



The State of the BPM Market:
A look at the market landscape, where
we've been and where we're headed

2006

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To help organizations begin their evaluation and understand the context for a BPM purchase, Upside Research has prepared its latest State of the BPM Market Report. By taking a look at a current snapshot of the BPM market, combined with a consideration of current hot spots, how related markets are growing, and finally what the future holds for BPM, organizations can gain a more complete understanding of how BPM can positively impact their organization.

□ **A SNAPSHOT IN TIME**

The BPM Market continues to grow at an impressive clip. While there have been areas of flat growth, overall the market is quite healthy. Taking a closer look at how the pure-play vendors are performing as well as the key verticals responding to BPM and the impact of BPM globally will help organizations place BPM in context of other enterprise technologies.

□ **HOT SPOTS FOR THE NEXT SIX MONTHS**

We've identified the areas where BPM is really changing, and this section highlights what organizations need to be sure they are considering when evaluating a BPM solution.

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The success of the BPM market is infectious, and as such a number of related markets are seeing a surge in interest as they tie their strategies and products more closely to the BPM wave. This section highlights some of the related markets and technologies that Upside Research believe are becoming an integral component of enterprise BPM.

□ **WHAT THE REST OF 2006 HOLDS FOR BPM**

This paper highlights some of the most important and the most interesting trends happening in the first half of the 2006 BPM market, as well as some of the ones most likely to define future changes in today's BPM products. If you're the go-to person responsible for making recommendations on BPM to your company, we've given you a few things to consider that will likely impact BPM over the next six months, and will help you make the right choices and ask the right questions regarding your BPM decision.

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INTRODUCTION

Over the past decade, BPM has evolved from a number of other technology pre-cursors, including workflow, integration and process automation. Through this evolution process, BPM has picked up a number of best practices that enable companies to use a “new” technology that has been road-tested in the past. As such, companies from all industries have started using BPM because, in short, it works. BPM can make a huge difference in how your company responds to market pressures and how it proactively tackles new business needs. Not only that, it changes the economics of managing the business through improved process performance.

UPSIDE RESEARCH FACT

The BPM Market Momentum grew an average of 55% from Q4 2004 to Q4 2005.

To help organizations start their evaluation and understand the context for a BPM purchase, Upside Research has prepared this State of the BPM Market, as a starting point for future evaluation of this dynamic market. This report follows up on the trends and

information discussed from Upside’s previous market evaluations published in June 2004 and October 2005, and provides a current snapshot of where the BPM market stands at the beginning of 2006.

By taking a look at a current snapshot of the BPM market, combined with a consideration of current hot spots, how related markets are growing, and finally what the next year holds for BPM, organizations can gain a more complete understanding of how BPM can positively impact their organization. For maximum benefit, Upside Research believes that most organizations should combine this context-setting information with an evaluation of BPM products from both a business and IT perspective to identify the most appropriate solution.

A WORD ON METHODOLOGY

This report is based on the results of a several surveys that Upside Research conducted between June 2004 and December 2005. The research includes responses from public and private companies that provide business process management (BPM) and integration solutions to the corporate marketplace. Additional conclusions and

SAMPLES RESEARCH SURVEY RESPONSE

“We are seeing increasing awareness of the value of BPM being generated as a result of the success achieved by early adopters in 2002-2004.”

“The majority of our revenue continues to be from North America but EMEA is trending to grow over 100% from last years results.”

“Market awareness [for BPM] is strong and companies are renewing investment in IT infrastructure and problem solving.”

“Most companies still prefer to invest in BPM in increments – though I think more companies are doing the due diligence to ensure that the vendor they choose is capable of addressing their enterprise needs down the road.”

analyses are derived from public research, generally-reported BPM or BPM-related market sizing and growth numbers, as well as interviews that Upside Research has conducted with numerous BPM and platform vendors. In addition, it incorporates perspective from enterprises that are evaluating, implementing or have implemented BPM solutions.

