

February 13, 2009

Trends 2009: Enterprise Applications/ERP

Application Strategies Evolve For Leaner Sustainability

by R "Ray" Wang and Paul D. Hamerman

with Sharyn Leaver and Meghan Donnelly

EXECUTIVE SUMMARY

The lingering impact of the recession in 2009 will motivate business process and applications professionals to focus on value-based strategies for lower operating costs and smaller projects with quicker returns. As enterprise applications vendors face reduced deal pipelines, customers will benefit from more bargaining leverage and will have better opportunities to stabilize rising maintenance fees. Software-as-a-service (SaaS) adoption will continue to gain momentum, moving from mainstream acceptance in domains such as customer relations and human resources to core financials and the broader enterprise resource planning (ERP) footprint. Trends affecting the software ownership life cycle, from selection to retirement, reflect the macroeconomic drivers as well as evolving deployment and software innovation models.

THE GLOBAL RECESSION DRIVES THE 2009 ENTERPRISE APPS AGENDA

Amid the current global economic crisis, business process and applications professionals face increased scrutiny on managing costs and mitigating risk related to enterprise application investments. As both applications vendors and their customers adjust to new operating paradigms, Forrester expects the following business drivers to shape enterprise apps strategies for 2009:

- **Value becomes the mantra for 2009.** Tight budgets drive applications customers to optimize every dollar spent. Business process and applications professionals focus on reducing operating costs, maintenance fees, and implementation times. Applications projects with longer time-to-value get put on hold, while smaller projects with quicker returns take precedence.
- **Recessionary forces shift the balance of power to the customer.** Tremendous market consolidation over the past five years has enabled vendors to gain pricing power and market leverage over their customers. Vendors now face a backlash from recent software license price hikes as well as customer resistance to increases in maintenance fees. Heavy discounting of new software licenses, increased use of financing, and provision of additional incentives in Q3 and Q4 2008 reflect the pendulum shift in deal leverage.
- **SaaS deployment models reach the mainstream.** Newer delivery models, such as SaaS, platform-as-a-service (PaaS), and other cloud-based delivery models, have been gaining traction on their own merit. With the recession underway, adoption of SaaS and cloud computing has even greater appeal to enterprises intent on innovating while preserving cash. However, with the upfront benefits in choice, value, and predictability come new ownership risks that application delivery professionals and business stakeholders should explore.¹



Headquarters

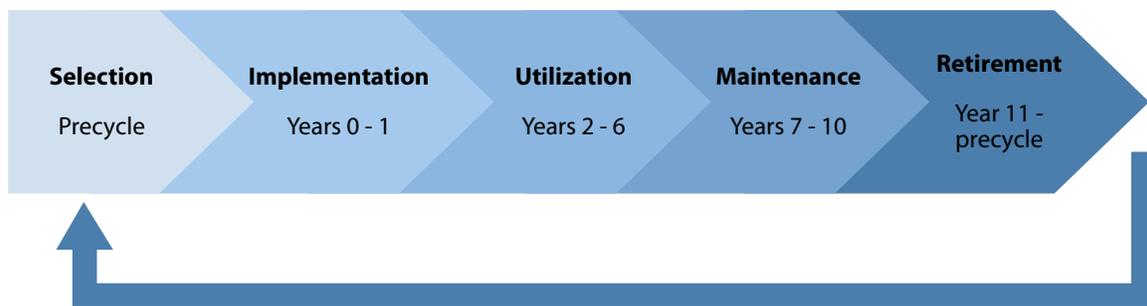
Forrester Research, Inc., 400 Technology Square, Cambridge, MA 02139 USA
Tel: +1 617.613.6000 • Fax: +1 617.613.5000 • www.forrester.com

- **Software function innovation will gravitate to the partner ecosystem and communities.** As vendors cut investment for innovation, expect a greater shift to partners to fill in product white spaces. The growing investment in partner models, however, will require greater scrutiny by end users to ensure seamless upgrades and integration.² A related development in software innovation for 2009 and beyond will be sharing of packaged application enhancements via customer communities.

2009 TRENDS TO WATCH ACROSS THE ENTERPRISE APP AND ERP OWNERSHIP LIFE CYCLE

We anticipate that the primary focus of 2009 enterprise application/ERP strategies will be on value and efficiency, as dictated by the challenging economic climate. Our trends predictions described below are organized based on the software ownership life cycle (see Figure 1).³

Figure 1 Trends In Enterprise Apps Strategies And ERP Follow The Software Ownership Life Cycle



48389

Source: Forrester Research, Inc.

Selection: Interest Shifts To Purpose-Built SaaS Solutions For Less

For the application selection phase of the software ownership life cycle, the following trends apply:

- **Purpose-built vertical applications adoption will increase.** Forrester expects increased adoption of specialized apps designed for key industries, replacing homegrown solutions and obsolete packages. Expect companies to give strong consideration to midtier ERP vendors, such as Agresso, IFS, Lawson Software, QAD, and SYSPRO, with strong vertical plays as alternatives to offerings from ERP leaders Oracle and SAP. Also, purpose-built process applications from industry specialists without a full ERP footprint (e.g., billing and revenue systems in healthcare, government, and utilities) will remain in play, even as Oracle expands its vertical apps portfolio.
- **SaaS solutions will expand beyond CRM and HRM.** Despite broad acceptance of the SaaS model in niche application areas, including customer relationship management (CRM) and human resource management (HRM), SaaS has not yet seen mainstream adoption for broader

ERP. This picture will begin to evolve in 2009, with movement toward broader SaaS solutions for ERP, including core financials. New product introductions will include SaaS as a primary or alternative delivery model.

