



# The 2005 Branch Office IT Market Landscape Report

**John Katsaros**

**Peter Christy**

**September, 2005**

## **About The Internet Research Group**

[www.irg-intl.com](http://www.irg-intl.com)

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 recently published a book on high tech business strategy *Getting It Right the First Time* – Praeger, 2005 [www.gettingitrightthefirsttime.com](http://www.gettingitrightthefirsttime.com).

## Table of Contents

<b>1.</b>	<b>Overview .....</b>	<b>7</b>
<b>2.</b>	<b>Introduction.....</b>	<b>10</b>
<b>3.</b>	<b>Overall Branch Office Market Segmentation .....</b>	<b>11</b>
<b>4.</b>	<b>IT Spending Across The Branch Office Segments.....</b>	<b>19</b>
	<b>Workforce Distribution – Migration to the Branch .....</b>	<b>20</b>
	<b>Education Market .....</b>	<b>22</b>
<b>5.</b>	<b>Retail .....</b>	<b>23</b>
	<b>Retail Segment IT Spending Drivers.....</b>	<b>23</b>
	<b>Retail Industry IT Spending .....</b>	<b>25</b>
	<b>Top Retailers .....</b>	<b>26</b>
	<b>Retail Industry – Marketing Communications .....</b>	<b>33</b>
<b>6.</b>	<b>Accommodation and Food Services .....</b>	<b>35</b>
	<b>Accommodation and Food Service Segment IT Spending Drivers .....</b>	<b>35</b>
	<b>Accommodation and Food Service IT Spending.....</b>	<b>36</b>
	<b>Top Hospitality Companies.....</b>	<b>37</b>
	<b>Top Food Service Companies .....</b>	<b>40</b>
	<b>Hospitality and Restaurant Industries Marketing and Communications.....</b>	<b>43</b>
<b>7.</b>	<b>Financial Services and Insurance .....</b>	<b>45</b>
	<b>Financial Segment IT Spending Drivers.....</b>	<b>45</b>
	<b>Financial Industry – IT Spending .....</b>	<b>45</b>
	<b>Top Financial Institutions Companies .....</b>	<b>48</b>
	<b>Top Insurers .....</b>	<b>54</b>
	<b>Financial Services Industry Marketing Communications .....</b>	<b>55</b>
<b>8.</b>	<b>Information Industry.....</b>	<b>57</b>
	<b>Information Industry Segment IT Spending Drivers.....</b>	<b>57</b>
	<b>Information Industry – IT Spending.....</b>	<b>58</b>
	<b>Top Information Industry Companies.....</b>	<b>58</b>
	<b>Information Industry Marketing Communications .....</b>	<b>62</b>
<b>9.</b>	<b>Healthcare.....</b>	<b>63</b>
	<b>Healthcare Segment Strength .....</b>	<b>63</b>
	<b>Healthcare IT Spending .....</b>	<b>67</b>
	<b>Top Healthcare Companies.....</b>	<b>69</b>
	<b>Healthcare Industry Marketing Communications .....</b>	<b>74</b>
<b>10.</b>	<b>Education.....</b>	<b>76</b>
	<b>Education Segment Strength .....</b>	<b>76</b>

<b>K-12 .....</b>	<b>76</b>
<b>Higher Ed.....</b>	<b>76</b>
<b>Education IT Spending.....</b>	<b>77</b>
<b>Education Industry Marketing Communications.....</b>	<b>80</b>