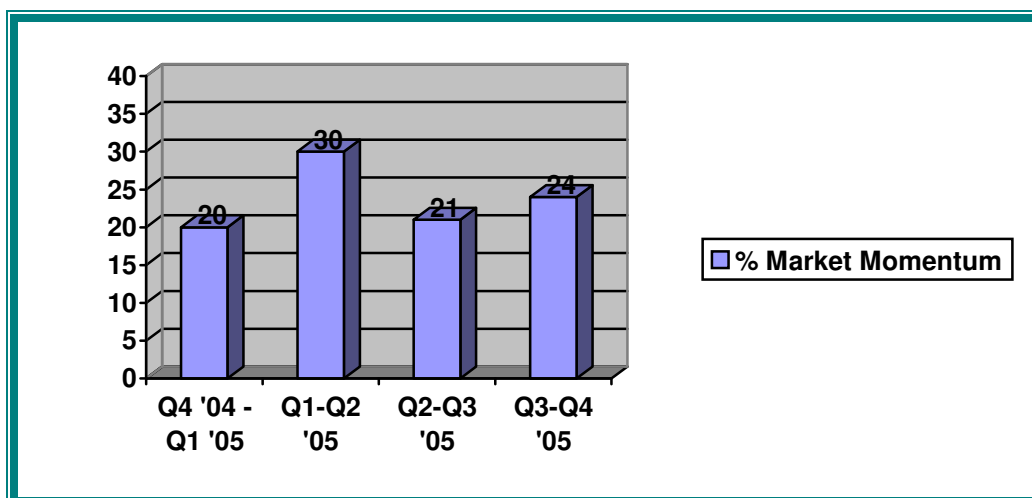
BPM market growth statistics cited in this report are specialized Upside Research BPM Market Momentum™ numbers, based on a unique combination of metrics and factors. Upside Research Market Momentum™ calculations are based on a variety of factors including publicly cited BPM market numbers, filings from public companies, confidential BPM product briefings and research results from interviews with enterprise architects and BPM practitioners. The Upside Research Market Momentum numbers are intended to provide an overall measure of market sentiment, as calculated by combining the growth of the market with the overall market activity. Upside Research believes its BPM Market Momentum numbers are a good indicator of overall market changes that are likely to continue in the near future.

A SNAPSHOT IN TIME

Upside Research shows that BPM market continues to grow at an impressive clip. While there have been areas of flat growth in some segments and for some companies, overall the market is quite healthy. Taking a closer look at how the pure-play vendors are performing as well as the key verticals responding to BPM and the impact of BPM globally will help organizations place BPM in context of other enterprise technologies.

FINANCIAL RESULTS INDICATE STEADY GROWTH

After several years of off-the-charts growth for many BPM pure-plays as they quickly ramped up their efforts and started signing marquee customers, the most recent check of revenues for BPM vendors indicates the growth has become more moderate. The average Upside Research Market Momentum based on the survey respondents between Q3 2005 and Q4 2005 was 24%, with many vendors adding a number (8-15) of new enterprise customers. Upside Research believes that this moderately fast pace of growth and market momentum will continue through 2006.



Recent Quarter-over-quarter BPM Market Momentum

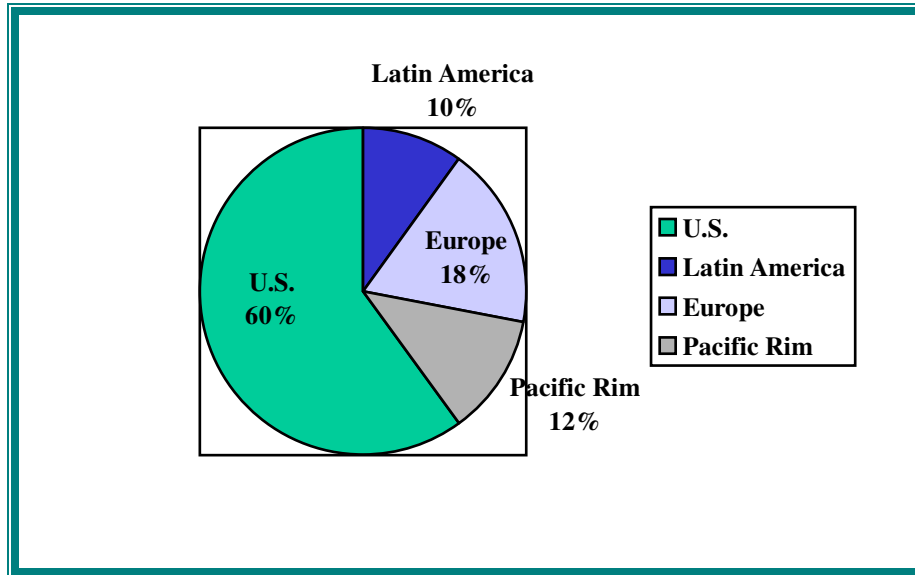
Looking at year over year results for a single quarter offers a much more positive picture of BPM adoption rates. Vendors we interviewed indicated they are seeing anywhere from 24% to 150% growth rates in the most recent financial quarter as compared with a year ago. The average market momentum rate year over year from 2005 to 2004 for the fourth quarter is 55%. While the number sounds high compared with the steadier quarter to quarter rates of 20% to 30%, it reflects the tremendous growth rates that several vendors experienced due to the fact that they were just getting off the ground at this time last year, and had only a handful of enterprise customers.

