2006-1 JPSA

PC Software Market Trends In Japan

Based on the Survey of FY 2004

JPSA
JAPAN PERSONAL COMPUTER SOFTWARE ASSOCIATION

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Japan Personal Computer Software Association

Contents

I. Methodology

Methodology

1. *Objectives*

This survey was conducted for the purpose of understanding the current Japanese domestic personal computer software (hereafter referred to as PC software) market, its trends, and its characteristics.

2. *Method:*

Survey format: Conducted via post, following telephone screening interviews

Survey target: PC software vendors which ship products to the Japanese domestic market

No. of samples: 205 samples

No. of surveys mailed: 1,043 companies

Recovery rate: 19.7% (telephone calls made to encourage response)

Selection of target companies: Mailed to all companies on the Japan Personal Computer Software Association member list as well as selected vendor lists

Target area: All of Japan

3. *Survey Contents*

1) Sales revenue from FY (fiscal year) 2004
2) Value of PC software shipped to the domestic market (actual figures for FY2003 and FY2004, forecast for FY2005)
3) Breakdown of PC software sales revenue
4) PC software supply form and destination
5) Value of product shipped by category
6) End user breakdown

4. *Period Survey Conducted*

July 5, 2005 through September 13, 2005

5. *Body Conducting the Survey*

Conducted under the name of "Japan Personal Computer Software Association" ("EC Research Corp." also printed as jointly conducting survey)

Changes in the Survey

◆ Changes in category fields

The following changes were made in this year's "FY2004 PC Software Market Trends in Japan" to more accurately reflect the state of the market.

The major changes between the "FY2003 PC Software Market Trends in Japan" and this year's survey report are as follows:

(1) Changes in the supply form categories of PC software.

(2) Changes in the shipment destination categories of PC software.

The changes in this year's survey from previous years' survey (2004 and before) in supply form categories and shipment destination categories are as follows:

Changes in supply form categories

FY2003 Survey Report	→	FY2004 Survey Report
1. Packaged media		**1.** Packaged media
2. Licensed software		**2.** Licensed software
3. Online downloads		**3.** Online downloads
4. Hardware bundles		**4.** Online fee payment
5. Software bundles		**5.** ASP
6. OEM		**6.** Hardware bundles
7. Other		**7.** Software bundles

Changes in shipment destination categories

FY2003 Survey	→	FY2004 Survey
1. Direct sales		**1.** Direct sales 1: direct sales to users via web or DM
2. Door-to-door sales		**2.** Direct sales 2: door-to-door sales by sale reps
3. Software distributor (wholesaler)		**3.** Software distributor
4. Hardware dealer, VAR, SI		**4.** Hardware dealer, VAR, SI, distributor
5. Mass volume retailer		**5.** Mass volume retailer
6. Hardware manufacturer		**6.** On-line vendor
7. Other		**7.** Hardware manufacturer
		8. Publisher
		9. Other

II. Results

Summary

Overall market trends

- The packaged PC software market (based on the value of shipments to the domestic market) in FY2004 was worth 825.7 billion yen, recording a 9.5% year to year growth.
- With the recovery of the Japanese economy and the ensuing recovery in IT investments among businesses, replacement demand for systems, including PCs and PC servers, grew, pulling with it demand for new and upgrade software.
- Effective use of tax incentives promoting IT investments brought about actual investments.
- Full-scale implementation of the legislation protecting personal information on April 1, 2005 increased awareness of information security among businesses and individuals, and resulted in growth of the security-related market.
- Rapid growth of the on-line game market from wide-spread availability of broadband connections.
- Period of major changes in business models for the software market.

Changes in Supply Form

- “License contracts” accounted for 42.5% of the market. Business-use software was increasingly purchased through license contracts rather than packaged software.

Changes in Shipment Destination

- Concentration in traditional “software wholesaler” sales. There was a slight increase to “hardware manufacturers” in the form of bundled and pre-installed software.

End users

- “Businesses” make up slightly less than 80% of the market. “Consumers” account for slightly more than 20% of the market.

Trends by Category

- “Server-Related (integrated servers, operation & management, web servers, etc.)”
  - Rising needs for hardware operation, management, and security with the growth in hardware demand.
  - With a growing e-commerce market, increasing demand for back-end data base software to handle client data on web servers, application servers and e-commerce servers.
  - Rapid growth in BI (business intelligence) systems to realize strategic use of information on DWH servers, for example.
- “Office Software”

- Continued growth with the integration of stand-alone programs into comprehensive software packages.

◆ "Specific Fields"

- Recovery in IT investments among manufacturing and construction industries has led to market growth.
- Rapid growth with the penetration of PCs and PC servers into the super computer realm.

