IDC
Analyze the Future

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TOP 10 PREDICTIONS

IDC Predictions 2010: Recovery and Transformation

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PREDICTIONS

2010 will be a year of modest recovery for the IT and telecommunications industries. But the recovery will not mean a return to the pre-recession status quo. Rather, we'll see a radically transforming marketplace — driven by surging demand in emerging markets, growing impact from the cloud services model, an explosion of mobile devices and applications, and the continuing rollout of higher-speed networks. These transformational forces will drive key players to redefine themselves and their offerings and will spark lots of M&A activity.

- Growth will return to the IT industry in 2010. We predict 3.2% growth for the year, returning the industry to 2008 spending levels of about $1.5 trillion.
- 2010 will also see improved growth and stability in the worldwide telecommunications market, with worldwide spending predicted to increase 3%.
- Emerging markets will lead the IT recovery, with BRIC countries growing 8–13%.
- Cloud computing will expand and mature as we see a strategic battle for cloud platform leadership, new public cloud hot spots, private cloud offerings, cloud appliances, and offerings that bridge public and private clouds.
- It will be a watershed year in the ascension of mobile devices as strategic platforms for commercial and enterprise developers as over 1 billion access the Internet, iPhone apps triple, Android apps quintuple, and Apple's "iPad" arrives.
- Public networks — more important than ever — will continue their aggressive evolution to fiber and 3G and 4G wireless. 4G will be overhyped, more wireless networks will become "invisible," and the FCC will regulate over-the-top VoIP.
- Business applications will undergo a fundamental transformation — fusing business applications with social/collaboration software and analytics into a new generation of "socialytic" apps, challenging current market leaders.
- Rising energy costs and pressure from the Copenhagen Climate Change Conference will make sustainability a source of renewed opportunity for the IT industry in 2010.
- Other industries will come out of the recession with a transformation agenda and look to IT as an increasingly important lever for these initiatives. Smart meters and electronic medical records will hit important adoption levels.
- The IT industry's transformations will drive a frenetic pace of M&A activity.

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Executive Information: Top 10 Predictions

IN THIS STUDY

As we have for the past three decades, IDC ends the year with our outlook for the coming year in the information technology and telecommunications market. During the next 60 days, IDC will publish dozens of IDC Top 10 Predictions documents for 2010, each focused on a specific portion of the market: a technology product or service category, a country or region, the consumer market, the small and medium-sized business (SMB) sector, an industry, or channel and partner networks. These documents summarize our researched points of view about the forces shaping each specific segment, along with predictions about what actions vendors and users will take in response to those forces.

As always, we start our "predictions season" with this, our broadest outlook for the overall technology marketplace. To create this document, we polled the nearly 1,000 IDC worldwide analysts for their take on what the coming year holds in store for the IT industry. Their views were synthesized and validated as well as filtered down to a core set of predictions that:

- Illuminate key growth opportunities for 2010
- Are relevant to many different segments and players in the IT marketplace
- Require major structural change within companies and across the industry — and therefore present a unique opportunity for competitive advantage for those companies that recognize and navigate through the market's changes faster and better than others

Since our "top 10" format allows us only limited space to predict the coming year for the entire market, we know our predictions list is by no means comprehensive. Some themes and events that may be very important to you and your part of the market may be missing. (We urge you to check in regularly in the next 60 days at IDC's Predictions Web page [**www.idc.com/research/predictions10/predictions10.jsp**], where you're certain to find more detailed discussion of your market segment's future.)

2010 IDC Predictions Team

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SITUATION OVERVIEW

In 2010, two themes will dominate events in the IT and telecommunications markets: recovery and transformation.

The impact of the first theme — recovery — is pretty obvious. The rising tide of the anticipated global economic recovery will drive a modest recovery in IT and telecommunications spending. Recovery is an important theme but actually the less interesting of the two.

The more interesting theme for 2010 is transformation. As you look through our 10 predictions for 2010, you'll see that almost every corner of the industry is entering this recovery year with ambitious plans for transformation:

- In telecommunications, it's about the aggressive evolution the industry's been on for the past several years: the shift to fiber landlines, higher-speed wireless broadband, converged IP delivery platforms, expansion of new distribution models (e.g., wholesaling deals with consumer electronics vendors and cloud services providers), and expansion into more value-added services.
- In IT, the biggest transformations are around the disruptive emergence of the cloud services model — a model that is both market expanding and challenging. The cloud-driven transformation of the IT market is necessitating the restructuring of vendors' offerings, market footprints, and business models.
- For telecommunications and IT, it's also about the ascendance of mobile devices, not only as access devices but as software and solution platforms, challenging — for the first time in over two decades — the primacy of the PC.
- It's about the changing face of the customer, especially in the enterprise markets — with the "design point" for the market continuing to shift from large enterprises in developed markets to small and medium-sized enterprises in high-growth emerging markets. And it's about the growing impact of consumers on the entire market.

For those of you who have followed IDC's predictions, none of these transformational dynamics are new. For the past several years, we've highlighted them as the major vectors of market growth and change for the next 20 years of the IT and telecommunications markets. The "what's new?" in 2010 is that we will witness the potent combination of transformation tipping points being reached in a year of economic upswing. The industry's key players will be like surfers lining up to ride a wave. In this year of recovery *and* transformation, the rewards for being well positioned, on the right transformational vectors during this new wave of industry growth, will be great. Conversely, the penalties for being behind the curve will be severe. IDC's research shows that when economies emerge from recessions, the gradual process of innovation may give way to a large leap. Because customers have delayed investing in incremental improvements during a recession, they are more likely to leap to something that provides a major advance when they begin to invest again. Therefore transformational changes have occurred predictably at each recovery point since the recession of 1873. Companies with a new technology or process innovation — like Eastman Kodak, HP, Texas Instruments, and Google — and the PC industry can all trace their roots to the temporary advantage that a recession provides.

