



Big

# ger Fish, Smaller Ponds

BY JENNIFER PROCTOR

*Pondering the shrinking ERP market*

In November, IBM followed the likes of SAP and Oracle and agreed to buy a business intelligence software company to round out its offerings. IBM leaders agreed to acquire Cognos, based in Ottawa, Ontario, Canada, for approximately \$4.9 billion.

Cognos isn't new in the business intelligence and performance management marketplace. The company has been around since 1979. According to its Web site, Cognos has more than 25,000 customers in more than 135 countries.

"Customers are demanding complete solutions, not piece parts, to enable real-time decision making," said Steve Mills, senior vice president and group executive in the IBM Software Group, in a November 12, 2007, statement—the day the acquisition was announced. "We chose Cognos because of its industry-leading technology that is based on open standards, which complements IBM's service-oriented architecture strategy."

In April 2007, Oracle bought Hyperion, which added enterprise performance management software, business intelligence tools, and financial applications to the Oracle portfolio. In October 2007, SAP announced it would acquire Business Objects, another business intelligence firm. SAP bought Outlooksoft and Pilot Software earlier in the year. The idea to move away from offering separate and distinct tools and toward selling more integrated and "integrate-able" solutions is consistent with trends in the enterprise environment and beyond.

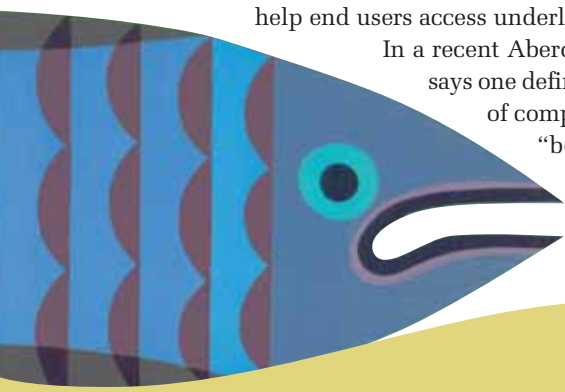
"I think the market is really crying out for [integration] in that people are not necessarily looking to go out and buy tools, they are looking to have more

Illustration by Tracy Walker

intelligence and more performance management sort of embedded or working within the applications they have—taking those applications to the next level,” says Cindy Jutras, a vice president and group director at Aberdeen Group, a Boston-based research firm.

Jutras says software companies now are tailoring products to fit an end-user orientation, rather than requiring information technology experts to help end users access underlying data.

In a recent Aberdeen study, Jutras says one defining characteristic of companies considered “best in class” was executives with direct access to data.



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“Typically, [direct access] is going to be through some level of desktop interface, whether it’s a portal, a dashboard, or a performance management overlay to the data,” Jutras says. “Ultimately, they have to get down to the enterprise data that form the transactional system of record in their fiscal reporting.”

#### **The consolidated marketplace**

Consolidation news doesn’t seem much like news when the market has been contracting for almost 10 years. In that time, some experts estimate the number of companies offering enterprise resources planning (ERP) and related solutions has shrunk 10 to 1. Consolidation is something that happens in general business all the time, even if that which has taken place in the ERP world might appear more dramatic.

The majority of acquisition and consolidation already has been completed, says Dave Turbide, CFPIM, CIRM, CMfgE, an author, independent consultant, and freelance writer.

Still, the market will continue to contract slightly. Turbide says ancillary applications—such as business intelligence, dashboard, and measurement functions—

will fill out the portfolios of the big players because there aren’t any mainline applications left to acquire.

“The concept of building out their portfolios and adding capability through acquisition makes a lot of sense,” Turbide says. “You’ve got these companies that have developed these capabilities in niche areas, and they bring a lot of experience and expertise that [acquiring] companies would be hard pressed to duplicate internally because they don’t have the skills.”

Ned Lilly’s cynicism is apparent from the opening page of his Web site, [erpgraveyard.com](http://erpgraveyard.com). At this particular juncture in cyberspace, Lilly has created an ERP Graveyard Scorecard, where he marks software acquired by other companies with a tombstone. On the first grave, familiar names such as Baan, Made2Manage, JD Edwards, and PeopleSoft, appear etched into stone.

“It’s really hard to avoid the conclusion that most, if not all, of this [merger and acquisition] activity is financially driven,” Lilly says. “There aren’t that many 8-figure deals out there any more, and [companies] have got to keep growing, they have to keep showing top-line growth. It’s sort of baked into their market cap and analyst expectations.”