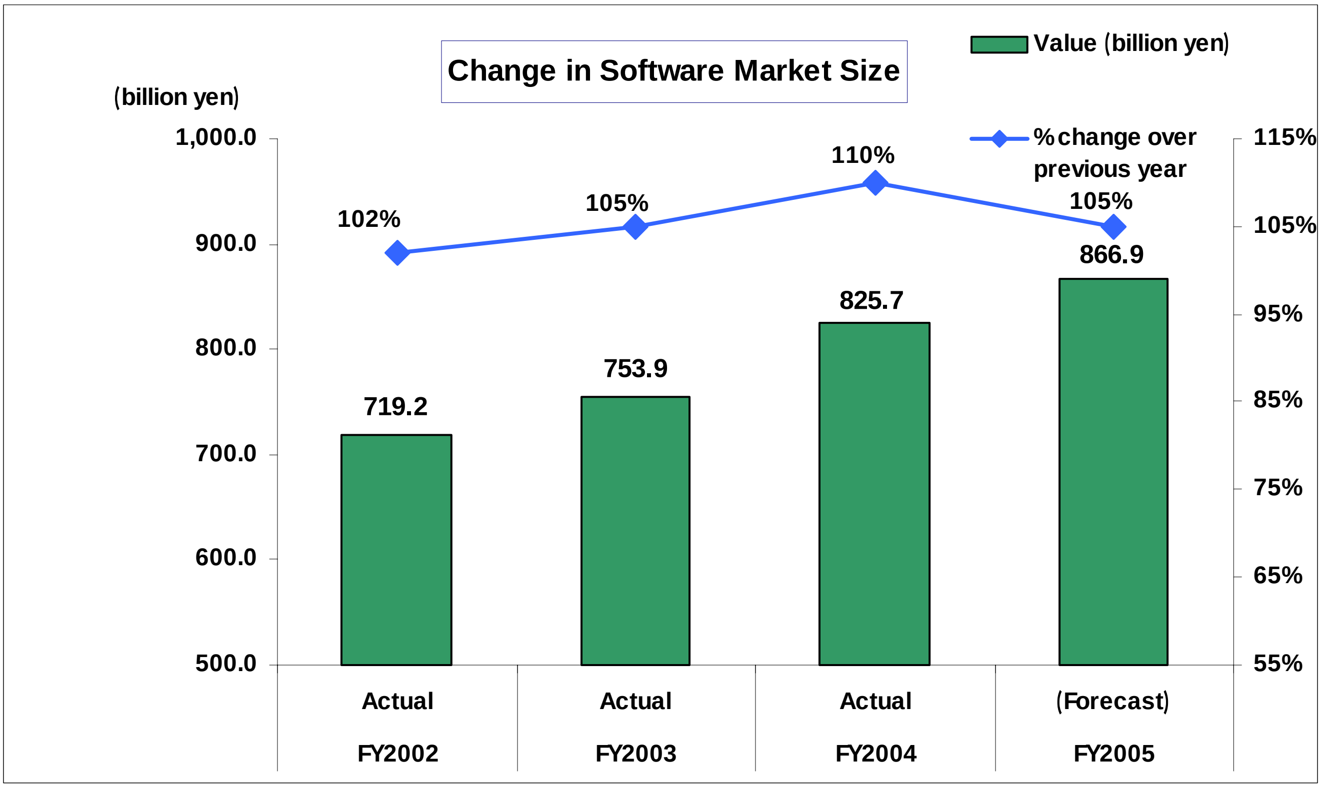
◆ "Games"

- Slower demand for traditional PC games, replaced by explosive growth for on-line PC games.

1. Overall Market Trends

1-1 Value of Product Shipped to the Domestic Market

Value of Software Shipped to the Domestic Market



	FY2002 Actual	FY2003 Actual	FY2004 Actual	FY2005 (Forecast)
Value (billion yen)	719.2	753.9	825.7	866.9
% change over previous year	102%	105%	110%	105%

The PC software market (based on the value of shipments to the domestic market) in FY2004 was worth 825.7 billion yen, or a 9.5% growth over the previous year. The market is showing continued healthy growth together with the market recovery in the PC hardware market, fueled especially by business demand.

Following the recovery in the Japanese economy, businesses are resuming IT investments. The corporate market entered the replacement stage of client servers installed in 2000, which is also pushing up demand for PCs, PC servers and system replacements. This system replacement demand is also having a healthy ripple effect on software demand. The recovery and growth in IT investment among business users are evident not only among large corporations, but also among SMEs (small and mid-sized enterprises). One factor encouraging IT investment among SMEs is the government tax incentive promoting investment in IT. By taking advantage of this incentive, businesses can make strategic investments in hardware and software.

In addition, implementation of the legislation protecting personal information in April, 2005 increased awareness of security needs among businesses and individuals. The security-related market is therefore, expected to grow. The wide-spread availability of broadband is also spurring growth of the market for on-line games.

Among server software, there is rising demand for those facilitating operation, management and security of increasingly popular PC servers. The spread of e-commerce is also pushing up demand for databases, DWHs, web servers, application servers and EAI tools.

With the advent of high-end computing among PCs and PC servers, including implementation of HPC (high performance computing) and virtual computing, there is growth among certain specific fields, such as technical calculations and artificial intelligence.

Among client software, integrated business and non-bundled presentation software are showing positive growth.

The projection for the software market in FY2005 forecasts overall positive impact from the continued economic recovery, especially in security and business software, with systems being redesigned to strengthen security functions in reaction to legislation protecting personal information and the re-building of server systems. In the consumer market, the widespread availability of broadband is expected to increase market demand for contents, such as on-line games and music downloads. Such phenomenon will stimulate growth for PC software enabling access to on-line contents. However, it is still uncertain how fluctuations in the global economy will affect the Japanese economy.

The supply form of PC software is changing from packaged to license contracts. It is a major shift from selling tangible software to licensing the right to use the software in an intangible form. With sales of license contracts becoming mainstream, the market will likely witness lower software prices due to lower initial installation costs, discounts for long-term license contracts and subscription agreements. In addition, the widespread use of the Internet is popularizing free-of-charge software which is readily available to many people, such as shareware and freeware.