## List of Tables and Charts

Chart 3.1: Distribution of Branch Offices.....	11
Chart 3.2: Average Number of Branches Based on Employee Size .....	12
Chart 3.3: Branch Office Distribution by Vertical Segment .....	14
Chart 3.4: Top Branch Office Segments; Greater Than 10K Employees .....	15
Chart 3.5: Top Branch Office Segments; 5K – 10K Employees.....	16
Chart 3.7: Average Number of Branches by Vertical Segments .....	18
Table 4.1: IT Spending By Top Branch Office Segments.....	19
Chart 4.1: Fortune 500 Segment IT Spending .....	20
Chart 4.2: Large Business Employment by Location.....	21
Table 4.2: IRG Employee Distribution Estimate .....	22
Chart 5.1: Retail Capital Expenditures.....	24
Chart 5.2: Retail Application – Store Operations Systems.....	24
Chart 5.3 Retail Capital Spending Trends.....	25
Chart 5.1: Retail Industry IT Spending Summary .....	26
Chart 5.4: Distribution of Retail Subsegments .....	27
Table 5.2: Top US Retailers by Number of Stores.....	29
Table 5.3: Top US Specialty Retailers by Number of Stores .....	31
Table 5.4: Top US Convenience Stores by Number of Stores .....	33
Table 5.5: Retail Industry Marketing Communications .....	34
Chart 6.1: POS System Replacement.....	35
Table 6.1: Hospitality and Food Services IT Spending Summary .....	36
Chart 6.2: Distribution of Hospitality and Food Services Subsegments.....	37
Table 6.2: Top 50 US Hotels by Number of Properties.....	39
Table 6.3: Top Restaurants by Number of Chains .....	41
Table 6.4: Top Quick Serve Restaurants.....	43

Table 6.5: Hospitality and Restaurants Marketing Communications.....	44
Chart 7.1: Financial Services Industry IT Spending .....	46
Chart 7.2 Global Financial Services; Internal and External IT Spending.....	46
Table 7.1: Financial Services IT Spending Summary.....	47
Chart 7.3: Distribution of Financial Services Subsegments .....	48
Chart 7.4: Offices of FDIC-Insured Institutions.....	49
Chart 7.5: Number of FDIC Insured Institutions.....	49
Table 7.2: Top US Banks by Number of Branches.....	52
Table 7.3: Top US Securities Firms by Number of Locations.....	53
Table 7.4: Top US Insurers.....	55
Table 7.5: Financial Services Industry Marketing Communications .....	56
Table 8.1: Information Industry IT Spending Summary .....	58
Chart 8.1: Information Systems SubSegmentation for Broadcast and Telecom.....	59
Chart 8.2: Extended Information Industry Subsegmentation.....	59
Table 8.2: Top US Computer Companies .....	60
Table 8.4: Top US Software Companies.....	60
Table 8.4: Top US Networking Companies.....	61
Table 8.5: Top US Semiconductor Companies .....	61
Table 8.6: Information Industry Marketing Communications .....	62
Chart 9.1: Top Business Issues Facing Healthcare .....	64
Chart 9.2: Top IT Priorities in Healthcare .....	65
Chart 9.3: Most Important IT Applications in Healthcare.....	66
Chart 9.4: Security Tools in Healthcare .....	66
Chart 9.5: Penetration Rate of Various Technologies for Hospitals .....	67
Chart 9.6: Hospital IT Forecast.....	68
Table 9.1: Healthcare Industry IT Spending Summary .....	68
Chart: 9.7: Distribution of Healthcare Subsegments.....	69

Table 9.2: 10 Largest Healthcare Subsystems .....69

Table 9.3: 10 Largest Public Healthcare Systems .....70

Table 9.4: Healthcare Systems by Type.....70

Table 9.5: 10 Largest Healthcare Systems Ranked by Acute-Care Hospitals.....71

Table 9.6: Most Wired US Hospitals.....74

Table 9.7: Healthcare Industry Marketing Communications .....75

Chart 10.1: K-12 IT Spending.....77

Chart 10.2: Higher Education IT Spending .....78

Table: 10.1: K-12 Summary .....78

Table 10.2: Top US States Ranked by number of Schools.....79

Table 10.3: Top 10 US Universities by Enrollment.....80

Table 10.4: Education Industry Marketing Communications .....81

# 1. Overview

*In 2001 we began our coverage of the branch office market. Back then people thought that we were crazy. We were asked, “Hasn’t the Internet significantly reduced and even eliminated the need for what goes on at the branch? Wasn’t the branch just a way station between customers and the “home office?” We didn’t see it that way. Now, it’s fair to say, that in computing terms, branch offices are more important than ever, and the IT problems that branch offices have are among the most important enterprise IT problems to be solved. Consequently, we decided to update our two year old study describing the US branch office landscape. In addition to this work sizing branch office market opportunities, in 2004 we produced a report covering the communications infrastructure issues that need solving along with the branch office related technologies which are being brought to market which we called “ The 2004 Branch Office Technology Report.”*

