

# *Key Findings*

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## **The Analyst Glut**

Too many dollars chasing too few products results in inflation. We've all seen that phenomenon. But what happens when too many similar products swamp the market? Usually the oversupply results in falling prices and that seems to be what's been happening in the analyst business for several years.

In the run-up to the millennium corporate customers were desperate to make their core "enterprise" software systems ready for Y2K and their demand resulted in good times for ERP, manufacturing, and CRM systems suppliers and implementers. Software companies flourished and many new companies debuted due to the strong demand and the added help of abundant venture capital, but the effects of all that demand and money didn't end with the primary consumers.

Service and support industries also benefited and one of the most obvious examples was the technology industry analyst firms. At the end of the millennium buyers were confused by a plethora of choices and competing arguments for which systems to implement. The analysts firms provided market research and guidance (for a fee) to both the vendors trying to make sales and end users trying to make decisions.

### ***The new style of analyst group***

But there are only so many ways to perform a market share analysis and only so much advice companies can absorb and over the last few years, as much of the dynamism has dissipated from the software industry, analyst firms have suffered the same fate as many of the companies they covered during the gold rush. Several analyst firms have either gone out of business, changed their focus or are today teetering on insolvency.

At the same time though, many of the individual analysts who were displaced by the downturn have decided they like the business and the work and they have quietly decided to continue doing what they know best. These solo practitioners can be found all over the Internet with a simple Google search or by following their quotes in online and traditional publications. More importantly, the existence of so many solo practitioners has also resulted in the rise and sustenance of a new class of quasi-analyst firms or independent analyst federations.

Companies with names like Bitpipe, CRMGuru, RealMarket, Valley View Ventures and many others all find innovative ways to package independent market analysis and deliver it through their websites at costs that are substantially below what the majors command for their research, and often times the research is free. The independent analyst federations offer much of what today's enterprises are looking for in research and some things that they might prefer to do without.

### ***New reality***

While the federations can provide great breadth and depth in their research offerings consistency can be a challenge. Much of the research is inspired by the individual analysts for a variety of reasons for example, perceived market demand (i.e. the ability to sell the report), a specific area of interest, or even a hunch that the market might want to know the information. Consequently, there is no guarantee that a research report that was useful to end users one year would be repeated in subsequent years to give readers some understanding of developing trends.

As a result, end users might find it hard to get the same one-stop shopping they grew accustomed to with the major analyst firms. Still with prices for independent research in the hundreds to thousands of dollars instead of the tens of thousands of dollars that major analyst firms charge for subscription services, many companies that know the analysts by name as opposed to simply knowing their employers, have decided it is worth the effort to shop around.

On the flip side, no company can exist for long if it gives its products away, which is what many new analyst firms do in an effort to build their brands, but they are not alone. The major firms have also taken a crack at lowering their prices, either officially or unofficially, in attempts to be more responsive to their customers. Nevertheless, the situation is analogous to the airline industry where upstarts that can charge passengers less are eroding market share of the major carriers that often cannot match the challenge due to higher overhead that comes with being a larger and older company with entrenched commitments.

### ***The shake out***

The problem is more acute for the major analyst firms than for the upstarts for while smaller companies can get by on small revenues larger firms cannot. Thus the larger analyst firms will be deluged for the foreseeable future by a market with downward price pressure.

There are several developments that could change the picture and help to dry up the excess analysis capacity and they are all related to a generally improving economy. For example, one or several innovations in the tech sector could spawn new categories that would redirect the attention of these analysts. An improving economy might also open up jobs in product management, consulting, or other areas that require the same kind of skill set now deployed for analysis.

In the last analysis if vendors and end users find they like the lower costs and broader selection offered by a more distributed analyst community the current situation, in which there are many small firms and a few very large analyst groups, could be with us for the foreseeable future.

My bet is that the current analyst glut is a transition state on the way to a smaller analyst community. That smaller community will consist of some major names that are with us now

as well as a few new groups that build niches dedicated to the demands of some market sectors — Nucleus Research comes to mind here. The ultimate size of the community and the relevance of research in general will be decided in the next year as venture capital slowly returns and the economic outlook brightens for some technology vendors.

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