Examples of software being promoted to facilitate the use of hardware are increasing, as in the case with digital cameras and portable digital audio devices. A business model of providing freeware and other such software to consumers is emerging as a tool to boost sales. Such integration of software into products as part of the infrastructure or utility tool is becoming more common. The software market is at a pivotal point of choosing between business models based on packaged software or sales of licenses, or using software as an ancillary tool integrated and sold with the system or service.

The software market is expected to continue growing after FY2004, but at a slower pace, due to the above mentioned trends.

Reference Data

PCs shipped (Note 1)

	FY2002 Actual	FY2003 Actual	FY2004 Actual
Number of units (million units)	9.84	10.78	12.07
% change over previous year	92%	110%	112%

Sales volume, no. of employees and no. of companies in information services industry

	FY2002 Actual	FY2003 Actual	FY2004 Actual
Sales volume (billion yen)	13,973.1	14,170.6	14,527.1
% change over previous year	102%	101%	103%
Number of employees	569,823	567,467	569,542
Number of companies	5,678	5,481	5,217

(Note 1): Based on figures announced by JEITA, the Japan Electronics and Information Technology Industries Association, in April, 2005.

(Note 2): Based on figured announced by the Ministry of Economy, Trade and Industry in August, 2005.

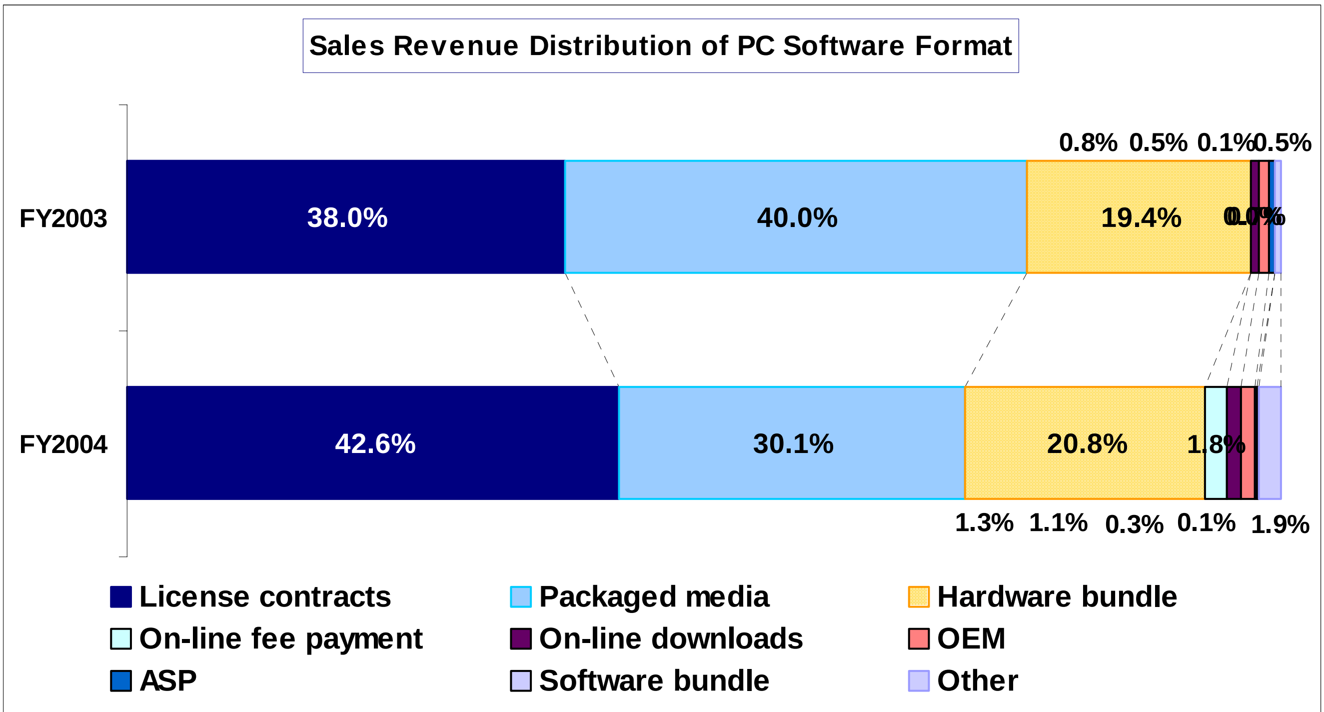
1-2 Trends in Supply Form

The sales ratio by supply form is calculated by multiplying the supply form ratio to the FY2004 sales revenue. A look at the sales revenue ratio reveals that the largest category is "license contracts" accounting for 42.6%, followed by "packaged media" at 30.1%.

License contracts grew by 4.6 points from 38.0% in last year's survey to 42.6% this year. Factors behind the shift to license contracts among large to mid-sized companies is the advantages in software management and strengthening of security.

On the other hand, packaged media shrank this year to 30.1% from 40% in FY2003. The shift from packaged to license contracts, on-line fee payment and on-line downloads is continuing. The sales ratio of license contracts is expected to continue increasing.

On-line fee payment and on-line downloads is forecast to grow rapidly, due mainly to the popularity of on-line games and security software.