FUTURE OUTLOOK

As we acknowledge every year, it is impossible to capture all of the interesting and important dynamics for the coming year in 10 prediction categories. We apologize in advance if we've missed a prediction theme that is very important to you for the coming year — it will undoubtedly be discussed in one or more of the dozens of IDC Top 10 Predictions documents to follow. But we do believe the following 10 themes are the ones most likely to be at the top of most industry executives' agendas, across many sectors, in 2010. (Note: As an aid to more quickly identifying key actors in our predictions, we have **bolded** their names. When references are made to vendors' past activities, their names are not bolded.)

As usual, our first two predictions look at the overall growth outlook for the IT and telecommunications markets in the year ahead.

1. IT Industry 2010: A Modest Recovery

After a painful year of market shrinkage in 2009, growth will return to the IT industry in 2010. We predict 3.2% growth for the year, returning the industry to 2008 spending levels of about $1.5 trillion. Broadly, hardware, software, and services sector spending will each grow in the 2–4% range; hardware, which was pummeled in 2009, will show the slowest recovery. Hot product categories will include mobile devices (more on these in prediction number 5) and virtualization, along with release of pent-up demand for software across the board as well as PCs. In the services space, outsourcing and managed services will show good growth. Geographically, emerging markets will be leading drivers of growth — more on this in prediction number 3.

Those in tech marketing will experience — and welcome — the recovery as we predict tech marketing budgets, which were slashed over 8% in 2009, will expand by over 3% in 2010.

The volatile global economic situation means that this IT growth prediction certainly has significant upside potential and downside risk. Upside potential can be spotted in strengthening demand for PCs and mobile devices, which could be a leading indicator that overall IT demand has bottomed out and is improving. The main downside risk is from double-dip recession in mature economies where unemployment is high, consumer confidence is weak, business profits have been protected by cost reductions (including layoffs), and government stimulus will be temporary. Our prediction is pegged to a global GDP growth outlook of 2.6%, so watch for any change in consensus — if the GDP outlook deteriorates, the IT market will follow suit, while accelerated improvement in economic conditions will drive faster IT growth.

2. Telecommunications: Stability, and Intensifying Pressure to Transform

The recovery of the global economy will also drive improved growth and stability in the worldwide telecom market in 2010, with worldwide spending predicted to increase 3%. In the mature markets, growth will come from a rebound in the IP and data segments, while strong growth of the mobility sector will drive growth in emerging markets.

Under the surface of overall telecom spending recovery, however, pressure to transform the industry will intensify in 2010 as long-term structural changes — most evident in declining legacy revenue streams — continue. In mature markets, the high growth of next-generation IP revenue will not be enough to offset the decline of legacy data. And in many emerging markets, operators are in intense wireless price wars, which has a dramatic effect on average revenue per user (ARPU): India is a prime example — carriers are pummeling each other, so even though the market is adding around 14 million new subscribers per month, ARPU declines are resulting in only moderate revenue growth.

As a result of these transformational pressures, 2010 will see telecom players accelerate their migration to higher-speed fiber and wireless technologies and to converged IP platforms (supporting the exploding growth of video traffic), expand their managed services footprints, and transform their service delivery platforms and business models to support the growing wholesale, connected device, and machine-to-machine (M2M) opportunities.

3. Emerging Markets Will Drive More than Half of IT Market Growth

Emerging markets will ensure the global IT market recovery in 2010, even as mature economies remain weak and vulnerable to risk factors throughout much of the year.

We predict that more than half of the IT industry growth in 2010 will be fueled by emerging markets led by China (9%), India (13%), Brazil (8%), and Russia (8%). Russia, whose 8% growth comes in the wake of a disastrous 30%+ decline in 2009, will be the weakest member of BRIC in 2010. In contrast to emerging markets, the pace of recovery will be much more muted in mature economies: the U.S. market will expand by 3% and Western Europe will see growth of just 1%, while Japan will post a second successive year of IT market decline at -1%.

As a result, the importance of emerging markets to global IT suppliers will accelerate. By the end of 2010, the four BRIC markets alone will account for more than 10% of global IT spending; emerging markets will account for 21% (up from 13% in 2002) and continue to rise. (In "emerging markets," we include all of Latin America; Central and Eastern Europe; the Middle East and Africa; the following AP countries: China, India, Indonesia, Malaysia, Philippines, Thailand, and Vietnam; and the smaller countries we include in the "rest of AP.")

As we've noted in past years, the underpenetrated small and medium-sized businesses are another important form of "emerging market" for the IT industry — even within the developed economies. That will be the case again in 2010. While SMBs took a beating (with a worldwide growth decline of about 3.5%) in 2009, we predict that SMB growth will reach 3.5%, 1.4 points higher than large enterprises, with the midmarket the brightest spot, recovering faster than small enterprises.

