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EXCERPT

Worldwide ERP Applications 2006 Vendor Shares: Top Vendors in Small Medium-Sized and Large Customer Segments

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IN THIS EXCERPT

The content in this paper is excerpted from the IDC Competitive Analysis, *Worldwide ERP Applications 2006 Vendor Shares: Top Vendors in Small, Medium-Sized, and Large Customer Segments*, by Albert Pang, Research Director of Enterprise Applications at IDC, Included in this Excerpt are the following sections: IDC Opinion, Situation Overview of Agresso, Inc., Table 2, Essential Guidance, Methodology, and the ERP Applications Market Definition.

IDC OPINION

The enterprise resource planning (ERP) applications market is emerging as a microcosm of the high-tech industry, having witnessed a whirlwind of activities such as serial acquisitions, vertical expansion initiatives, and business model launches over the past year. There are signs that its future could mirror the next phase of growth in the technology marketplace:

- Much of the activity is expected to center around the small and medium-sized business (SMB) segment, as an increasing number of ERP vendors have acquired the expertise, critical mass of users, and channel programs to sell and support a new set of affordable, intuitive, and Web-based ERP applications, some of which are becoming easily accessible because of the on-demand delivery model.
- Aiming to dominate the SMB market segment, vendors such as Infor, Microsoft, Oracle, Sage, and SAP have embarked on an all-out war to launch high-stakes development projects, initiate acquisitions to shore up product portfolios, retain and recruit new channel partners, and raise the barriers of entry of their current vertical industries through ecosystem-building efforts as well as simplified methodologies for rapid implementation, knowledge transfer, and business process integration.
- Behind the explosive growth of ERP leaders in the three market segments lies the grim reminder that the current credit crunch, as well as the slump in the U.S. housing market, has already resulted in a drag on their performance in the first half of 2007 and could potentially hurt the entire ERP market if conditions worsen.

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Filing Information: December 2007, IDC #208954
: Excerpt

SITUATION OVERVIEW

An in-depth analysis of more than 100 enterprise resource planning applications vendors and their results over the past three years revealed a list of 30 vendors that have succeeded in dominating the small, medium-sized, and large business segments of the market, which last year totaled more than $30 billion in license, maintenance, and subscription revenue.

While the ERP software developers entrenched in the large-enterprise segment (which covers public and private sector organizations with 5,000 or more employees) tend to focus on a handful of verticals, the leading vendors that cater to the broad SMB market (which covers any organization with fewer than 5,000 employees) have done so by quickly replicating their successes from one vertical to another or from one country to another through quick adaptation of complementary products, service offerings, and channel outreach programs to attract the most qualified reseller partners.

As a result, many of the leading vendors share a common trait of exploiting the market aggregation effect by acquiring a long list of target ERP brands so they can use the increased recurring revenue streams to fund future acquisitions and development efforts while identifying more cross-selling and upselling opportunities with complementary and add-on products that they can acquire and use to feed the virtual cycle over and over again.

Through the aggregation exercise, these vendors have also developed a sustainable ecosystem with built-in ISV partner, system integrator, and reseller programs, as well as an increasingly attractive network of customers that have no choice but to start upgrading their systems and will do so as long as they are reassured that their existing products will be supported for an extended period of time.

While the building of these networks appears to have produced tangible near-term results, the long-term success of these leading vendors will largely depend on how they manage user expectations as well as their ability to generate above-average returns for customers and investors alike in order to fulfill their outsized goals while boosting their already substantial market shares.

Agresso in the Medium-Sized Business Segment

- **Number of customers in ERP segment:** Agresso has 2,700 customers with 10,000 deployments and more than one million users in the medium-sized business ERP segment.

- **Target industries:** Target industries include government, higher education, IT services, engineering, nonprofit, and business services.

- **Key differentiators in ERP segment:** Differentiators include lower overall support and maintenance costs for customers that leverage the post-implementation agility of Agresso ERP applications and an entrenched presence in strategic verticals in Europe.

- **Plans for ERP in 2007–2008:** With a stated goal of doubling its revenue by 2009, Agresso is on track to expand globally, with South Africa being the latest addition. After regrouping its operations to focus entirely on the enterprise applications market, Agresso is likely to make further acquisitions to shore up its portfolio and geographical reach.

After realigning its operations, Agresso has been expanding steadily to claim a growing share of the midmarket ERP space.