	FY2003	FY2004
License contracts	38.0%	42.6%
Packaged media	40.0%	30.1%
Hardware bundle	19.4%	20.8%
On-line fee payment	-	1.8%
On-line downloads	0.7%	1.3%
OEM	0.8%	1.1%
ASP	0.5%	0.3%
Software bundle	0.1%	0.1%
Other	0.5%	1.9%
TOTAL	100.0%	100.0%

※FY2004 sales revenue distribution ratios by supply form were calculated from the survey responses of software vendors, multiplying the distribution ratio for each supply form to the sales revenue.

1-3 Changes in Shipment Destination

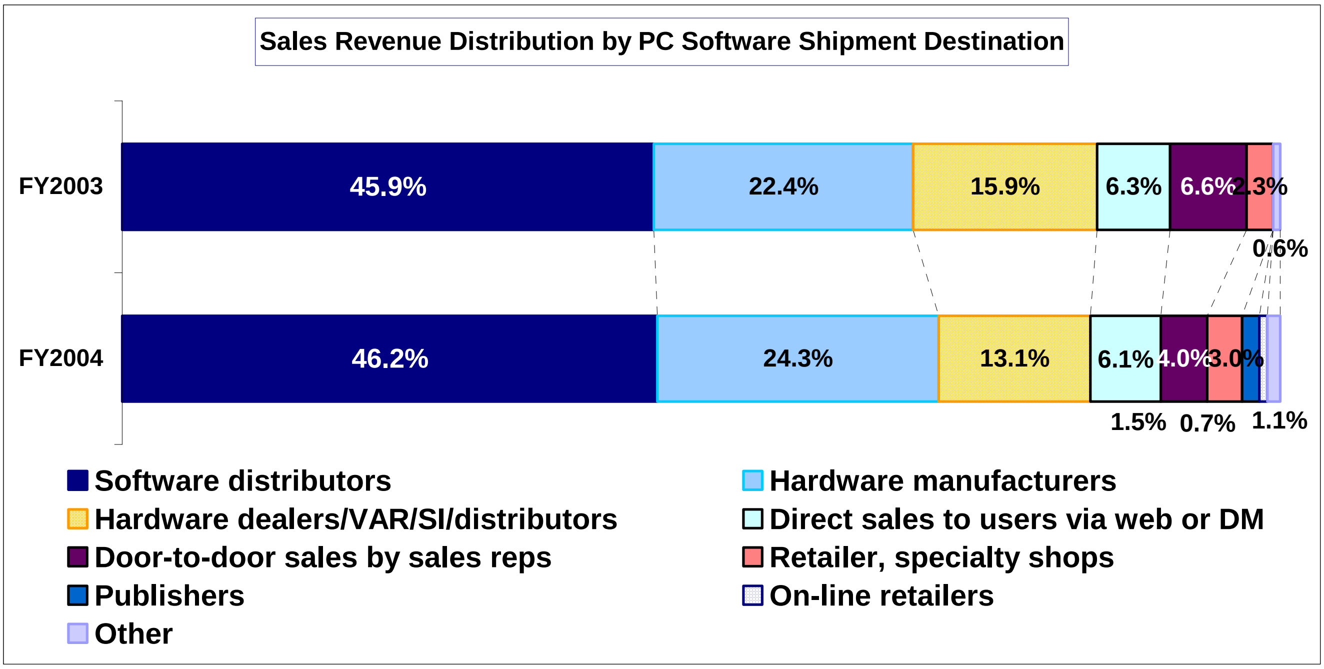
The sales revenue ratio by shipment destination is calculated by multiplying the shipment destination ratio to the FY2004 sales revenue. The results were greatly affected by software manufacturers with large sales figures.

The sales revenue ratio shows "software distributor (wholesaler)" to account for slightly under half of the total figure, followed by "hardware manufacturers" at 24.3%. Hardware manufacturers increased by 1.9 points from FY2003. This is thought to be from the growth in pre-installed and PC bundled software.

"Direct sales to users using web or DM" remained flat at 6.1%.

"Door-to-door sales by sales reps" decreased by 2.6 points to 4.0%. This is seen to be a reflection of the market shift from selling directly to large corporations to SMEs, who purchase through retail channels.

This year's survey added the categories "publishers" (1.5%) and "on-line retailers" (0.7%). These sales channels are expected to increase in ratio.



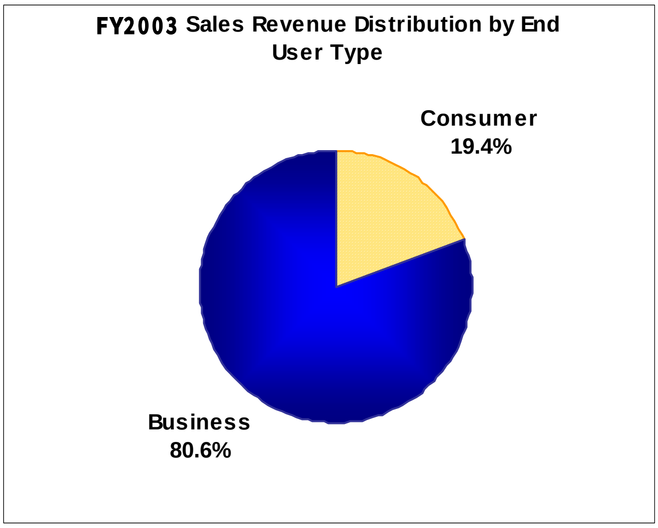
	FY2003	FY2004
Software distributors	45.9%	46.2%
Hardware manufacturers	22.4%	24.3%
Hardware dealers/VAR/SI/distributors	15.9%	13.1%
Direct sales to users via web or DM	6.3%	6.1%
Door-to-door sales by sales reps	6.6%	4.0%
Retailer, specialty shops	2.3%	3.0%
Publishers	-	1.5%
On-line retailers	-	0.7%
Other	0.6%	1.1%
TOTAL	100.0%	100.0%