4. IT Industry's "Cloud" Transformation Will Greatly Expand and Mature in 2010

2010 will be a very big year in the continuing buildout and maturing of the cloud services delivery and consumption model — which, for the past three years, IDC has identified as the most important transformational force in the IT market. A unifying theme for 2010 will be the emergence of "enterprise grade" cloud services — services that support the more demanding security, availability, and manageability requirements of traditional IT in the cloud services world.

At a more detailed level, the year's key cloud-related events will revolve around seven major vectors of opportunity: the brewing — and very strategic — cloud platforms (and APIs) battle, a wave of new public cloud services, the emergence and popularity of private cloud offerings, the rapid expansion of "appliance" versions of private and public cloud offerings, a growing variety of hybrid (public/private) cloud management offerings, the emergence of cloud service enhancement offerings we call "cloud accessories," and expanding distribution channels based on cloud services APIs:

- **Cloud solution platform battle will heat up.** IDC has identified public cloud solution platforms (also known as platform as a service [PaaS]) — such as salesforce.com's Force.com, Microsoft's Azure, and Google's App Engine — as the most strategic real estate in the cloud for the next 20+ years. The companies that build the most successful platforms — and therefore, the largest ecosystem of solutions in the cloud — will have the opportunity to have Microsoft Windows-like market power in the cloud computing era. We predict that in 2010, the field will get more crowded, with cloud platforms announced, most notably by **IBM** and **Oracle.** Look for **Google** to make its platform more suited to enterprise solutions, possibly through acquisition (see prediction number 10). We also expect **Amazon,** the leader in cloud infrastructure, to develop an application platform. Other potential entrants into this competition include leading **IT services providers** and **telcos.**

- **The next wave of "hot" public IT cloud services will take off.** Today, Web hosting services and collaboration services (such as Web conferencing, blogs, wikis, and social networking) dominate businesses' use of public cloud services. IDC predicts that in 2010, the next wave of hot enterprise cloud services will take off around data/content (storage, distribution, and analytics), business applications (as adoption broadens for SaaS versions of enterprise applications), and personal productivity applications. Don't be surprised to see traditional collaboration and personal productivity software incumbents **Microsoft** and **IBM** aggressively challenging Google Apps with their cloud offerings for the enterprise.

- **2010 will be a big year for private clouds ...** As businesses continue to have concerns about cloud security, availability, and performance, 2010 will be a big year for the announcement of private cloud offerings from virtually **all major IT suppliers.** This is not surprising: a brand-new (not yet published) IDC survey shows a strong preference by businesses for private clouds over public clouds, and vendors will act accordingly. One important implication: since clouds typically package infrastructure, platforms, and applications together, look for these announcements to drive many strategic partnerships, joint ventures, and acquisitions/mergers (see prediction number 10).

- **... and for cloud appliances.** In 2010, virtually every major systems and application software vendor will introduce "cloud appliances" as a very simple-to-adopt packaging approach for its private cloud offerings. Systems vendors like

Dell, IBM, HP, Sun, Fujitsu, Hitachi — and **Intel** and **AMD** — will partner with **software vendors** for "applianced" versions of traditional on-premise packaged software. Particularly once the EU approves Oracle's acquisition of Sun, **Oracle** will certainly be an aggressive cloud appliance player. We also predict we will see more pure-play cloud/SaaS players like **Salesforce** and **Google** partner with systems vendors to create appliance versions of their public cloud offerings.

- **"Hybrid cloud" management tools will get hot.** As businesses increasingly have systems spanning both public and private clouds, a very strategic opportunity is emerging for IT product and service suppliers to help customers more cohesively and dynamically manage their IT assets across traditional systems, private clouds and appliances, and public clouds. In 2010, we'll see a flood of additional offerings announced in this space, from companies such as **HP, IBM, CA, BMC, Novell, Symantec,** and **VMware.**

- **Broader adoption of cloud services will lead to development of a "cloud accessories" market.** Much like the growth in sales of the iPod led to an explosion in sales of iPod accessories (cases, radio adapters, speakers, etc.), the maturing cloud services market will spur the development of complementary products and services that make established public and private cloud services faster, safer, more reliable, and/or more useful. In 2010, most of these "accessory" solutions will focus the major cloud service adoption barriers (predictable network quality of service and security) with other functions such as data indexing and cloud asset management evolving in the future. Some will be sold as appliances, while others will be based on a cloud service delivery model. The idea of standardized cloud accessories that enhance cloud services offerings from many different providers will prove attractive to customers as it expands options but will prove troubling for cloud service providers themselves. They would like to leverage these emerging capabilities but would prefer exclusivity. Look for a range of tactical and more strategic partnerships to develop in 2010.

- **Cloud APIs will emerge as the next strategic distribution/partner channel for the IT industry.** From the beginning of our cloud services coverage, IDC has included "open APIs" as a core element of our cloud services definition for obvious reasons: without them, services providers are trapped within their own walled garden, bottlenecking their future growth through their own sites. In 2009, we saw more traditional IT vendors finally join Amazon, Google, and others in publishing APIs for their cloud services and building huge networks of partners around them — partners that build value on top of providers' services and extend providers' market reach through partner sites and services. In 2010, virtually **every single remaining cloud player** — in infrastructure, platform, application, and management/optimization cloud services categories — will jump into the pool. The ones that successfully execute the development of large API-based partner/solution ecosystems will accelerate share gains. The growing importance of cloud APIs will also intensify customer demands for cloud standards; we are pessimistic about any major breakthroughs in 2010.

We can guarantee that the race to the cloud will drive quite a few major mergers and acquisitions in 2010 — see prediction number 10.