Since 1983, Agresso operated as a diversified technology provider of database, Internet, and security products. Today, it has reinvented itself by selling off noncore assets and positioning the ERP vendor as an agent that helps its customers tackle change effectively.

In 2006, Agresso sold its Internet and security business NOXS to Westcon, the last in a series of reorganization efforts to focus on selling ERP applications to education, government, and service organizations.

It also made a number of acquisitions in 2006 to shore up its offerings, including the purchases of Amedia, which specializes in applications for insurance agents in the Benelux countries; Dogro and KIRP, for their software products for the German public sector market; and CCS, an ERP vendor in Spain.

In the first half of 2007, Agresso's revenue rose 14% organically, following a 9% organic growth rate in 2006. Its stated goal is to reach 500 million euros in revenue by 2009, up from 236 million euros in 2006.

Agresso is assuming the role of a change agent on behalf of its many customers frustrated with the rigid nature of many enterprise applications, which has often led to long implementations, high maintenance costs, and disappointing results due to rapid changes in the business world.

For example, mergers and acquisitions, coupled with the proliferation of corporate databases, have caused legacy systems or inflexible back-office applications to buckle because of architecture limitations, instance incompatibility, and built-in latency following extensive modifications and heavy workloads.

Agresso's approach is to offer integrated systems that are scalable, easy to maintain in-house, and flexible enough to harness available resources to better forecast, execute, and extend corporate objectives. It also provides project stakeholders — its target audience being project-centric organizations — with intelligence and visibility that is derived from a tight coupling of business processes, data models, and performance measurement in what it refers to as post-implementation agility. Customers, in turn, are able to update data structures on the fly while scaling the information warehouse to meet individual reporting needs, even with significant increases in data volume.

Strengths of Agresso in the Medium-Sized Business ERP Segment

Agresso has set itself apart from others by focusing on the pain points of service industries and public sector organizations and is a telling example of how a technology company can excel by focusing on opportunities overlooked by others. Many midmarket customers are struggling to keep up with the pace of change, and Agresso delivers solutions capable of meeting their everyday needs, from financial reporting to HR administration and from project resource management to costing and billing.

For example, some customers have been able to use Agresso's field service management module to drastically reduce their service call requests because of its ability to effectively manage and improve workforce efficiency while handling increased service orders and asset maintenance functions, all in a seamless software package.

Challenges for Agresso in the Medium-Sized Business ERP Segment

While Agresso has succeeded in repositioning itself as the change agent, it needs to do much more to educate the marketplace about its core competency and continuous enhancements to drive greater functional and usability differentiation.

Agresso's products have proven to be adaptable to meet the financial management needs of its users; its future lies in its ability to embed the features (key performance indicators [KPIs], financial snapshots, customer data, and other analytics) into the workflow of the organization so that templates and best practices, including profiles of project participants, competency levels, online training, and people-centric performance management, can be easily created and replicated from one project to another. Its recent acquisition of competency management vendor Nextlearn is a good start, but Agresso may have to invest more in order to stay competitive in the strategic human capital management segment.

While the post-implementation agility of Agresso solutions is perhaps one of its biggest selling points, it may have to start marketing its on-demand and shared services offerings much more heavily in the United States in order to meet growing customer requirements. The on-demand delivery of its products could be viewed by some midmarket customers as an even more agile and affordable method of accessing ERP technology without the hassle of any in-house implementation.

TABLE 2

Worldwide License, Maintenance, and Subscription ERP Revenue by Top 10 ERP Vendor in Medium-Sized Business Segment, 2005 and 2006 ($M)

	2005	2006	2006 Share (%)
SAP AG	1,926	2,013	22.6
Oracle Corp.	813	1,228	13.8
Infor	580	706	7.9
Lawson Software	250	289	3.2
Microsoft Corp.	235	288	3.2
Agresso	160	199	2.2
Epicor Software Corp.	165	180	2.0
Activant	170	178	2.0
Exact	125	131	1.5
Constellation	100	121	1.4
Subtotal	4,524	5,332.4	59.8
Other	3,211	3,579.6	40.2
Total	7,735	8,913	100.0

Note: Medium-sized businesses are those with 500–4,999 employees.

Source: IDC, September 2007

ESSENTIAL GUIDANCE

ERP vendors need to pay close attention to the growing opportunities in emerging markets such as Latin America, Africa, and other underserved verticals. Leading SMB vendors such as Agresso are already staking their claims on markets such as South Africa that could give them an easy platform to leapfrog competitors. Oil-rich countries in the Middle East, Norway, and Indonesia are some of the notable examples that have attracted significant investments from ERP vendors in recent months.