*The Internet boom was characterized by horizontal plays. GM and a big pharmaceutical house looked more or less the same to hot Internet technology providers. Everyone was putting up important Web sites. Everyone needed to juice their networks up. Everyone needed more terabytes of fancy storage. But markets in the future will develop very differently than the past with segmentation being the key.*

*The future is about serving customers where they live. That’s the role of the modern branch office and the variety of what we call branch offices is truly amazing. Just drive down Main Street USA and you’ll see auto dealerships, fast food restaurants, stock brokers, hotels, coffee shops, banks, insurance agencies, big box retailers, table service restaurants, healthcare clinics and more – all providing local products and services and each connected through one or more corporate networks.*

*It is surprising to many people that the most employees of very large companies are located at branch offices. So when you think about IT functionality that serves large companies today, you’ve got to think in terms of what’s going on at their branch offices and how they solve computing problems – CPU, storage, backup, networking, availability – at the branch.*

*Branch office networking means different things to different industries. Recently we interviewed an IT manager of a major restaurant chain and asked about data backup at the branches. His answer was surprising because he said he didn’t need to backup the data from the individual restaurants. So what if there was a fire at the restaurant before their nightly batch update was run and they lost all the data? Basically, it didn’t matter to him. There was probably only a few thousand dollars worth of information lost which would be covered by their insurance in any case. Credit cards are processed as they are approved. The inventory information wouldn’t matter anyway because*

*of the fire. There just wasn't a good business case to put in local backup storage. But ask that same question to someone in the financial services industry and you'll get a completely different answer.*

*The future will be about differentiation within a vertical sector. GM is going to drive IT spending to win against Ford, not to keep from being Amazoned by an eCar company, and what GM is going to do will have little in common with what Starbucks does in the coffee business. This is déjà vu – a return to the days of industry marketing. Companies going forward have to understand more about the application investments in specific markets, and relate to them. It's good news for marketers able to differentiate in specific industries. It's bad news for VC's - horizontal plays where one size fits all are potentially much bigger, but that's life.*

*We've been covering the branch office market longer than we care to admit. One thing that we've learned to do when evaluating the relevance of new IT technologies into this market is to ask the question: What actually is going on at these branch offices. If you're thinking about the computing that goes on at a Starbucks, then think about what changes – people go in, buy coffee, maybe even a CD, and leave. Employees show up, work a shift and leave. Stuff (coffee, cups, etc.) gets delivered to the back door. You can almost do a little conversion in your head – a person showing up at a Starbucks might generate roughly 250 to 2,000 bytes of information (depending on what they buy and whether they use the Starbucks loyalty card) and during peak hours each POS station can process roughly one transaction in thirty seconds. At the other end of the retail spectrum, consider a Walmart store. Again, the same sort of logic applies – customers come in and buy things, merchandise is delivered and employees come to work – each generating events which are passed back to a home office system as data. Our purpose in pointing this out, of course, is to emphasize that if you'd like to understand the IT needs of a branch office intensive business, then the first thing you should do is to build a simple model in your head of what's going on at that branch and what the consequential issues may be.*

*In this report we look at the market landscape for branch office subsystems. This project started out as a series of discussions that we had with infrastructure vendors who were addressing branch office markets. We found it interesting that while they cared a lot about this market, most didn't have a sense for how large the opportunities actually are (at a 10K foot level there are approximately 1.5M branch offices in the US) nor did they have a simple way to compare the potential of one branch office market to another. So we thought we would pull together some of the more relevant sources for scoping out the branch office IT market opportunity – US Census data, US Department of Education data (for sizing K-12 and universities), Fortune 500, InfoWeek 500 and other industry specific third party sources. We got a lot of positive feedback from this work so we thought it was worth updating. Our intention is to produce a report that can serve as the starting point for a more detailed analysis of branch office market opportunities.*

*This Branch Office Market Opportunity Report is our attempt to create a model for the future of branch office subsystems, both the evolution of the technical infrastructure as well as the market dynamics driving the technology investment. At best, it is only an approximation of what might happen. It is intended to: 1) help guide companies as they develop their business plans; and 2) prepare the way for a market segmentation plan which can help direct a portion of future marketing and sales activities. We hope you find it useful.*