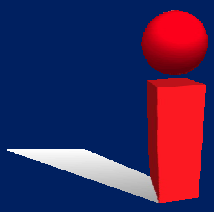

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BRANCH OFFICE IT MARKET LANDSCAPE REPORT

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About The Internet Research Group
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The Internet Research Group (IRG) provides market research and market strategy services to product and service vendors. IRG services combine the formidable and unique experience and perspective of the two principals: John Katsaros and Peter Christy, each an experienced industry veteran. The overarching mission of IRG is to help clients make faster and better decisions about product strategy, market entry, and market development. Katsaros and Christy authored a book on high tech business strategy *Getting It Right the First Time* – Praeger, 2005 www.gettingitrightthefirsttime.com.

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Overview

In 2001, a year after the Internet bubble burst, we began noticing a renewed interest in organizations spending money to improve their branch office IT. The focus during the Internet bubble was on organizations doing creative things by placing all or part of their business model on the Internet. Money was being spent on bringing up powerful new websites, many of which were poorly thought through from a business standpoint. Speed – getting up and running quickly – was more important than strategy. Branch office IT improvements during those boom days were neglected. During the bubble, the focus wasn't around brick and mortar.

Once the hangover from the bubble cleared up, organizations began to realize the importance of their branch locations in the overall scheme of things. After all, branches are where enterprises meet their customers – not only for big retailers like Wal-Mart but auto dealerships, banks, insurance claims adjusters, and health care organizations – you name it. The branch location is the "enterprise ⇔ customer" interface.

When organizations looked closely at their branch offices they saw a range of problems from aging equipment to poorly designed applications to insufficient Wide Area Network (WAN) connectivity. Organizations often saw technology issues that would take a better part of a decade to correct.

There are many issues associated with IT in the branch, some of course are unique to a specific business or industry while others cut across all segments. Once you know what you want to do you've got to install new equipment, train employees on how to use it, assure that information is properly secured and backed up and, when something goes wrong you've got to diagnose and fix the problem remotely. And then there is the multiplier effect – if you have $20K of IT capital equipment heading for the branch and if you've got 100 branch offices, you're looking at a $2M investment. Your capital expenditures get large quickly.

Over the past ten years the number of branch office locations in the US has increased by over 21% from a base of about 1.4M branch locations to about 1.7M at the end of 2009. The goal of this report is to 1) categorize the bulk of branch offices in the US based on the industry sector and size of organization,

2) estimate relative IT spending potential in key verticals and 3) estimate the rate of branch office growth. To do this we have used a number of data sources including the US Department of Commerce. The good news about the US Department of Commerce (DOC) data is that it has been methodically collected for more than a decade and is presented in a coherent fashion. The bad news is that it takes over two years for the DOC to summarize and publish the data and that it appears to undercount branch locations by about 15%. Nevertheless, the importance of the information that we can infer out of this data is as much about the relative sizes of the different branch categories and how they trend over the years as it is about the absolute number of branches.

This report also presents in the appendix detailed lists of the largest operators of branch locations across the leading verticals.

A branch is not a branch. Before we begin looking at the numbers, it is worth taking a few seconds out to describe some of the oddities in counting branch locations. First, there is what we call the airport problem. If there are five Starbucks at the San Francisco Airport, does this count as one branch or five branches? From a counting standpoint, most likely this is only counted as one based on DOC data collection methodology. But from an IT spending standpoint this situation probably should count as five since they all will be equipped with Point-of-Sale (POS) terminals and a communications link. Second, there is the "influence" problem. A Starbucks branch that is owned and operated by Starbucks will count as a branch of a large corporation because Starbucks is in fact a large company. A Starbucks branch that is owned and operated by a franchisee will be counted as a branch of a small company because the franchisee is most likely a small business. But from an IT spending standpoint Starbucks corporate is likely to either select the POS used by its franchisee or else provide a limited number of approved systems for the franchisee to select. The third difficulty with making comparisons is there are very small branches – a Subway sandwich shop (32,087 restaurants in 90 countries) may only have one employee during a slow shift with only one important IT application (the POS system) while the branch claims office of a large insurance company may have