Among the leading ERP vendors, only Agresso, Exact, Intuit, NetSuite, SAP, and TOTVS have announced plans or are in the process of ramping up their on-demand offerings. While it is not clear whether the other major vendors are going to be entering the fray, it is expected that the admission price will only get higher.

Finally, many more game changers are waiting in the wings to unleash new ways of upending the market because customers are demanding simple-to-use enterprise applications as a given rather than as a special treatment. Notable examples include the growing appeal of Agresso's ERP applications in the professional services vertical because of Agresso's post-implementation agility that boosts productivity while lowering maintenance costs for end users.

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Methodology

The IDC software market sizing and forecasts are presented in terms of "packaged software revenue." Packaged software is defined as programs or codesets of any type commercially available through sale, lease, or rental, or as a service. Packaged software revenue typically includes fees for initial and continued right-to-use packaged software licenses. These fees may include, as part of the license contract, access to product support and/or other services that are inseparable from the right-to-use license fee structure, or this support may be priced separately as software maintenance. Upgrades may be included in the continuing right of use or may be priced separately.

Packaged software revenue excludes service revenue derived from training, consulting, and system integration that is separate (or unbundled) from the right-to-use license but includes the implicit value of software included in a service that offers software functionality by a different pricing scheme (e.g., the implicit or stated value of software included in an application service provider's [ASP's] or other hosted software arrangement). It is the total packaged software revenue that is further allocated to markets, geographic areas, and operating environments.

The software revenue forecasts presented in this study represent IDC's best estimates and projections based on the following:

- Reported and observed trends and financial activity in 2006 as of the end of January 2007, including reported revenue data for public companies trading on North American stock exchanges (1Q06–3Q06 in nearly all cases, plus 4Q06 where available)

- Additional modeling to fill in any information gaps using a top-down/market-level approach to estimate overall 2006 market sizing

- Bottom-up regional forecast growth rates provided by IDC analysts in each geographic region

Bottom-up/company-level data collection, which began in March 2007 with in-depth vendor surveys and analysis to develop detailed 2006 company models by market, geographic region, and operating environment (This activity will form the basis of vendor share, updated forecast, and competitive analysis studies that will appear later in the year.)

ERP Applications Market Definition

In addition to the functional breakdown of the enterprise applications market provided by IDC in multiple subscription research services (enterprise applications, supply chain management solutions, and CRM), IDC divides the total enterprise application market revenue results (the total of the back-office, engineering, and CRM secondary markets) and their forecasts between integrated ERP suites and standalone applications.

The distinction between the two categories is as follows:

- ERP suites are application solutions that could, in theory, automate an entire enterprise and include at least a mix of accounting, inventory management, and/or purchase/sales order processing; industry-specific product planning and execution; services-related operations management; or other product-related operations-management modules. (In wholesale distribution, inventory management modules often serve as the industry-specific portion of the solution.)

- Standalone applications (so-called best of breed or best of class) automate a specific enterprise need (or closely aligned needs) in product planning and execution, accounting, payroll processing, or any other of the more than 20 functional application market areas.

- ERP suites often automate human resource/payroll management and other functions as well. Typically, ERP suites are architected with an integrated set of business rules and metadata, accessing a single data set (logical or physical) from a single, consistent user interface. In IDC's SRG view, ERP suites are limited to neither resource planning nor manufacturing, from which the term ERP comes.

- Although standalone applications are often termed best of breed or best of class, IDC doesn't mean to imply that ERP suites cannot feature capabilities in a given functional area equal to or better than those found in some standalone applications.

Note that the term *suites* is also used to describe any combination of application modules in more limited functional areas (e.g., engineering-application suites, front-office suites, and office suites), but that is not the research target of the ERP suite competitive market.

Representative vendors and ERP products include SAP's SAP ERP 6.0 and R/3 Enterprise, Oracle's eBusiness suite, Enterprise 9, and EnterpriseOne and World product lines. Also included are similar products from Activant, Agresso, Cerner, Consona, Constellation, Deltek, Epicor, Exact, Fiserv, IDX, IFS, Infor, Intuit, JDA, Lawson, McKessonHBOC, Meditech, Microsoft Business Solutions, Misys, NetSuite, QAD, Sage, Sungard, TOTVS, Visma, and others.