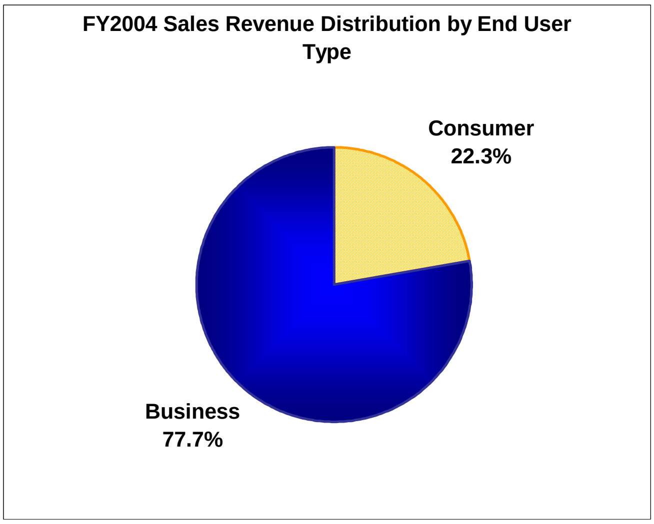
※FY2004 sales revenue distribution ratios by sales venue were calculated from the survey responses of software vendors, multiplying the distribution ratio for each sales venue to the sales revenue.

1-4 End User

Calculation of sales ratios by end user was implemented from the FY2003 survey. The sales revenue distribution ratio was calculated by multiplying the end user (consumer or business) ratio to the FY2003 sales revenue. In the FY2004 survey, products were identified as either consumer-use or business-use, and the sales revenue distribution of consumer-use products and business-use products was calculated by multiplying the FY2004 sales revenue to the two end-user ratios.

The FY2004 survey indicates very similar results as the FY2003 survey, with consumer-use products making up 22% and business-use products making up 78% of the market.





※FY2004 sales revenue distribution ratios by end user were calculated by identifying consumer-use products and business-use products from the survey responses of software vendors and multiplying the distribution ratios with the sales revenue.

2. Market Trends by Category

Value of Products Shipped and Distribution Ratio by Category

A look at the categorical breakdown of the value of products shipped shows that “server-related (other)” software accounted for the largest portion at 33.8%, followed by “office software” at 23.5%.

The value of shipments of server software showed healthy growth, supported by the healthy PC server hardware market, growing needs to manage the increasing number of hardware and heightened awareness of security. The market for e-commerce systems using PC servers is helping increase demand for server software, including software for web servers and application servers.

Among large companies, demand for BI (business intelligence) systems for strategic information use is surging, being applied, for example, to the collection and analysis of huge volumes of transaction data by DWH servers used in e-commerce.

With PC servers being increasingly used as backbone systems at companies, middleware, such as EAI tools, are being installed to link legacy systems, such as mainframes and office computers, to the newer systems.

The office software category continues to grow, with stand alone software, such as spreadsheet and word processing programs, being incorporated into integrated office software. Among single software, presentation software use is showing positive growth.

Server-related integrated software, symbolized by ERP, had shown growth from mainly large company demand, but the market seems to have completed its growth cycle, with most major companies already having installed ERP in one form or another. This was reflected in the drop in the figure for FY2004. The ERP market for SMEs in which the major software companies are concentrating their efforts, is expected to grow, but it looks as though it is taking time for the SMEs to install ERPs into their business plans.

Stand-alone business-use software, symbolized by book-keeping programs, has become a stable market.