#### **ERP for all?**

In the late 1990s, big companies, such as Oracle and SAP, started marketing their products to customers in the midrange. The big customers already had their solutions, and leaders at midsize companies were starting to explore the benefits of enterprise solutions.

Large and midsize companies don’t really need different functions from their software,

Turbide says. Yet, what he describes as the “school bus approach” to selling software wasn’t going to work for small and midsize companies.

“You get a bunch of sales reps and presale consultants, accountants; put them in a school bus; and take them over to the corporate headquarters for General Motors or General Electric. You work the account for months with a big team of people, trying to make the sale,” Turbide says. “When you make the sale, it’s in the millions of dollars, and you take another school bus full of support people to implement it and put it in place.”

To become successful in the midrange market, leaders at big companies had to modify their scale and learn from their acquisitions, which already sold to small and midsize customers.

“It’s really about how software is sold and supported,” Turbide says. “Through acquisitions and through partnerships, large companies have been able to crack the small and midsize customer market.”

Not all operations professionals are concerned about the ERP marketplace largely because there are still companies without ERP. Jutras says recent studies at Aberdeen suggest that, of those respondents who didn’t have ERP,

58 percent were from small companies, but 42 percent were from organizations considered midsize or large.

She is quick to add that these results don't mean these professionals don't use automation. It does mean they don't have integrated or even legacy ERP systems.

"They have homegrown point solutions that are thrown together, and they are having difficulty taking the next step and going to an integrated environment," Justras says.

### Customer relations

Cognos reports it will be integrated as a group within IBM's information management software division, and Cognos President and CEO Rob Ashe will lead the group. Leaders insist IBM and Cognos customers will benefit from the merger, but customers are left wondering about their status.

Helena Schwenk is a senior analyst at Ovum, a London-based market research company. She says IBM's acquisition of Cognos isn't surprising given IBM leaders' vision to pull together the company's middleware and services to help organizations drive more business value out of their information.

Schwenk questions IBM's plans for Cognos's performance management products. Cognos had been building its reputation in finance departments with its planning, budgeting, and forecasting applications. On the other hand, IBM's information management division—like the rest of the IBM software group—traditionally has shied away from the applications business and typically courted information technology shops.

"If IBM wants to continue to play in the performance management space, it must ensure that Cognos's emphasis on the [chief financial officer] is not lost or diluted by the old 'we don't do applications' messaging," Schwenk says.

Additionally, Cognos customers who don't run on an IBM platform might be worried, with good reason. Justras advises those clients to ask tough questions, which may include the following:

- Will Cognos continue to support customers that don't run on IBM? For how long?
- Will non-IBM customers receive the same level of ongoing innovation in their Cognos products?
- As Cognos continues to enhance its products, will they be made available across all platforms?
- Will some products go away?

"Customers certainly need to inquire about integration plans for the companies and the products," Justras says. "Future roadmap strategies can take on a different flavor when you talk about mixed platforms."

Where customers fall in these deals is the source of some debate. Turbide asserts that customers are faring surprisingly well, and he gives the Infor example. In its short existence, Infor has acquired a large number of companies, including SSA, Baan, MAPICS, and Lilly.

"Infor is bringing its products together, putting them on the common architecture, changing the user interface to be more and more common," Turbide says. "The existing customer base is actually doing quite well. The products are being supported; they are being upgraded; and, as they are being brought together, [customers] are getting the benefit of the experience and good solutions the different packages have brought to play."

Blogger Lilly disagrees. "It is sort of death by a thousand cuts. It builds and builds with every passing month, with every bug that doesn't get fixed or support call that doesn't get resolved to your satisfaction. I don't know what the end game is here, but I don't think it's going to be pretty."

He thinks customers stay with their ERP products not because they see wide benefits and improvements, but because they have such terrible memories of their original ERP implementation processes.



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"The memory of that pain and the power of inertia keep customers writing those renewal checks every year," Lilly says.

Lilly doesn't hide his professional interest. When he's not blogging on the topic, he works as the chief executive officer of xTuple, an open-source ERP solution.

He compares the last 10 years of ERP mergers and acquisitions to the diversification trend of the early and mid 1970s. Leaders at big companies got the idea they needed to have all kinds of different businesses, and, in the early 1980s, they ended up selling those parts of the business that were considered nonessential.

"It's a natural kind of expansion and contraction cycle," Lilly says. "It seems to me that the final act of this hasn't been written." ❏

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