is now commoditized and has reached a plateau in term of market growth, such as network management; 2) the price/value ratio is too high for specific market segments, such as small and medium-size businesses (SMBs); or 3) they have reached a level of flexibility, quality, and expertise such that they can compete effectively with larger IT management software vendors for enterprises that are not specifically tied to a megavendor. The specialists can achieve fairly high levels of market presence and revenues, but they will be acquisition targets for their customer base, not for their product innovations.

Figure 1 The Top 10 IT Management Software Vendors

Vendor	2005 \$M	Market share %	2006 \$M	Market share %	2007 \$M	Market share %
CA	\$1,924	15%	\$2,011	14%	\$2,140	14%
BMC Software	\$1,406	11%	\$1,489	11%	\$1,615	10%
IBM Tivoli	\$1,094	8%	\$1,409	10%	\$1,533	10%
HP Software	\$691	5%	\$899	6%	\$1,402	9%
Quest Software	\$456	4%	\$535	4%	\$600	4%
Symantec	\$414	3%	\$520	4%	\$569	4%
EMC	\$377	3%	\$435	3%	\$516	3%
Microsoft	\$398	3%	\$443	3%	\$511	3%
ASG	\$169	1%	\$181	1%	\$236	2%
Compuware	\$179	1%	\$191	1%	\$201	1%
Others	\$5,888	45%	\$5,920	42%	\$6,358	41%
Top four ITMS vendors	\$5,115	39%	\$5,807	41%	\$6,690	43%
Top 10 ITMS vendors	\$7,108	55%	\$8,112	58%	\$9,324	59%
Total ITMS market	\$12,996	100%	\$14,032	100%	\$15,682	100%

Note: All numbers are in US\$ millions and are Forrester estimates. We sorted vendors by estimated revenues in 2007, descending. Figures may not sum to totals, due to rounding. All numbers are product licensing and maintenance revenues; they do not include services.

Figure 2 The IT Management Software Market By 2008 Category Revenues

The IT management software market by 2008 category revenues

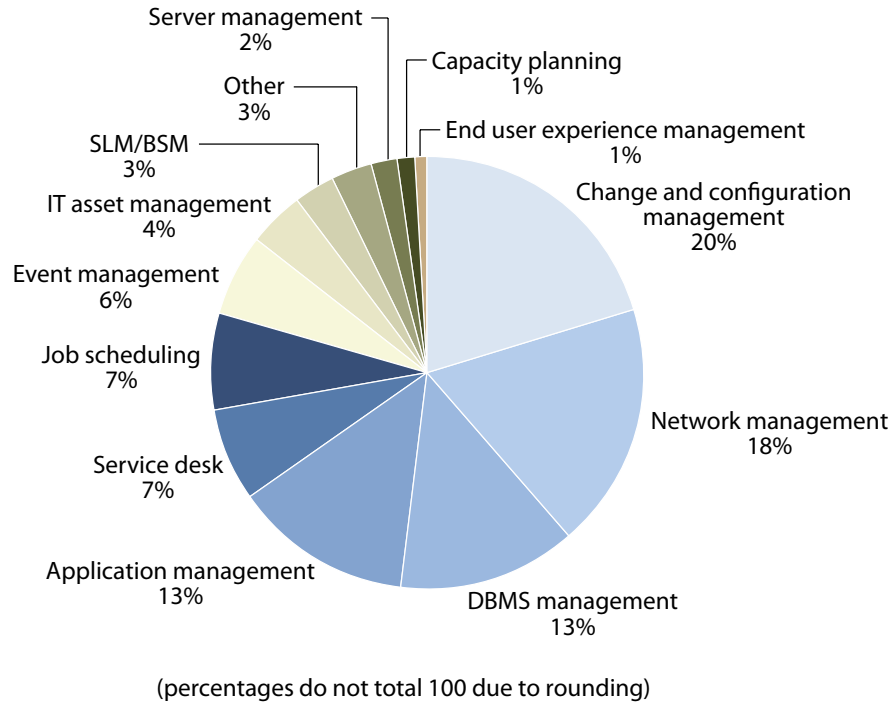


Figure 3 The Polarization Of The IT Management Software Market

IT management software revenues and growth by category, 2005 to 2008

Category*	2005 \$M	Percentage change	2006 \$M	Percentage change	2007 \$M	Percentage change	2008 \$M
End user experience management	\$105	10%	\$115	20%	\$138	72%	\$238
Change and configuration management [†]	\$1,764	19%	\$2,099	28%	\$2,687	37%	\$3,687
SLM/BSM [‡]	\$332	15%	\$382	23%	\$470	36%	\$637
IT asset management	\$433	20%	\$519	26%	\$654	28%	\$834
Capacity planning	\$177	10%	\$195	12%	\$218	18%	\$258
Service desk	\$891	8%	\$962	9%	\$1,049	17%	\$1,232
Application management	\$1,869	3%	\$1,925	9%	\$2,098	17%	\$2,459
Network management	\$2,356	10%	\$2,592	11%	\$2,877	16%	\$3,343
Event management	\$944	5%	\$991	8%	\$1,070	13%	\$1,205
Job scheduling	\$988	5%	\$1,037	7%	\$1,110	10%	\$1,220
Server management	\$384	2%	\$392	3%	\$404	7%	\$430
DBMS management [§]	\$2,278	2%	\$2,324	3%	\$2,394	3%	\$2,460
Other	\$475	5%	\$499	3%	\$514	19%	\$610
Total (\$ millions)	\$12,966	8%	\$14,032	12%	\$15,682	19%	\$18,614

*We sorted categories by percentage change in 2008, descending; columns may not total due to rounding.

[†]Includes client configuration management.