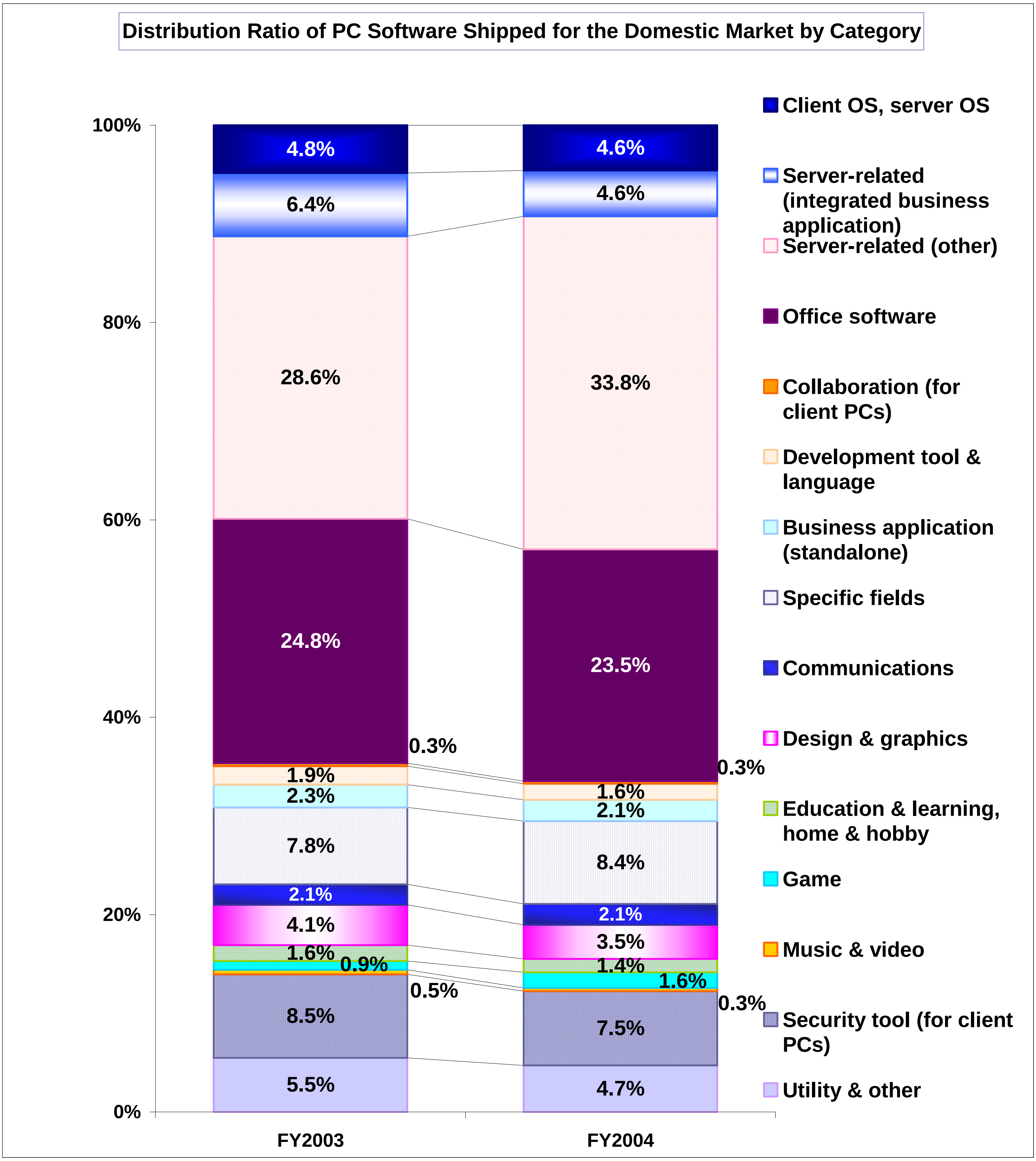
Specific field software includes “specialized business application,” “CAD, CAM, CAE, AEC, GIS” and “technical calculation and AI” programs. Demand in this category has shifted from recovery to growth, with manufacturing and construction industries resuming investments in IT. Technical calculation and AI programs showed rapid growth, with the emergence of HPCs, allowing PCs and PC servers to penetrate areas formerly occupied by super-computers.

With the advances in B2B and B2C transactions, communications software showed positive growth along with the e-commerce market, which requires specific communication protocols.

In the game category, the traditional PC game market is shrinking, while a jump in on-line games for PCs helped push the overall category to positive growth.

In the music and video category, the market for digital contents shows signs of continuing growth, but the software for editing and playing music and video is shrinking due to bundled hardware programs, lower prices and increasing use of free software.

Q7. Distribution Ratio of PC Software Shipped for the Domestic Market by Category



Q7. Distribution Ratio of PC Software Shipped for the Domestic Market by Category

		FY2003 (million yen)	FY2004 (million yen)	Market share	Year to year change
OS	Client OS	16,823	17,260	2.1%	102.6%
	Server OS	19,707	20,725	2.5%	105.2%
		36,530	37,985	4.6%	104.0%
Server-related (integrated business application)		48,488	38,259	4.6%	78.9%
Server-related (other) Total	Integrated server	4,130	5,277	0.6%	127.8%
	Operation & management	24,758	43,792	5.3%	176.9%
	Security management	84,750	94,073	11.4%	111.0%
	Database server	21,766	27,261	3.3%	125.2%
	DWH server, ELT tool	2,146	3,709	0.4%	172.9%
	Web server, application server	23,270	30,241	3.7%	130.0%
	EAI tool	416	1,883	0.2%	452.3%
	Collaboration	54,436	72,512	8.8%	133.2%
		215,672	278,748	33.8%	129.2%
Office software	Integrated office	165,333	173,953	21.1%	105.2%
	Spreadsheet & graph	4,051	3,755	0.5%	92.7%
	Word processing	7,980	6,879	0.8%	86.2%
	Database	5,819	5,115	0.6%	87.9%
	Presentation	3,557	4,200	0.5%	118.1%
		186,739	193,901	23.5%	103.8%
Collaboration (for client PCs)		2,304	2,165	0.3%	94.0%
Development tool & language		14,160	13,500	1.6%	95.3%
Business application (standalone)		17,436	17,637	2.1%	101.2%
Specific Field	Specified business application	13,354	15,271	1.8%	114.4%
	CAD, CAM, CAE, AEC, GIS	44,840	53,017	6.4%	118.2%
	Technical calculation & AI	416	1,069	0.1%	257.0%
		58,610	69,357	8.4%	118.3%
Communications		15,696	17,467	2.1%	111.3%
Design & graphics		22,486	21,886	2.7%	97.3%
Data library		8,328	6,618	0.8%	79.5%
Education & learning		6,583	6,465	0.8%	98.2%
Game		6,745	13,064	1.6%	193.7%
Home & hobby		5,510	4,846	0.6%	87.9%
Music & video		3,487	2,662	0.3%	76.3%
Security tool (for client PCs)		63,773	62,156	7.5%	97.5%
Utility & other		41,367	38,936	4.7%	94.1%
TOTAL		753,915	825,654	100.0%	109.5%

