

ERP Industry Consolidation – A New Trend or On-going Process?

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Introduction

The ERP market, over the last two decades, has grown and consolidated with rhythmic regularity creating uncertainty in the user community. The ERP software market will likely continue to consolidate at the hands of the largest of software vendors. It is also equally fair to say, there will continue to be new entrants to the market as well as, growth of current industry (niche) specific software companies who focus on select markets. Although ERP Software Industry consolidation is nothing new, it constantly changes market dynamics, generating questions about its impact on product lifecycles, supportability and ERP ROI's. You could say consolidation creates both new potential and contributes to old problems.

Consolidation – The Good And The Bad

A market with consolidation generates questions some of which are focused on vendor and product viability. This applies to both the Consolidators (tier 1 largest of Vendors) and all others.

Change can be good and with changing market dynamics as described above the end client comes out on top. An example is with fewer ERP software products it provides a clearer software landscape for prospective buying clients. This is better and less confusing for the customer, means less competition for the Niche vendor.

With fewer ERP software alternatives to choose from, clients can dig deeper and be more selective. When that happens, Niche ERP solutions surface as winners in most cases, due to their clear focus and market driven software differentiation.

Consolidation – The Good

1. Software choices become clearer to the business consumer due to a smaller field of niche players.
2. Specific software applicability surfaces through the smaller field, allowing business consumers to distinguish application functionality more effectively.
3. Focused or Niche vendors, surface as comprehensive, industry specific business solutions.

Consolidation – The Bad

1. Consolidated products many times get lost in the mix with the larger vendors multi-product menu of product offerings.
2. Focus diminishes as the Consolidator spreads its resources across many products creating uncertain support and product direction.
3. End of life cycle accelerates for many of the consolidated software products leaving the business consumer in an unclear and potentially costly position.
4. Support of an acquired product can become less effective, as consolidation generally includes staff reductions in product support and related help desk areas.

The Consolidator Vendors

The capabilities of the larger consolidating ERP vendors can be a both a blessing and a curse. Advantageously their general multi-market segment is broad in modules offered, industries served, countries supported and perceived staffing levels. However, they also have overhead associated with the integration and support of

consolidated ERP products and are challenged with product direction decisions which may be counter to the original vendor's plans and the customer's. The challenge for these vendors is the integration process of many overlapping products all of which are in varied stages of their product life cycle. Other challenges can involve industry expertise spread thin which in many cases may not translate into a strong vendor/client relationship with the consumer.

The Niche Vendors

Companies requiring specific industry functional capabilities and/or who desire a closer vendor relationship including influence on product direction may be candidates for what a Niche vendor delivers best. These vendors although generally smaller in staffing, focus 360° of their efforts on providing strong market and product expertise. The results produce a high level of customer interaction, industry specific functionality, responsiveness, product influence and access to senior management.

Jeffrey Lang, Visibility's Chief Solution Officer observes, "Niche vendors work hard and operate efficiently, meeting their customers changing and growing needs. For these reasons the Niche vendors will continue to strive and survive. Niche vendors are also most commonly among the first to embrace and deploy the latest generation technologies."

In a consolidating ERP market, Niche vendors can end up winners because of the following reasons:

1. Consolidation means fewer competitors - An example of reduced competitive ERP solutions due to consolidation is MAPICS. Five years ago they offered three ERP solutions; XA, Point.Man and Frontstep. Today, they are no longer around, having been acquired by INFOR in 2005. Today, two of the three former MAPICS ERP products have virtually disappeared from the ERP software market. This is common when consolidation takes place, many products get retired.
2. Walk the Talk – Because Niche ERP software companies focus on a single market they are specialists. All staff members are immersed in a single business type and understand in detail business issues and solutions associated with that specific market.
3. Business health specialist – Similar to personal healthcare, when looking to correct a health issue you turn to a specialist. They

understand your specific area of need and offer the expertise. Why would you not do the same with your business? That's where Niche vendors offer great advantage.

4. Less software overhead means optimized methods – ERP products are very complicated business solutions which integrate all aspects of a business. ERP software that is focused does not require features intended for another type of business. It is therefore optimized by design for its target market and is developed efficiently with deeper yet specific market functions. Software set-up during implementation is already streamlined due to its inherent clean market specific business logic.
5. Market specific focus – As an ERP business consumer, companies want to see the product remain in tune with their direction and trends in their industry. Customers of a Niche vendor are generally part of a smaller user community and one that collectively has common interests. Those common interests provide much of the R&D input insuring appropriate product direction. For some customers it is also important to have access to the vendor's senior management which in a Niche market organization is usually very accessible at the most senior levels.

Visibility Corporation – A Niche Vendor

Visibility Corporation is an example of an experienced Niche ERP vendor serving the needs of mid-size manufacturers of complex products since 1987. This segment, which demands industry specific functionality, is sometimes referred to as, to-order and includes project based and mixed-mode manufacturers.

In 2006, Visibility culminated a multiple year heavy R&D investment with the release of VISIBILITY.net ERP. This was a complete technically focused re-write of its legacy version incorporating all previous industry specific business functions using Microsoft's® .NET development environment with Microsoft® SQL Server and Oracle® database options. According to Steve Carson, Visibility's Executive VP of Sales, "My experience with industry consolidations in the past has shown that many Niche ERP providers gain competitive advantages as the ERP software market consolidates. A less complicated software landscape enables Niche vendors to more easily differentiate themselves. As a niche vendor, we

view consolidation as a very positive evolution that enables us to stand out.”

Conclusion

The ERP market will continue to consolidate while at the same time Niche vendors will grow and thrive. Companies selecting a new ERP vendor and system will have to ask themselves what type of vendor and product best meets their needs by understanding the benefits and challenges of both options.

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