This dramatic growth in market momentum may continue for several more quarters, and then Upside Research expects it to taper off to more modest year over year increases. While the BPM market is by no means saturated, the nature of the enterprise sale and the prospective customers indicates that adoption rates will not continue a meteoric rate of growth because of the limitations of direct sales channels as well as the services component of many of the BPM solutions.

GLOBAL IMPACT OF BPM GROWING

North America is still the front market for BPM, and the majority of vendors have shown high percentages of customers within the U.S., the average being about 60%. Latin America is seeing a considerable growth for certain vendors. In Europe, with an average rate of 18%, England is at the forefront for adoption, but there are pockets of adoption increasing in other European sectors. At the end of 2005, there was a significant increase in sales to Europe, the Middle East, and Africa (EMEA). This can be attributed to the efforts on the part

of the vendor community and industry-driven organizations to educate global enterprises about BPM's role in business strategy. Similarly, as many early adopters roll out enterprise-scale process automation, BPM is showing up in all corners of the world, sparking the global interest. Upside Research expects to see growth continue in the European and Asian markets, although the U.S. has by no means seen a saturation point yet.



Geographic breakdown of BPM vendors' sales for Q4 2005.

MARKET AWARENESS FUELS GROWTH

Many vendors Upside Research has spoken with have expressed that there is a greater general awareness of Business Process Management among enterprise buyers. This alleviates some of the educational burden that vendors have held in previous years. As a result, some vendors are seeing a shortened sales cycle, as prospective customers come to the table with a greater understanding of what they need and how BPM can help them. Upside Research anticipates this will continue, although a side-effect of this will be that companies will have much more finely tuned RFP's and therefore higher expectations of how BPM vendors can deliver tangible results for them. Additionally, there exists a level of market confusion about exactly how to define a BPM solution. Because there are vendors from a variety of markets calling themselves BPM, end users are somewhat confused by what constitutes BPM. Upside Research expects this to continue for some time as the market shakes out. Nonetheless, the basic level of market awareness surrounding BPM is a significant contributor to sales growth and should continue over the next twelve months.

HOT SPOTS FOR THE NEXT SIX MONTHS –EARLY 2006

As part of our continuing research and analysis of the BPM market, Upside Research has identified several areas where BPM is really seeing significant changes in product and strategic direction. This section highlights what organizations need to be sure they are considering when evaluating a BPM solution, or what they need to be sure their current BPM vendors are covering with product upgrades and new releases.

VENDORS ARE CHOOSING VERTICAL FOCUS

While many of the BPM platforms are fully capable of addressing process issues across industries, from financial services to healthcare to retail, Upside Research has noticed a natural selection process occurring by BPM vendors in terms of choosing specific verticals to target with special functionality. The majority of vendors have identified financial services and healthcare as two key verticals, but other verticals seeing more traction include retail and manufacturing.

Among the vertical-specific functionality that vendors are providing:

- Specific modules to enable retail customers to more easily manage the process of establishing new stores, from leasing and property acquisition through build-out and opening.
- Modules related to financial services, including areas such as Sarbanes-Oxley compliance.
- Extensions for extending the business processes of SAP and packaged applications.
- Solutions aimed at enterprise-level Six Sigma BPM.
- Partnerships to address corporate governance issues.

TOP 5 VERTICAL MARKETS FOR BPM

- Financial Services
- Healthcare
- Retail
- Manufacturing
- Government

Some BPM companies offer a series of templates to help customers in vertical industries customize their business processes. The benefit of the vertical focus for buyers is that there will be a faster ramp-up time for BPM adoption within their specific organizational needs. While the modules may not provide 100% of what companies need for a process, by providing more than half the functionality and process components that an organization uses out-of-the-box, organizations will be able to shorten their development time for getting a new process into production. Upside Research advises organizations to look closely at these modules for synergy with their existing processes and areas of greatest need.

IMPLEMENTATION TIMES SHRINKING DUE TO SMALLER INITIAL PROJECT SCOPE

Because the potential ROI is such an important component of BPM, vendors are shifting the way they sell BPM solutions in response to customer needs. Many organizations have experienced the pain of launching an enterprise IT solution initiative (think ERP or EAI), only to find themselves several years down the path and no return on investment or tangible business benefits in sight. Understanding this, they are looking for an initial process that has high visibility and can bring significant improvement, whether it is faster times or cost savings, and tasking BPM vendors with focusing on automating that initial process.