Q6.Packaged Software Licenses Shipped by Category

Server-related (other) Total	Integrated server	1,527	1,727	3.2%	113.1%
	Operation & management	252	346	0.6%	137.1%
	Security management	519	824	1.5%	158.6%
	Database server	159	197	0.4%	124.0%
	DWH server, ELT tool	3	5	0.0%	172.9%
	Web server, application server	90	118	0.2%	130.0%
	EAI tool	0.2	0.7	0.0%	301.5%
	Collaboration	289	350	0.7%	121.1%
		2,841	3,567	6.7%	125.6%
Office software	Integrated office	10,429	12,328	23.2%	118.2%
	Spreadsheet & graph	241	233	0.4%	96.6%
	Word processing	1,123	857	1.6%	76.3%
	Database	461	401	0.8%	87.0%
	Presentation	323	367	0.7%	113.5%
		12,577	14,186	26.6%	112.8%
Collaboration (for client PCs)		395	375	0.7%	94.9%
Development tool & language		708	631	1.2%	89.1%
Business application (standalone)		323	340	0.6%	105.4%
Specific Field	Specified business application	113	112	0.2%	98.6%
	CAD, CAM, CAE, AEC, GIS	197	212	0.4%	107.5%
	Technical calculation & AI	3	11	0.0%	326.9%
		313	335	0.6%	107.0%
Communications		917	927	1.7%	101.2%
Design & graphics		1,859	2,413	4.5%	129.8%
Data library		1,388	1,576	3.0%	113.5%
Education & learning		938	1,024	1.9%	109.1%
Game		1,339	2,731	5.1%	203.9%
Home & hobby		1,177	1,725	3.2%	146.6%
Music & video		135	171	0.3%	127.2%
Security tool (for client PCs)		9,920	10,177	19.1%	102.6%
Utility & other		6,268	5,959	11.2%	95.1%
TOTAL		47,281	53,242	100.0%	112.6%

III. Additional Reference

(This document was sent together with the survey)

Definitions Used in this Survey

1. Definition of PC and PC Software Terminology

(1) Definition of PC Software

①	Software (including PC server license) which run on PCs (Intelx86 and compatible architecture, Macintosh), PC workstations and PC servers. It does not include OS (Windows CE, etc.) and applications for PDAs.
②	Scope includes software targeting a wide and diverse range of users and developed in-house. It does not include software developed under comission and custom-made software. For software manufactured abroad and sold by a distributor to the Japanese market,
③	Software already in distribution in the market or pre-installed in stocked hardware are considered "shipped."

(2) PC Software Supply Form *Please also refer to the market flow chart below

①	Packaged media	Storage medium, such as FDs、DVDs and CD-ROMs, provided in a packaged format.
②	License contract	License contracts leading to sales revenue. Includes renewal fees for software upgrades and updates. Does not include free software and trial versions provided at no charge.
③	On-line download	Sales of software downloaded from websites.
④	On-line fee payment	Includes user fees for on-line games, for example.
⑤	ASP	Users gain access (rental) to application software installed in servers owned by the service providers and accessed via the Internet through web browsers, for example.
⑥	Harware bundle	Software and tools attached to hardware or PC periphery equipment defined in (1) above.
⑦	Software bundle	Add-in tools, for example, attached to the main software.
⑧	OEM	Software products sold by other manufacturers, such as source code licenses. *OEM data should be submitted only by license vendors.

(3) Value of PC Software Shipped

・Includes the value of all software shipped in the forms ① through ⑧ above

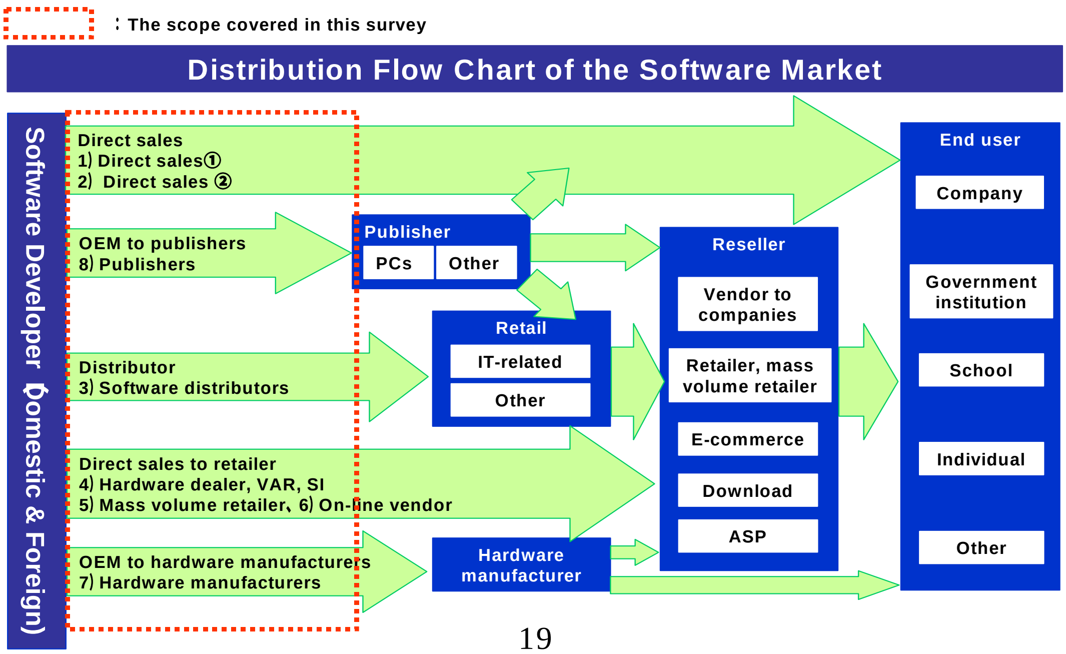
・Multiple-year contracts should be calculated according to the accounting methods of the contract vendor.

