



Software Industry: An Analysis

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Executive Summary of the Software Industry

Since 1950 innovations in semiconductors, data storage devices, computer architecture, software, and data communications have revolutionized information technology throughout three distinct eras - *Mainframe/ Minicomputer, PC, and Internet*. Software is classified as either a *business service or publishing*, and is a subset of the larger \$1 Trillion computer industry.

Software remains one of the most innovative and fastest growing sectors of the global economy, generating revenues of nearly \$200 billion every year. About half of those sales come from software applications, with the remainder split between development tools and infrastructure software.

Within the Software Industry there are many competing forces. Digital Convergence is playing a major role in shaping future hardware, the very foundation upon which software is built. While CE (Consumer Electronics) plays a role in shaping business, the biggest impact will be mobilization – the convergence of PC's and Telecom to form new mobile computing/ communication platforms, i.e. uPC's (UltraPortables) and SmartPhones. In addition to the power of convergence, two major competitive forces are commoditization and virtual delivery.

Major turmoil is being caused by 1) Piracy, 2) Open Source Software, 3) Software Complexity, 4) Security, and 5) Privacy. Several major trends are occurring that will significantly impact the software industry.

Within the Software Industry there are many competing forces: Commoditization, OSS, and Globalization to name a few. To aid in analyzing these forces are PEST ("P.E.S.T." is an acronym for the Political, Economic, Social, and Technological factors.) and Porter's Five Forces + Analysis which is a model for analyzing the competitive forces that shape every industry. Porter's model explores 1) Buyer Power, 2) Supplier Power, 3) Industry Rivalry, 4) Threat of New Entrants, and 5) Threat of Substitute Products. Additionally, many complementors exist for the software industry such as Broadband, Hardware, and Software.

Three deep trends are: 1) *Commoditization* of software, 2) User *Customizable* systems and architectures, and 3) Network-enabled *Collaboration*.

Growth opportunities abound throughout the software industry due largely in part to Digital Convergence. The next generation internet, Internet 2.0 will be home to many innovative opportunities. With the web acting as a unifying force; universal, mobilized applications hold immense promise. What the internet needs most is innovation. There are untold problems (challenges) that people face each day in their work and personal lives just waiting for creative entrepreneurs to develop innovative solutions.