5. Mobile Devices on a Path to Eclipse PCs

We've all seen this coming for a long time: 2010 will be a watershed year in the ascension of mobile devices as strategic platforms for commercial and enterprise developers. No, we're not yet talking about "the death of the PC"; far from it, as 2010 will see over 300 million PCs sold. But we are talking about mobile devices no longer being viewed as strictly subservient to PCs but as primary client platforms for developers and users alike. And, as you'll see from the predictions that follow, it's easy to see that they already have eclipsed, or will soon eclipse, PCs in several strategic dimensions of adoption (e.g., number of devices accessing the Internet, number of developers, number of applications, number of users). Of course, this has major implications for the fortunes of the IT industry: the last time we had such a platform shift was when the PC itself first arrived — and those players that didn't respond to the new platform soon went extinct. Key developments that will solidify the rising strategic importance of mobile devices in 2010 include:

- **Over 1 billion mobile devices will access the Internet in 2010.** IDC predicts that, for the first time, there will be over 1 billion mobile devices accessing the Internet by year-end, gaining quickly on the 1.3 billion PCs accessing the Internet (the former are growing at 2.5 times the rate of the latter). The most strategic portion of these mobile devices are converged mobile devices (aka smartphones), including **Apple**'s iPhone, **RIM**'s BlackBerry, and **Nokia**'s smartphone lineup, as well as the growing number of phones running **Microsoft**'s Windows Mobile, **Google**'s Android, and Symbian^1 (notably Nokia). Over 200 million of these devices — which are distinguished by their ability to run third-party applications — will ship in 2010, representing 16% of the market; we predict that by 2013, they will account for over 20%. Of course, it wouldn't be the IT industry if price points didn't keep coming down: look for more sub-$150 smartphones to come on the scene in 2010, accelerating the market.

- **Developer — and application — momentum will continue to shift dramatically to mobile devices.** At least as important as the number of mobile devices are the frenzied developer energy and application volume building around mobile platforms — most obviously, but by no means exclusively, around the iPhone. There are now over 100,000 iPhone apps listed on Apple's iTunes store, up from 10,000 a year ago — that's an annual growth rate of 900%. As a point of comparison, there are on the order of 10,000 Windows PC applications listed on Microsoft's Windows 7 compatibility Web site. We predict at least 300,000 iPhone applications by the end of 2010, many of the new apps coming from well-known Global 2000 business and consumer brands — and attracting more consumers and businesspeople to these platforms as their most commonly and heavily used clients.

- **Google Android — now on a dozen devices — will emerge as a potent competitor to the iPhone, BlackBerry, Symbian, and Microsoft platforms.** There are now about 10,000 applications for Android; we predict there will be a strong ramp (albeit slower than the iPhone app ramp) for Android — look for 50,000–75,000 applications by the end of 2010. The reason? The advantage of Android — that it's more "open" than the iPhone platform — creates more compatibility challenges for developers across the different device manufacturers' hardware. But the developer and app momentum for Android will nevertheless grow strongly in 2010.

- **The "iPad" will finally arrive.** Last year, we predicted that we would not see the then-rumored Apple tablet in 2009. This year, however, we predict that **Apple** will finally introduce this new device family, which is more of an oversized (8in., 10in.) iPod Touch than a downsized Mac — and if you look at the developer energy around the iPhone/Touch platform, this should be no surprise at all. This prediction is a no-brainer: there's enormous appeal in sizing up the iPhone/Touch for a variety of applications and activities that people already use those devices for but would jump at the chance to have a larger screen — watching videos/movies, reading books/magazines/newspapers (it would take a big bite from the Kindle), surfing the Web, videophone, and online gaming. Look for Apple's "iPad" by year-end 2010. Oh, and don't be surprised to see **Microsoft** also announce its own device in this space.

- **Netbook PCs will continue to expand and grow.** Given the explosion in non-PC mobile devices, the PC industry is not standing still. The mobile-optimized netbook PC **—** officially "mini notebooks" in IDC's market taxonomy — had a breakthrough year in 2009, with over 30 million units shipped. In 2010, the beat goes on: we predict nearly 40 million will ship — displaying healthy growth in the 25% range. As least as important as this increase in shipments will be a jump in average selling prices (ASPs) — with **Asus, Acer, Dell, HP, Lenovo,** and others creating a richer "good, better, best" lineup, moving netbooks away from just value-oriented systems to include a higher percentage of performance systems. The result will be higher-priced system that consumers looking for portability will adopt. Another important netbook development in 2010 will be the growth of software ecosystems specifically around these devices, starting with synchronization software and including limited versions of software found on traditional notebooks that are tuned for the less performance oriented netbooks.

6. Public Network Transformations Will Ramp Up

With the expansion of cloud services, the explosion of mobile devices and mobile applications, growing video applications, and more, it's obvious that we'll see dramatically increasing demands on public networks in 2010. Network providers will continue along their path of steadily expanding mobile and fixed broadband, and evolving the core to a common IP over optical backbone. In addition to these technical transformations, they will need to adapt to expanding business models and a changing regulatory environment. In the coming year, we'll see the following key technology and regulatory/business model themes play out in the network world:

- **Rollout of superfast 4G wireless will be overhyped.** While the shift to 4G wireless technologies is certainly one of the most important network transformations for the next 10 years, its real impact in the market will be miniscule in 2010. Yes, the carriers are talking up the benefits (e.g., supporting high-resolution movies and interactive online games), and some are planning to roll out commercial 4G offerings in 2010. But IDC predicts only 125,000 mobile phones — that's .01% of the 1.2 billion shipped in 2010 — will be 4G capable. The less glamorous, but real, wireless network story for 2010 will be the continuing, steady migration of carriers and customers to 3G technologies, which still have additional speed improvements in their back pocket (e.g., HSPA+).