- **Significant discounts and policy improvements continue for new licenses and subscriptions.** Heavy discounting continues for new licenses. Vendor proposals will include nonmonetary concessions such as training, implementation, integration, and other professional services. In some cases, first-year maintenance will be provided. SaaS contract terms will move from annual terms back to month-to-month contracts.

Implementation: Rapid Deployments With Software Flexibility Become Realities

For the implementation phase of the software ownership life cycle, the following trends apply:

- **Expectations will increase for rapid deployment of apps.** Combating pressures from SaaS vendors, expect on-premise vendors and their partners to roll out new rapid implementation methodologies and business-process configuration templates. Many Forrester clients now expect fixed-price proposals for implementations and contractual assurances on delivery time frames.
- **Software configuration and integration flexibility will improve.** Whether deployed via SaaS, on-premise, or hybrid methods, customers will see more flexible software capabilities to configure and integrate application packages. In order to leverage technical improvements in business process orchestration, usability, information delivery, and standards-based integration, business process and applications professionals will need to expand their skills. Professional services expertise for newer products must also evolve as Boomi, Cast Iron Systems, Informatica, and Pervasive Software gain mindshare.

Utilization: Upgrades And Consolidation Projects Get More ROI Scrutiny

For the utilization phase of the ownership life cycle, where the applications are optimized and upgraded, the following trends apply:

- **Efforts to consolidate apps instances will continue.** Cost savings and operational efficiencies are driving companies away from multiple application systems instances and vendors. Combined with data center consolidation and shared service efforts, business process and applications professionals can use instance consolidation to reduce long-term costs of ownership, although large consolidation projects will be difficult to fund in 2009.
- **Upgrade projects continue but will be smaller in scope.** With budgets reduced for major application upgrade projects, customers will make necessary updates in the least disruptive way. Selective enhancements, compliance updates, and technical upgrades will take precedence over major version changes with significant end user impacts.

Maintenance: Mounting Dissatisfaction Results In More Options

For the maintenance phase of the ownership life cycle, the following trends apply:

- **Dissatisfaction with existing support and maintenance arrangements will increase.** Business process and applications professionals concerned about the value received for maintenance will seek new contracts with reduced fees and escalation clauses. Customers will reassess the value and utilization of maintenance services and drop vendor support on applications where value and risks are low.
- **Third-party maintenance options will grow.** Customers are increasingly seeing the lack of third-party maintenance options as anticompetitive, and user groups are exploring legal avenues. Additional third-party vendor options will begin to materialize in 2009 for both SAP and Oracle products, but choices will remain limited to smaller, nonaffiliated providers as major software providers protect their profitable support revenues.

Retirement: Legacy Systems Survive Another Year

Faced with limited funding for applications projects, business process and applications professionals will defer replacements of stable older systems for another year. The adverse effects of legacy environments on process execution, however, as well as the risks of obsolescence, will motivate some companies to swap out these dinosaurs for newer packages.

WHAT IT MEANS

BUSINESS PROCESS AND APPS PROS REDISCOVER BEST-OF-BREED STRATEGIES

A confluence of value strategies and demand for purpose-built industry applications will drive business process and apps professionals to consider new deployment options, such as open source, hosting, business process outsourcing, and SaaS, for new functionality. In addition, growing interest in reducing dependency on a single packaged applications vendor for all solutions, and a plethora of new vendors, will lead to the re-emergence of best-of-breed strategies. As with similar ERP adoption cycles, expect integration to play a key role with an emphasis not only on data integration, but also — more importantly — on process harmonization. Enterprises will move from heavy on-premise footprints to a world of provisioning business processes and services.

ENDNOTES

- ¹ Cost per user per month SaaS pricing models may seem simple at first. However, factors such as connection points, storage, support, and module-based pricing can quickly add to complexity. In addition, true multitenant SaaS models leave users without the software code should they go bankrupt or choose to end relationships with the vendor. While considering SaaS as part of a long-term apps strategy, Forrester makes five simple suggestions to get the most out of SaaS and mitigate risk. See the January 14, 2009, "[Shape Your Apps Strategy To Reflect New SaaS Licensing And Pricing Trends](#)" report.
- ² Amid a backdrop of vendor consolidation, open standards, dynamic apps, and new deployment options, no one software vendor can deliver innovative solutions that meet every industry vertical, business process, market segment, and geographical requirement. Consequently, major software vendors like IBM, Microsoft, Oracle, and SAP are encouraging their partners to innovate on their platforms, fill existing gaps, and ultimately help drive long-term customer loyalty. The result: Each of these large software vendors now has a vast partner ecosystem filled with solutions at varying levels of integration, support, and quality. Through interviews with 59 vendor companies and 129 customers, Forrester has developed a partner solution maturity model. Business process and applications professionals can use this model when selecting a partner offering to complement their existing solutions from one or more of these software giants. See the September 3, 2008, "[How To Select A Software Partner Solution Offering](#)" report.
- ³ The software ownership life cycle describes the major phases of packaged software ownership, from selection to retirement. See the December 18, 2006, "[An Enterprise Software Licensee's Bill Of Rights](#)" report.