

ERP enters age of infrastructure

By Roberto Michel, senior contributing editor -- Manufacturing Business Technology, 7/1/2007

The market for ERP software—the integrated enterprise management suites that companies rely on for everything from accounting to manufacturing management—is clipping along nicely. Some analysts peg market growth as high as 10 percent, but despite this healthy outlook, it's a space that has undergone major transformation in the last several years.

Most recently, the biggest vendors devised new middleware platforms aimed at supporting service-oriented architecture (SOA) in which functionality could be more flexibly delivered as services. Analysts say ERP vendors are adjusting to this SOA era, but maintain that factors such as ease of integration and industry functionality still weigh heavily in user purchasing decisions.

Today, notes Ray Wang, a principal analyst at Cambridge, Mass.-based **Forrester Research**, there are two sets of ERP suppliers: large vendors with their own infrastructure or “applistructure”—namely Microsoft, Oracle, and SAP—and those that build their suites on others' architectures. Wang notes that IBM also offers applistructure, but does not have its own ERP software.

For the big three vendors, the stakes are high as they seek to convince wary CIOs that their infrastructure and partner ecosystems are superior—not just their ERP suites.

“Going forward, these applistructures are going to be the difference between who succeeds and who fails, in many ways,” says Wang. “The [big] vendors see themselves as playing the role of the hub in an ecosystem.”

Chad Eschinger, a research director with Stamford, Conn.-based analyst firm **Gartner**, agrees that applistructure—or what Gartner calls business process platforms—is a key part of what the big ERP vendors offer. However, he adds, users aren't rushing into a platform choice. “It's a rather large decision as to which vendor to go with as your primary provider for that business process platform,” he says.

ERP vendors such as Epicor and Infor are happy to build their solutions on someone else's platform, since it allows them to focus research and development efforts on functionality.

“For a vendor like Epicor, why even bother with infrastructure when it has this Microsoft .NET technology it can build on?” Wang asserts. “Lawson takes the same approach with IBM. For these vendors, it doesn't make sense to develop technology stacks from scratch.”

Integration still rules

Gartner, for one, figures the ERP market will grow at a 7-percent compound annual growth rate through 2011.

In October 2006, Boston-based **AMR Research** published results of a survey of CIOs at U.S. companies, indicating they planned to increase ERP budgets by 12.3 percent in 2007. In a separate study last fall, AMR forecast 10-percent ERP market growth through 2010, though this takes into account extended application sales.

Forrester predicts the ERP market will grow by 6.3 percent through 2010. In another study from November 2006, Forrester predicted enterprises' 2007 budgets for all new software purchases would rise 10 percent from 2006, with collaboration and office software being the top area for investment, but with 18 percent of companies planning a major ERP upgrade, 25 percent a minor one, and 6 percent eyeing new purchases.

What's fueling this interest in a venerable market? AMR sees a mix of factors involved, including new customers, consolidation projects, add-on applications, and deployment to additional users.

Forrester, in its November 2006 enterprise software study, found that improved integration between applications is the top user priority (named by 27 percent); followed by upgrades to security (21 percent); and SOA adoption (12 percent). In another 2006 study on ERP, Forrester cited system cost as the top user concern, while most vendors, for all the SOA buzz, will focus on industry specialization.

Interest in integration manifests itself in projects such as ERP instance consolidation, says Wang, as well as solutions such as Duet from SAP and Microsoft that merge ERP and office productivity software. This interest in a blended user interface overlaps with SOA, but at the end of the day, users are after integration, says Wang.

“When most people think about integration, they think about SOA as well,” he says. “When you add those two together, it's a pretty big area of interest.”

Growth on the edge

Of course, functionality still matters, but rather than seeking a new way of doing core ERP functions such as general ledger, the interest is in functions such as sales & operations planning (S&OP) or business intelligence that make use of ERP data, says Eschinger.

And while ERP suite vendors may offer solutions in areas like S&OP, the early innovation tends to be driven by smaller vendors, Eschinger contends. This desire for innovation around the edges of ERP has allowed numerous best-of-breed supply chain management (SCM) vendors to survive—especially those that specialize in areas such as warehouse management.

Analyst data, however, suggests that the major ERP vendors steadily have focused more on SCM. According to AMR Research, in 2000, ERP vendors' SCM revenue was only 5 percent of their total, but by 2005, accounted for 8 percent of ERP vendor revenues.

Some of this SCM growth for ERP vendors has come from building their own applications, but part comes from acquisitions. For instance, Oracle has purchased demand-planning vendor Demantra, and transportation management vendor G-LOG.

Last August, AMR pegged the size of the SCM market at \$5.6 billion for 2005, with enterprise suite giants SAP and Oracle as the first and second largest vendors respectively, followed by best-of-breed vendors **i2 Technologies** and **Manhattan Associates** in the third and fourth spots. The rest of the top 10 included best-of-breed vendors such as **RedPrairie Corp.** and **Swisslog**, both of which offer supply chain execution applications.

When it asked users last year what type of vendor companies currently use—or plan to use—for SCM applications, AMR says the most common answer was ERP vendors, followed by custom solutions from third parties, with best-of-breed SCM vendors in third. However, for transportation management, best-of-breed vendors still held the top spot.

The acquisitive nature of the big ERP vendors means today's innovative SCM start-up tomorrow might be in some ERP vendor's fold. Still, smaller players always have thrived on discovering and exploiting application niches.

With SOA platforms maturing, it may matter less to users whether their applications come from an ERP or best-of-breed vendor, especially if a best-of-breed vendor can demonstrate that its applications run smoothly on a larger vendor's SOA platform. Forrester's Wang contends that the very nature of who is an application provider will begin to shift as users and systems integrators leverage SOA to create unique, composite applications.

As Wang sums up, “The whole world is changing right now in terms of the enterprise software industry.”

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