- **Fixed broadband continues massive, aggressive shift to fiber.** It is now clear that fixed line operators have one untouchable asset in their intensifying battle with wireless technologies — speed. In markets such as the United States, Korea, Japan, and Hong Kong, we've already seen major players declare their goal to drive 100Mbps+ connectivity to the home at reasonable prices. And so, in 2010, we'll see another year of aggressive buildout of fiber to the home, as well as fiber to the node (aka fiber to the neighborhood) networks. IDC predicts that in 2010 in the United States, almost 2 million more homes will connect to the Internet via fiber to the home, which will achieve 10% penetration of consumer broadband connections. The more significant metric we predict is that new fiber broadband subscribers will account for over 40% of net-new subscriber growth in 2010; by 2013, they will account for more than 75%. In Western Europe, the penetration is lower, but the trend is similar: fiber to the home will account for almost 80% of net-new subscribers by 2013.

- **More wireless services go "invisible."** In the scramble for new business in an intensely competitive market, expect to see more mobile providers strike deals with mobile device and cloud services providers to provide built-in wireless connectivity through an under-the-covers wholesale model. The most prominent example we've already seen is Amazon wholesaling wireless (from Sprint and AT&T) for the Kindle's Whispernet capability; the Barnes & Noble Nook and Sony Reader Daily Edition are following suit. This model creates some interesting choices for carriers: it opens up new opportunities, but it subordinates (or hides) their brands and weakens their hold on the business (witness Sprint's displacement by AT&T with the Kindle). One big question for 2010 is which way **Apple** will go with 3G connectivity for the iPad — private labeling a wireless carrier's network as "AppleNet" or simply merchandising carriers' wireless subscriptions through the iTunes store.

- **The FCC will increase regulation of over-the-top VoIP (OTT VoIP).** OTT VoIP has gained popularity as a cheaper, if often less reliable, alternative to managed voice offerings from cable and telcos. The FCC does not currently regulate OTT VoIP as it does traditional voice services. This contributes to low operating costs and cheaper rates of OTT VoIP. IDC believes, however, that Google's entrance into the VoIP market will cause the FCC to rethink its stance. At the behest of AT&T and Congress, the FCC is currently investigating Google Voice (GV) for blocking certain calls to rural areas. The FCC has already sent a strong message that it has serious issues with any network discrimination that's not clearly in the customer's best interest. Google Voice's sizable user base (over 1.4 million), combined with Google's growing role in the communications industry (e.g., Android) and Google's sheer market power, will spur the **FCC** to more tightly regulate OTT VoIP in 2010.

7. Next-Generation "Socialytic" Apps Emerge

Mobile devices, mobile applications, and the cloud services delivery model will all impact the traditional business applications market in 2010. But in the coming year, business applications will also undergo a fundamental transformation in functional structure — fusing traditional business applications with both social/collaboration software and analytics. This new mashed-up generation of business applications that leverage social and collaborative networks and derive insights from them — call them "socialytic" apps — will bring not only new capabilities to customers and new growth to suppliers but also new competition and threats to traditional leaders.

In 2010, hot areas for these apps include marketing (e.g., determining the next best offer through analysis of the behavior of a buyer via the buyer's social interactions), reputation monitoring, and fraud detection. Another emergent area in 2010 will be in people-centric search and business intelligence — the use of people as a filter to find information.

These new applications will drive a battle between existing industry giants — especially **Microsoft** (SharePoint) versus **IBM** (Lotus) but also **Oracle, SAP** and, almost certainly, **Google** — for control of this new generation of new application platform, which bundles search, content management, portal, BI, and collaboration/social software. There are also upstarts, with rival platforms, that come out of the social software movement, like **Jive** and **Telligent.** The winners will be those that both capture current developers and expand the population of developers with simpler mashup-style paradigms.

The growth of these new platforms will adversely impact the market position of vendors with standalone offerings. The biggest threat is to the ERP players — notably **SAP** and **Oracle** — as these "social applications" and underlying platforms provide new approaches to business processes. IDC predicts companies directing more of their software investments in these social business platforms and applications than in their core ERP systems. SAP, much more heavily dependent on ERP than Oracle, has the most to lose unless it can leverage its business process expertise and BI assets to make a splash here.

8. Green/Sustainability Pressures — and Opportunities — Will Resurge

With the Great Recession, $130 per barrel crude oil and $4 per gallon gasoline prices were temporarily forgotten. But as we see an economic recovery in 2010, the cost of energy will surely rise, and the focus on — and economic payback from — "going green" will rise as well. Additionally, the U.N. Copenhagen Climate Change Conference (December 7–18, 2009) will put more pressure on governments' plans to address sustainability. IDC sees at least two important developments emerging in 2010 as a result:

- **Nations will step up sustainability initiatives; ICT will provide solutions.** At the Copenhagen Climate Change Conference, IDC will release the industry's first ICT Sustainability Index, in which we'll show the current ranking among the G20 nations — which account for over 70% of emissions — on their ability to use ICT to significantly reduce their CO_2 emissions. There will be at least two surprises in the rankings: one of the three largest economies in the world will rank number 1 in sustainability through intense use of IT, and one of the world's fastest-growing emerging markets will rank in the top 5. And there will be two nations poised to move up in the rankings in 2010, which will create intense regional competition. In 2010, this sustainability competition will be a key source of new opportunities for the IT industry in two ways: First, driving demand for technologies that help organizations reduce the carbon footprint of their own IT operations, including power-efficient compute, storage, network, and printing systems; virtualization software; and systems/service automation software. Second, in driving demand for IT offerings that support sustainability management and real-time monitoring and control of operational systems in high carbon output industries, including sustainability solutions software (see prediction number 10), sensor technology, network infrastructure, service management software, and analytics software.

