

Prepare for the Changing Business Application Landscape

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Driven by a weak economy, the business application market continues to undergo major change. Enterprises must refocus CRM, ERP II and SCM initiatives in coordination with evolving market realities and application architectures.

ANALYSIS

Business applications such as enterprise resource planning (ERP), supply chain management (SCM) and customer relationship management (CRM) have been hyped for years as virtual "silver bullets" to address fundamental business challenges. Yet, despite reasonable track records, business application deployments are feared because enterprises are concerned that they will cost too much and take too much time to complete without delivering adequate results — or worse yet, that they'll damage the enterprise. The result is that today's enterprises are taking a more pragmatic approach to business application strategy.

At the same time, the business application marketplace continues to experience great turmoil due to the weakened economy and changes in buying patterns and demand, and its vendors have experienced huge drops in sales of new licenses. Many vendors have been forced to reduce labor and cut R&D investments. And because not all of the problems challenging the market are rooted in the economic downturn, an economic turnaround will not bring the market back to where it was. When a recovery does happen, much slower growth will replace the "hypergrowth" of 2000 and earlier.

User Expectations Will Change

Although CRM, ERP and SCM will continue to be important business applications during the next five years, the expectations that users have of these applications will change dramatically. Following CRM's and ERP II's respective periods of disillusionment, enterprises are seeking ways to employ CRM, ERP II and SCM to better their business processes. Going forward, the emphasis will be on 1) how CRM and ERP applications can fit into an enterprise's overall business strategy; 2) how these business applications can be extended to outside systems, such as those employed by subsidiaries or business partners; and 3) how these disciplines will provide the enterprise with a return on its investment (see "Business Applications Won't Change; Expectations Should").

Vertical-Industry Functionality Will Be Key

In the past, user organizations thought of themselves in terms of their primary application vendors — for example, "We're an SAP shop." Vendors — ERP II vendors, in particular — will no longer be able to assume that their product's architecture will serve as a "backbone" for an enterprise's architecture. To survive, vendors will need to provide unique value propositions that appeal to their respective markets and are industry-centric. However, limited investment funds will force vendors to make tough choices about which industries and segments they will or will not pursue. Successful vendors will generally be the very large ones, with sufficient R&D funding to build profit-responsible business units around targeted industries and industry segments (see "The 2007 Business Application Vendor Landscape").

Enterprise and Application Architectures Will Evolve

Enterprises are searching for less-rigid, less-monolithic IT solutions to help them connect to not only internal systems, but also to business partners and customers. As packaged business applications become increasingly subordinate to enterprise architectures, vendors will move away from proprietary application architectures. In addition, as enterprises respond to requirements for greater customer and market responsiveness, they are uncovering silos of processes, redundant data and overlapping responsibility. Although much of the mess has come from pockets of automation and a proliferation of projects and vendors, enterprises are turning to enterprise- and multienterprise-spanning process views and a reassessment of business processes and their supporting applications. Enterprises will have to spend substantial money and resources to upgrade to these new applications and architectures. They will also need to embrace a new,

broader, more-inclusive view of enterprise architecture (see "Enterprise Application Architecture: New Challenges Ahead").

Marketplace Turmoil

As the requirements for business applications change, Gartner Dataquest predicts significant consolidation in the CRM application market. Driven by reduced sales and expanded competition by enterprise application software suite and ERP II vendors, as many as 50 percent of the vendors providing CRM applications in 2001 will be gone by 2005, by merger, acquisition or demise (see "Prediction 2003: CRM Software Market Faces Tough Times").

Vendors in the ERP and SCM markets face a similar future. As the ERP market wades through sluggish sales, the number of viable providers will diminish significantly. As the weaker ERP providers dissolve, successful market leaders — large and small — will form oligopolies. The oligopolies will represent a small group of strong, successful ERP II software providers that will dominate varying vertical and enterprise market sectors (see "Prediction 2003: The ERP Market Readies for a Rebound").

In the SCM market, most vendors were ill-prepared for the effects of an economic slowdown. Although the market is evolving beyond very enterprise-centric planning and forecasting, it will probably take years before end products will enable real-time multienterprise collaboration through tightly integrated solutions. Facing growing competition from ERP II vendors, SCM software vendors will have to consider alternative revenue opportunities (for example, services, maintenance and training) as well as alternative channels to market (see "Prediction 2003: Supply Chain Management Realigning").

In Conclusion ...

In the near term, enterprises will focus most of their business application budgets on improving and better leveraging applications that are already installed. Vendors, on the other hand, will be sorely tested, as they will have to reinvent themselves to take on more-service-oriented, customer-value-driven business models. The vendors that survive will have to provide unique value propositions that appeal to their respective markets and are industry-centric. The winners will be those that also have sufficient R&D and resource funding to deliver the service, functionality and technology that support these value propositions.

Features

"Business Applications Won't Change; Expectations Should" — Consider new business application architectures, skills and vendor evaluation methods that can lead to greater efficiencies and agility. **By Scott Nelson**

"The 2007 Business Application Vendor Landscape" — Vendors will need to adjust the way they offer business applications to meet user requirements for more-flexible systems. **By Yvonne Genovese**

"Enterprise Application Architecture: New Challenges Ahead" — When evaluating vendors' application architectures, examine the degree to which the package can contribute to a broader enterprise architecture and support enterprise technology and business objectives. **By Jeff Comport**

Recommended Reading and Related Research

"Prediction 2003: CRM Software Market Faces Tough Times" — As the customer relationship management vendor shakeout continues, greater due diligence will be needed when choosing CRM application providers. **By Thomas Topolinski**

"Prediction 2003: The ERP Market Readies for a Rebound" — Enterprise resource planning vendors will need to reinvent themselves in 2003 to succeed — or even survive. **By Chad Eschinger**

"Prediction 2003: Supply Chain Management Realignment" — Because of a fundamental shift in buyer behavior and other challenges, supply chain management vendors must consider alternative revenue opportunities, such as services, maintenance and training. **By Chad Eschinger**

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