Upside Research believes this is a beneficial change for both parties. It enables the customer to experience the benefits of BPM in the short-term, and therefore have interest in expanding their BPM initiatives, while keeping the overall price much lower than an enterprise deal. At the same time, it enables the BPM vendors to focus on specific pain spots and prove their product's worth in a shortened time-frame, opening up the possibility of additional projects and an eventual enterprise license path for customers.

THE AGE-OLD BATTLE BETWEEN IT AND BUSINESS ISN'T OVER

Organizations and BPM vendors are both finding that BPM is a new territorial battleground for the perpetual struggle between business and IT. Upside Research's recent market surveys indicate that this problem continues to be a hot spot for enterprise BPM adoption. BPM vendors are striving to meet both parties' needs to ensure the success of a BPM implementation. Specifically, we are seeing that the buying decision is shifting more toward the Business side, as they are identifying their process pain and looking to solutions like BPM for help. However, IT still controls much of the purchasing budget for such an enterprise solution, and therefore needs to be intimately involved in purchase decisions, especially if they are enterprise-wide.

TOP 5 BARRIERS TO BPM ADOPTION

- Market confusion over BPM definition
- IT/Business Ownership struggle
- Departmental "silos"
- Inability to make decision
- Inability to define processes

Those BPM implementations that have been successful involve close alignment between both business and IT; in fact Upside Research believes it is critical to the success of a BPM project. Therefore, organizations considering BPM need to be aware of their specific organizational dynamics and represent those dynamics clearly to the prospective BPM vendors to ensure that their specific needs can be met by a particular solution.

RELATED MARKETS HEATING UP

Upside Research has seen a number of BPM-related markets experience growth as they tie their strategies and products more closely to BPM. This section highlights some of the related markets and technologies that Upside Research believe are becoming an integral part of enterprise BPM.

- **Business Rules** – Business rules make it easier for organizations to capture and manage business logic in forms that can be easily managed, delegated to others, or modified on the fly without changing process models. Most BPM vendors have discovered the value of incorporating business rules into their BPM solution. While some vendors have opted to embed their own rules engines, a number of vendors are looking for or have chosen to partner with business rules vendors to provide the functionality.
- **Process modeling and simulation capabilities** – The ability to model and simulate business processes from within the BPM suite has quickly become an important compliment to a standard Business Process Management platform. End users and vendors that Upside Research has spoken with recently have both indicated that simulation is becoming a check-box item on RFP's for BPM. However, the amount of usage of these technologies is slightly behind the curve. Upside Research expects this to shift as enterprises become more comfortable with their BPM solutions and start to evolve their usage patterns for the technology.
- **Business Activity Monitoring** – BAM has been a separate market for some time, coming out of the business intelligence space. With the focus of BPM increasingly on enabling line-of-business managers to monitor and manage the business processes, providing them with a way of visually monitoring activity is a natural fit. Therefore, most vendors that Upside Research interviewed have some level of BAM capabilities built into their products. It is important to note that monitoring the time it takes to complete a business process (such as processing/reviewing a loan application) is very different than measuring system performance. Many users monitor only system resources such as memory or CPU without looking at the business processes that are running via their hardware and software.

- **Opening Up ERP Processes.** Almost all enterprise organizations have made significant investments in ERP, CRM, and other packaged applications. Yet in many cases, business drivers are requiring an ever-increasing stream of process changes and additional functionality (or simply integrations) that need to leverage ERP capabilities. Expect BPM solutions to play a larger role in this area, as companies look for ways to add business and process logic to their packaged applications without being locked into proprietary solutions the packaged application vendors.

WHAT THE REST OF 2006 HOLDS FOR BPM

Over the past two years we've seen the business process management (BPM) market continue to mature, as more and more organizations look for BPM products to automate and manage their business processes. BPM products have evolved into more sophisticated offerings, with broader coverage and increased support for business developers and users. Upside Research has identified a number of areas where we see the market moving over the next year and the resulting impact it will have on BPM. If you're the go-to person responsible for making recommendations on BPM to your company, we've given you a few things to consider that will likely impact BPM through the rest of 2006, and will help you make the right choices and ask the right questions regarding your BPM decision. One thing you'll want to consider carefully is choosing an established vendor with flexible, open-standards based technology that will growth with your existing infrastructure.