- **ICT will be a target.** In 2010, all G20 nations will mandate companies to report on their carbon footprints. And while IT products generate on the order of 2% of the world's carbon output, they are among the fastest-growing sources — and will be a key target for carbon footprint reduction. From an IT industry perspective, we predict broad segments of the industry — such as hardcopy output and peripherals, and datacenter (server, storage, network) suppliers — to be unfavorably highlighted for their high energy use and disposal costs. Consequently, after a hiatus in 2009, vendors will become much more aggressive in 2010 in reducing IT's carbon footprint and waste footprint. We predict that government regulations will require IT suppliers to ensure that waste management, recycling, and remanufacturing of core ICT infrastructure products are accountable.

9. IT-Driven "Intelligent" Industry Transformations Will Accelerate

The first eight predictions focus on recovery and transformation in the IT and telecommunications industries in 2010. Our ninth prediction is that, in 2010, *other* major industries will also be coming out of the recession with a transformation agenda, and that IT will be an increasingly important lever for these initiatives. Here are several industry transformations in which, in 2010, we expect to see important developments around IT's strategic role:

- **In 2010, over 20 million smart meters will have been deployed by U.S. utilities** — representing 15% penetration. Full deployment in the United States is expected to be reached in less than 10 years. Globally, the number of smart meter deployments in 2010 is expected to exceed 60 million. This level of market penetration will drive an unprecedented level of smart grid technology investment in the utility industry and will enable cornerstones of the new energy economy such as the increased use of renewable energy resources, an increase in the number of plug-in electric vehicles, and active consumers who use energy more efficiently. In North America alone, the predicted smart grid technology spend will top $17.5 billion in 2013, with an overall growth rate exceeding 16%. Key technology investment areas will include communications networks, meter data management systems, distribution automation/management systems, and technology to support demand response and energy efficiency programs.

- **In 2010, 25% of all Americans (77 million people) will have an electronic medical record,** up from the current (pre-stimulus) EMR penetration of about 14%. Fueled by $20 billion in federal stimulus money, electronic medical record deployments will grow to cover 60% of the U.S. population by 2016. In 2010, this transformation will drive a broadly based investment in infrastructure services, hardware, and software as healthcare providers look to maximize the benefits from healthcare IT.

This "intelligent industries" theme — about IT's growing embedding in, and transformation of, industries — is of enormous strategic impact for the IT and communications industries. In the next 60 days, our industry-focused IDC Insights teams will release more detailed predictions related to this phenomenon across 16 industries.

10. Transformations Will Drive 2010 M&A

For the final prediction, we offer our thoughts about mergers, acquisitions, and partnerships that we think are likely to occur in the coming year. Our tradition is not to throw out random pairings but to focus our predictions on a small number of M&A themes we see as being in tune with the market's changing dynamics. Here are just a few such themes, along with some of the likely seekers and targets:

- **Expanding footprints to address profitable IT and business "solutions."** The theme here is well established: it's about leading IT players broadening their offering portfolios to encompass the products and services necessary to address customers' more complex (and more profitable-to-serve) needs; IBM has been the poster child for this strategy for several years. And in the past 24 months, we've seen accelerated activity along this strategic vector in the form of the HP-EDS, Oracle-Sun, and Xerox-ACS deals, as well as the Cisco-EMC joint venture. In 2010, we'll see other companies following this same path:

  - **Dell.** Dell has been expanding its software and services portfolio — most dramatically with the Perot Systems acquisition. But it needs to accelerate its transformation to a full-service solutions player. More partnering with Microsoft is one obvious option, but look for additional beefing up of in-house capabilities in software (along the IT management software track — where players include **CA, Compuware, BMC, Symantec,** and **Novell**) and services (to strengthen its capabilities outside the United States, notably in Europe).

  - **Oracle.** 2010 will be a real test of how committed Oracle is to being, through its Sun acquisition, a player in datacenter infrastructure, and more broadly as a full-service IT solutions provider. Regarding the Oracle/Sun portfolio, the company's competitive position would benefit by continuing to strengthen and expand, through acquisition, its IT management software portfolio (see the candidates in the Dell prediction above) and services capabilities.

  - **IBM.** Just as many people view IBM as trying to minimize its hardware business (relative to its software and services businesses), we believe IBM might surprise the market by getting back into the network hardware by acquiring **Juniper Networks.** We'll admit, in basketball terms, this prediction is a 3-point shot. The driver for this prediction is the growing importance of the network in the IT world — especially with the emergence of cloud computing and the explosion in mobile devices. This is driving increasing convergence between, and integration of, networking technology and traditionally distinct computing and storage systems. Witness the Cisco-EMC and HP-3Com deals.