[‡]SLM/BSM: Service-level management and business service management.

[§]DBMS: Database management system.

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Source: Forrester Research, Inc.

RECOMMENDATIONS

UNDERSTAND YOUR PLACE IN THE VALUE CHAIN AND CLEARLY MARKET TO IT

Since the early days of network and systems monitoring, IT management software has morphed into a highly dynamic, attractive, yet complex market with many different facets. In order to be successful long term, vendors need to:

- **First review their positioning.** Vendors need to clearly understand their position in the IT management software market value chain. Do you consider yourself to be a megavendor, challenger, innovator, or specialist? Surprisingly, Forrester often witnesses a disconnect between the customer's perception and the vendor's self-assessment. However, in the end, it's the customer's view that counts.
- **Adjust their marketing accordingly.** Vendors need to remove the hype and buzzwords from their go-to-market collateral and concentrate on the key trends and resulting market drivers in their marketing. These will be different for the four archetypes. Megavendors need to provide holistic, integrated solutions that are easy to implement; challengers have to prove that they can compete with the megavendors; innovators must introduce truly unique new solutions to emerging problems; while the specialists need to grow through additional customer intimacy in niche markets.

The challengers' task is probably the most daunting: Megavendors attained their position by covering a lot of ground in IT organizations, and their products support almost all the technologies in use. Challengers must carefully approach building a competitive portfolio. Are some areas mandatory like mainframe management or can they bypass them? Should the strategy be a top-down or a bottom-up one? This requires a clear definition of the target market, a deep understanding of customer requirements, and a clear vision of the vendor landscape.

ENDNOTES

- ¹ The IT management software market comprises all products that help monitor, detect, and identify any abnormal behavior of the IT infrastructure, as well as those products aimed at better controlling this infrastructure (asset management change and configuration management), the production flow (job scheduling and workflow management), and the communication flow (service desk, service-level management, and business service management). The IT infrastructure that this management software controls is composed of all the platforms (clients, servers, and operating systems), middleware, and applications — all tied together through a network. See the March 9, 2007, "[The IT Management Software Market](#)" report.
- ² IT examples of hype abound: the smart card, in which billions of dollars were invested and which in fact captured only ephemeral opportunities in its main target market of credit cards and payment cards; the "thin client" of the mid-1990s as promoted by Oracle; and grid-computing-based utility computing, which HP and IBM heavily promoted but which never materialized in actual data centers.
- ³ Originally created by the UK government, ITIL summarizes best practices for the implementation of IT management processes. ITIL defines the processes that need to be implemented to deliver and support IT services focusing on the business (IT's customer). The ITIL philosophy revolves around the service desk as a communication platform and the configuration management database.

- ⁴ A CMDB is a unified repository of information related to all the components of the information system. It helps an organization understand the relationships between these components and modify their configuration. The CMDB is a fundamental component of an ITIL framework. The CMDB records configuration items (CIs) and details about the important relationships between CIs. A CI is an instance of an entity that has configurable attributes; for example, a computer, a process, or an employee. A key success factor in implementing a CMDB is the ability to automatically discover information about the CIs — autodiscovery. See the April 12, 2006, “[The ‘Just Enough’ CMDB](#)” report.
- ⁵ Business service management (BSM) dynamically links business-focused IT services to the underlying IT infrastructure. A business-focused IT service may be a specific IT service or part of a business process, but it must support a significant, visible business metric for a business owner. See the February 1, 2006, “[BSM Is Coming Of Age: Time To Define What It Is](#)” report.
- ⁶ IT process automation started to emerge several years ago, and although it has quickly reached attention-grabbing status as “run book automation” and can no longer be considered a totally new solution, it has yet to develop its full potential in the automation of broad IT processes such as ITIL. A majority of the players are still independent companies, and there have been a few acquisitions by larger entities — BMC Software’s purchase of RealOps and HP’s of iConclude through its Opware acquisition. IT process automation can be considered as an integration scheme because it: 1) provides connectors to the software solutions that each organization uses, thus allowing specific information to be passed to these solutions, and 2) automatically launches these software solutions in context. See the November 19, 2007, “[Tech Horizons: Sizing The Emerging Market For IT Process Automation Software](#)” report.
- ⁷ In 2008, IT purchases in the US will grow by less than 3%, while growth in Western and Central European purchases will slow to 3%; IT purchases in the rest of the Americas will expand in local currencies at 6% rates. Asia Pacific and the oil-exporting area of Eastern Europe, Middle East, and Africa will be the main engines of growth. However, Forrester projects that global purchases of software products will grow by 8% in 2008, down slightly from 11% in 2007, but still strong. Currency fluctuations impacted growth rates in a big way in 2007 and will do so again — although to a lesser extent — in 2008. As a result, where a tech vendor sits determines the kind of growth it sees. For US vendors, the dollar-denominated growth of 12% in 2007 and 6% for 2008 matters; the decline of the dollar against major currencies in 2007 has allowed them to convert their foreign currency revenues into more and more dollars as the dollar declined during 2007 and will continue to slip next year. See the February 11, 2008, “[Global IT 2008 Market Outlook](#)” report.
- ⁸ These numbers represent Forrester’s estimates of IT management software licenses and maintenance revenues. We have based these market estimates on conversations with vendors and other supply-side information. We included the following market categories: network management, server management, DBMS management, application management, change and configuration management (including client configuration management), job scheduling, event management, service desk, IT asset management, end user experience management, SLM/BSM, and capacity planning. We received feedback from the following vendors: ASG, BMC Software, CA, Compuware, HP Software, and Quest Software. BMC Software’s Q4 2007 number is based on Thomson Financial estimates. EMC, IBM, Microsoft, and Symantec did not comment on our estimates.

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