INCREASED FOCUS ON BUSINESS

Even though business is the first word in BPM, current products have not necessarily been business focused. Many products, including "pure-play" BPM products, have remained oriented toward IT developers and/or the IT group. Development, deployment, and management of the more sophisticated products require extensive training, consulting, or IT expertise. And while some products are particularly well suited for power business users, others remain at the IT/science-project level. Upside Research expects to see BPM vendors continue to invest in making their products less IT-focused and more business oriented. Expect to see greater business-level development, modeling, and management capabilities, and additional business-oriented interfaces for functionality such as reporting or simulation.

MORE MODULAR PRODUCTS

In many cases, BPM products have remained soup-to-nuts solutions, requiring businesses to invest in one company's BPM architecture and vision. Upside Research believes that the next 12 months will bring some (but not complete) relief in this area, as product vendors

continue to open up their BPM architectures to support standards and 3rd-party tools. Primarily, we'll see more flexibility in modeling, reporting, business rules, and possibly simulation capabilities, as well as deployment. However, don't expect to see any flexibility in run-time process engine support—that's the heart of most BPM solutions' revenue stream.

MORE SIMULATION

While the number of organizations actually using BPM simulations capabilities is quite small, expect to see more and more BPM vendors offering simulation, or connections to simulation products. For example, IBM's WebSphere Business Modeler offers simulation functionality. Many BPM vendors have started to add the ability to simulate processes into their products, if only as a way to respond to a checkbox requirement for potential BPM RFP's. While this is certainly a good capability, it's only useful when organizations take the time and have the energy to actually use it to help refine or debug process models—something that we believe very few organizations will actually do in the next few years. However, over time, simulation will become an important component of BPM solutions, and organizations should be considering a BPM product's long-term (not necessarily short-term) simulation road map.

MORE REPORTING/BUSINESS MONITORING CAPABILITIES

A bit more direct and immediate than the need for more simulation capabilities is the need for increased business monitoring and reporting functionality. Upside Research expects many BPM products to make significant advances in this area in the early part of 2006, in tandem with their increased push toward creating more business-usable and business-relevant products. Without adequate (and easy-to-use) business process monitoring capabilities and reporting options, BPM turns into business process automation. And simply automating processes, without enabling dynamic, rapid change to business processes will not deliver the results that organizations are looking for from BPM.

ON-DEMAND BUSINESS PROCESS MANAGEMENT

Getting the most out of BPM means getting a BPM solution up and running fast. Less time analyzing process models and configuring process servers means a faster ROI. Since the value of business process management comes from streamlining business processes and being able to adapt them over time, expect to see on-demand, hosted BPM solutions provide an alternative to traditional multi-server BPM products. Also, expect to see other BPM players deliver solutions that decrease the amount of traditional modeling required to

get a process up and running, allowing users to “flesh out” the process model or exceptions on the fly.

All of these trends are important factors in the future direction of BPM, and Upside Research advocates that organizations keep these in mind when looking at BPM solutions. It is important to understand how the market is changing to make sure that you are making the best long-term decision for your organization to maximize the benefits of business process management.

FINAL THOUGHTS

The BPM Market is currently in good health. The growth rates for 2004 and 2005 have been solid and the projected rate of growth for 2006 look promising, cementing BPM’s position in mainstream of enterprise software solutions. As a corporate buyer of BPM solutions, this market growth and geographic expansion is a positive indicator of the health of the market. Investments made in BPM solutions will more than earn themselves back for organizations in the near and long terms. Companies evaluating BPM can be confident that BPM is not a technology fad, but rather an enterprise solution to many of the process and workflow-oriented problems that organizations face today.

While the market overall is extremely healthy, Upside Research advises that organizations look closely at the performance of individual BPM vendors, as some are finding their growth rates less positive than others. We expect this to continue as several vendors struggle with their positioning in a noisy marketplace and their ultimate difficulty in differentiating effectively from the competition. However, the healthy level of competition will continue to bode well for the market overall and the inevitable consolidation will contribute to a stronger group of first-tier BPM providers.

Upside Research recommends using the information and ideas in this paper in conjunction with an organized and analytical product selection process when evaluating BPM solutions. Since no two companies are the same, it is important that you apply your unique situation to the information presented here, and determine the best set of features a BPM solution should have for you and which of these trends is important to consider when evaluating BPM solutions.

About Upside Research, Inc.

Upside Research is a research and consulting firm focused on helping clients put application development, Web services, business process management, integration, and enterprise infrastructure challenges in perspective. Upside Research helps organizations find practical ways to achieve their IT goals and profit from the diversity of a changing technology landscape.

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