(4) PC Software Category

Refer to the separate table for PC software categorization.

<Note>

This year's survey avoids redundant tabulation resulting from sales routes by basing the data for software market size on the "value of products shipped by the software developer."



List of PC Software Categories

Category		Definition
1) -a Client OS		Operating systems which run on client PCs
1) -b ServerOS		Operating systems which run on PC servers
Server-related	2) Integrated server	Network integration tool linking servers
	3) Operation & management	Includes programs for integrated operation & management, job management, system management & monitoring, network monitoring, help desk-related, clustering, back-up servers, etc.
	4) Security management	Includes programs for authorization, encryption, firewall, anti-virus for servers, etc.
	5) Database server	Programs for database servers (server)
	6) DWH server, ETL tool	Programs for data warehouse servers, ETL (data extraction, conversion) tool, data mining, OLAP, DSS, BI, search engine servers
	7) Web server, application server	Includes programs for web servers, application servers, commerce servers
	8) EAI tool	Tools to link and integrate multiple and differing office systems (middle ware)
	9) Collaboration	Programs for mail servers, groupware servers, EIP (company portals), video conferencing servers, video chat servers, messenger servers, etc.
10) Integrated business (ERP, CRM, etc.)		Programs for ERP、CRM／SFA、SCM、CTI、call centers Packaged software allowing data exchange between multiple applications of differing specialties
Office	11) Integrated office	Software integrating multiple office program categories, such as spreadsheet & graph, word processing, data base, and presentation.
	12) Spreadsheet & graph	Spreadsheet software and its add-on software
	13) Word processing	Wordprocessing, word add-on, front-end processor (Japanese input conversion), editing, DTP, website creation
	14) Database	Database software, including relational database, and card-type database programs
	15) Presentation	Software for the purpose of creating and displaying presentation material
16) Collaboration (for client PCs)		Groupware supporting collective tasks and utilizing web, e-mail and e-mail network functions; personal information management & file sharing management software for workflow, Internet e-mail, network, client, and the Internet.
17) Development tool & language		Software used to edit text and de-bug, including screen editors; design tools, screen form design tools, CASE, authoring; procedural language, such as C++ and Basic; 4GL, AI languages, libraries, Java language, www development tools, ledger sheet tools, software components
18) Business application (standalone)		Non-integrated stand-alone software for accounting & book keeping management, tax filing, HR & salary management, sales-related (sales, purchasing, stock, client) management, business translation software, and electronic ledger sheet software.
Specific field	19) Specified business application	Public sector software (government agencies, local governments, schools, hospitals, libraries, agriculture & forrestry, gas, water, electricity, financial services, etc.), retail & wholeseller software, service industry (retaurant, hotel, sports, rental & lease, publishing, printing, transportation, real estate, etc.) software, manufacturing industry software (includes production design & management, plant procedure control & management, cost management, quality management, measurement control, NC-related software, general-purpose project management software).
	20) CAD／CAM／CAE／AEC／GIS	General-purpose CAD, mechanical CAD, electric & electronic CAD, architectural & construction CAD software
	21) Technical calculation & AI	Software for special technical calculations, such as for science & engineering and fluid calculations; statistical processing & analysis software, image processing software, expert systems & building tools for expert systems.
22) Communications		Software for PC communications, fax communications, communication emulators, romote access and communciation procedures; softphones, VoIP
23) Design & graphics		Graphic software for drawing, painting, photo image editing, animation drawing, 2D, 3D, etc.
24) Data library		Clip art, fonts, form, text samples, dictionaries, dictionary data collections, encyclopedias, postal code lists, map software, image processing software (includes enhanced CDs), photos & images, sound data collections, time tables.
25) Education & learning		Educational & learning software for schools and learning institutions, educational & training software for companies and professional schools, software application teaching programs, compute-based training, edutainment software, e-learning contents.
26) Game		Simulation, action, adventure, shooting, role playing and table games & puzzles, such as igo, shogi and mahjong. Includes on-line games. (Does not include adult games)
27) Home & hobby		Cooking, diet, household account book, postcard, sticker, album creation, horserace prediction, hobby (includes fortune telling) software, education & learning software for home-use, home banking, typing, callphone memory & ringtone editing programs.
28) Music & video		Software for playing MP3、DVD-videos and CDs; software for editing & compiling videos and moving images.
29) Security tool (for client PCs)		Authoization, encryption, firewall, antivirus software
30) Utility & other		Software which are not included in the above categories, file converter, print utility, screen saver, hardware & memory management software, disk management software, internet search, web page management, voice recognition, OCR, tools to increase internet speed, downloading tools.

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Japan Personal Computer Software Association (JPSA)
4F Syuwa-Tameike Bldg.,2-4-2
Nagata-Cho, Chiyoda-ku,Tokyo 100-0014,Japan