- **Cisco** and **EMC.** These two IT leaders formed a joint venture to go after the heart of the datacenter opportunity. The big question everyone's asking for 2010 is, Will they take the next step and merge? Our bet is "no"; for 2010 at least, they each have successful businesses and strategies independent of their joint venture that they aren't likely to race to encumber with the complications of such a merger. Beyond 2010, it is very possible that if enough prospects hesitate to invest in the offerings of a "joint venture" provider — and let's face it, the track record of IT joint ventures is not great (think Prodigy, iPlanet, Agility Alliance, et al.) **—** Cisco and EMC may feel that their best chance to turn customer interest into commitment is by merging. But again, for 2010, we believe that's premature.

- **Canon.** The printing and document-related part of Canon's business is huge, and it has just seen three archrivals in that space — Ricoh, Xerox, and HP — expand their footprints into the broader services delivery/BPO world. Canon just announced acquisition of Océ, whose business includes about 444 million euros in services business. But we think Canon needs to do more than that to take its services/solutions capability to a transformative level. Expect another acquisition to expand its capabilities and reach — one of the **top 10–15 ITO and BPO providers.**

Establishing power positions in the cloud. In prediction number 4, we talked about cloud solution platforms (aka platform as a service) as the most strategic real estate in the cloud computing era. Here are players in need of adding to/strengthening their cloud solutions platform/PaaS positions (we list some acquisition targets in the last bullet):

- **Amazon.** Amazon is a leader in the cloud, but in the most fungible part of the cloud "stack" — infrastructure as a service. As we noted in prediction number 4, if Amazon is interested in expanding market power in the IT cloud world (and that's an open question), it needs to add capability at the more strategic PaaS level and build a broader ecosystem of business solutions tightly tied to Amazon's cloud. This means adding more application infrastructure/middleware functionality as well as solution ecosystem development programs (beyond the retail-centric Amazon developer community).

- **Google.** Unlike Amazon, Google is already active in the PaaS space, but Google's App Engine has developed around more consumer-centric, lightweight applications. If Google has real enterprise aspirations (and it seems to), it needs to develop more "gravitas" in the form of more business-focused solutions — and a platform to support them.

- **HP** and **Dell.** HP and Dell are two IT suppliers aiming to play broader, more strategic roles in their customer accounts. HP certainly has a bigger footprint than Dell, with a well-established systems/services management capability and some pieces of an information management software capability. But both have thus far drawn the cloud services line at infrastructure and management. Like Amazon, these suppliers need to decide whether they are going to move up the stack and stake a direct claim in the strategic application/solutions platform world.

- **SAP.** SAP's progress in developing a cloud solution platform and ecosystem has been slow, and 2010 is a year in which SAP competitors — notably Microsoft and IBM — will be making strides to extend their solution ecosystems quickly to the cloud. Admittedly, this is a half-court shot, but SAP may decide it needs to acquire more pure-play cloud assets to hedge its current cloud strategy and accelerate its expansion in the cloud.

- **IT services providers.** Companies like **Accenture, CSC, Wipro, Infosys, TCS, Capgemini,** and others have made a very good living staying largely technology agnostic, partnering with — not competing with — Microsoft, SAP, IBM, Oracle, and others' software businesses. Odds are, they will continue to do so. But there is a growing trend toward asset-based and platform-based services delivery that makes these services providers look much more like software vendors than they ever have (just as the cloud makes software vendors look more like services companies). We think this will lead one or more of these services players to jump directly into the PaaS (and testing as a service) business. (IDC believes that some of these same large outsourcers will look to accelerate their entry into cloud infrastructure services by acquiring companies such as **Terremark, Rackspace,** and **SAVVIS.**)

- **Telcos.** Ditto the IT services players discussion. Will telecom services like **AT&T, BT, NTT, Verizon,** and **Vodafone** be content to partner, providing infrastructure clouds and customer reach for PaaS players like IBM, Microsoft, et al., or will they try to create their own solution platforms and solution ecosystems? The former is more likely in our view, but we could be surprised — as noted previously, the telcos are in real need to establish new, high-value businesses. Is being just another commodity infrastructure platform and a channel to customers enough sustainable value-add, or will the telcos wish to increase market power with a solutions ecosystem tied to their PaaS?

- **Targets for companies with PaaS ambitions.** There are two main strategies we'll see suppliers pursue as they build out their cloud platform/PaaS presence:

  - **Acquire key technologies.** Add application development, testing, and middleware technologies with the acquisition of start-up or established companies such as **Heroku, Soasta, bungee.com, BEA, Progress,** and **TIBCO.**

  - **Acquire an existing PaaS player.** Buy an existing cloud/SaaS solution platform (and ecosystem), like **Salesforce.com** (with its Force.com platform) or **NetSuite** (with its SuiteCloud platform). Alternatively, for those looking at building out a strong SMB-oriented PaaS, a company like **Intuit** — which has strong SMB presence and is a well-established cloud player — could fit the bill

- **Another hot cloud acquisition area — data/content-related cloud services.** As discussed in prediction number 4, there are other key areas of cloud-related capabilities, beyond PaaS, that will attract buyers in 2010. One such area of growth is around storage, management, securing, and distribution of data/content. Two desirable acquisition targets, in our view, are **Akamai** and **Iron Mountain.** We note these companies not because we see them as wanting to sell out but because — as very strong players in hot cloud growth areas — they are very likely to get offers they'll find hard to refuse.

- **Riding the sustainability wave.** Given our prediction (number 8) for growing government regulation around sustainability, 2010 will be a good year for software and services vendors to acquire more capabilities around sustainability solutions. Oracle, IBM, and SAP have already been assembling the pieces; SAP's acquisition of Clear Standards is a good recent example of this trend. We expect the shopping to continue in 2010. Some likely acquisition targets are **Comverge, EnerNOC, Hara, HydroPoint Data Systems, Locus Technologies,** and **Lucid Design Group.**

- **Expanding into more industry-specific solutions.** This is a strategy that's been playing out for much of the past decade but will intensify in 2010 as we see further development of — as discussed in prediction number 9 — the long-term strategic play for the IT industry: helping to create more "intelligent industries" by embedding IT into industries' key processes. Here's an M&A prediction that aligns with that trend:

  - **Enterprise software vendors will buy out two major financial technology (FinTech) solution providers.** Two of the major enterprise software players (e.g., **IBM, Oracle, SAP, Microsoft**) will increase their penetration of the financial services industry by acquiring large, industry-specific solution vendors. We predict at least **two FinTech 100 vendors** (see the FinTech 100 list at **www.americanbanker.com/fintech100/**) with revenues of greater than $300 million will be acquired in 2010. Of the 44 companies that meet that description, the most likely to be acquired will have these characteristics: high debt or private investors that want to cash out, software providers without a good SaaS or cloud strategy, and a focus on slow-growing areas of financial services — whether line of business or geography.

- **Expanding consumer markets footprints.** We conclude with some key M&A events we expect to see in 2010 that are primarily motivated by the desire to expand reach and share of wallet in the consumer world:

  - **Leap** and **MetroPCS merge.** A **Leap**/**Metro** merger would be very complementary — both are prepaid wireless carriers operating regional networks that they are trying to build out nationwide. Yes, rumors have been percolating for years about this, and Leap rejected Metro's unsolicited merger offer in 2007. But both companies reported weak 3Q09 results because of intensified competition in the prepaid space, likely making the thought of a merger more palatable to both.

  - **More mobile advertising consolidation.** 2010 is the year for the next wave of consolidation in the online ad space, this time in the mobile ad space: Google just acquired AdMob. Our bet is that **Yahoo!** will acquire **Millennial**

Media and **Microsoft** will acquire **Quattro Wireless.** After that, 68% of the entire U.S. mobile ad market would be consolidated between Google, Yahoo! and Microsoft.

- **Motorola set-top box business to HP.** We batted this one around a few years ago after Cisco bought Scientific-Atlanta. And now, with the rumored interest in Motorola selling, here we are again. The set-top is a control point for the integrated digital home but certainly not the only one; it is stronger in markets with strong pay TV adoption (such as the United States) but less so in countries with lower pay TV usage. That said, video is the name of the network game in all geographies for the coming years. Unlike its enterprise rival IBM, HP has a strong consumer presence and hopes to strengthen its position as one of the few companies that can put all the digital pieces together in the home (witness the recent 3Com acquisition). It's important to note that this would not be just a consumer/home play but a service provider (cable/telco) play for HP. It would present a big opportunity for HP but would require HP to ramp up its SP business.

ESSENTIAL GUIDANCE

When looked at from a high altitude, our first two predictions — which forecast moderate recovery and growth — suggest a fairly calm and uneventful year for the IT and telecommunication markets.

Of course, the subsequent eight predictions show that nothing could be further from the truth. It will be an important year to not just relax and enjoy the return to positive growth but redouble efforts to align with the major transformational vectors redefining the marketplace.

As noted previously, in 2010, we'll witness the potent combination of transformation tipping points being reached in a year of economic upswing. This will have an amplifying effect — for better or worse — on suppliers' strategic choices. The rewards for being well positioned, on the right transformational vectors, will be great. Conversely, the penalties for being behind the curve will be severe.

LEARN MORE

To see the rest of our predictions — as well as the dozens of Top 10 Predictions documents we will publish in December and January, each focused on a different segment of the IT industry — visit IDC's predictions page at **www.idc.com/research/predictions10/predictions10.jsp**.

Related Research

- *Worldwide Black Book Query Tool, Standard Version, 3Q09* (IDC #220869, November 2009)
- IDC eXchange blog (**blogs.idc.com/ie**)

- *IDC Predictions 2009: An Economic Pressure Cooker Will Accelerate the IT Industry Transformation* (**http://blogs.idc.com/ie/?page_id=276**)
- *IDC Predictions 2008: The Post-Disruption Marketplace Takes Shape* (**http://blogs.idc.com/ie/wp-content/uploads/2009/04/idc-predictions-2008.pdf**)

Synopsis

This IDC study, with our broadest outlook for the overall technology marketplace, starts IDC's annual "predictions season." IDC's worldwide analysts were polled for their take on what the coming year holds in store for the IT industry. Their views were synthesized and validated as well as filtered down to a core set of 10 predictions that illuminate key growth opportunities for 2010, are relevant to many different segments and players in the IT marketplace, and require major structural change within companies and across the industry.

According to IDC Chief Analyst Frank Gens, "2010 will be a year of modest recovery for the IT and telecommunications industries. But the recovery will not mean a return to the pre-recession status quo. Rather, we'll see a radically transforming marketplace — driven by surging demand in emerging markets, growing impact from the cloud services model, an explosion of mobile devices and applications, and the continuing rollout of higher-speed networks. These transformational forces will drive key players to redefine themselves and their offerings and will spark lots of M&A activity."

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