

# 2007 PRISM User Group Meeting

“Best-of-Breed”  
Coming Full Circle

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# **“Best of Breed” Coming Full Circle**

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## **Executive Summary**

Two distinct groups of software vendors developed Enterprise Resource Planning (ERP) products, the Platform Players and the Best-of-Breed Players. These groups had different go to market strategies and different software development strategies. Platform Players targeted the executive levels of prospective clients selling global enterprise accounting systems. Their development strategy was “go broad and generalized” addressing high level business requirements and not focusing on the differences between industries or companies. Best-of-Breed Players targeted industry niche business requirements which were often at the operational level of the organization. Their development philosophy was “go deep and specialized.”

The Best-of-Breed providers were very successful in target markets such as the process manufacturing industries, producers of food, chemical, and pharmaceutical products. Some Platform Players experienced major implementation hurdles as they were not addressing underlying business requirements. As ERP solutions evolved and matured and the Platform Players had greater success marketing and selling to the executive levels of organizations; they became the market leaders.

The success of the Platform Players has led to consolidation in the ERP market and the demise of many Best-of-Breed Players who have been gobbled up by the market leaders. The market leaders now own collections of many disparate software products. Some are providing the means to integrate them; others are selling the viable ones into selected markets; still others are primarily collecting maintenance revenues and selling only a select few of the ERP products they own.

With the high end of the market now saturated with ERP solutions, the ERP vendors are now focusing their marketing and sales efforts on the mid-market companies. They have found that these prospective customers demand solutions that address their unique requirements. Forester Research notes that there has been trend toward partnering between software companies to address these requirements. This trend has signaled the return of Best-of-Breed infrastructures to meet business requirements and provide the desired return on the investment.

Our recommendations are to invest in solutions that provide a competitive advantage, question the “single vendor” mindset, consider solutions with technologies to integrate with other applications, and work with experts who understand your business.

## **Evolution of ERP – Platform Battle**

From the beginning of the information age and until fairly recently, the cost of hardware was a dominant factor in the selection of the software applications that run our businesses. Hardware was a high percentage of the total cost of ownership for an Enterprise Requirements Planning (ERP) infrastructure. IT professionals would choose the most cost-effective hardware platform for their organization often from the big 3: IBM, DEC, and HP. Some of the decision making parameters included what was supported by the hardware: operating systems, networks, and database engines (Oracle, Sybase, Ingres, MS SQL, etc.). Another factor was whether they planned to employ mainframe technology or client-server technology. The end result was that selection of software was based largely on the selection of hardware platform. This drove the market for these systems along specific lines of hardware, platforms. This of course narrowed the field of ERP applications under consideration as each application only runs on selected hardware environments. Now that we have most of this process ironed out, hardware costs have plummeted and are no longer a major slice of the total cost of ownership. Businesses can focus on the ERP system that addresses their requirements.

## **Evolution of ERP – Birth of ERP Systems**

In the beginning of Enterprise Resource Products applications, there were two distinct camps of ERP vendors in the marketplace: the Platform Players and the Best-of-Breed Players. The Platform Players aimed their marketing and sales efforts very high in the organization typically to financial executives focusing on financial functionality of the software and selling a global enterprise accounting system. They sold the “promise” of a global, integrated ERP solution to corporate headquarters. The operations side of the business was often left out of the buying process. Targeting the “C-level” in the organization and the fact that financial functionality is relatively generic, the Platform Players were able to sell to the “low-hanging fruit” opportunities with no specialized software or unique business knowledge required. Often little attempt was made to satisfy the needs of operations while these vendors were selling primarily to the executive level.

The Best-of-Breed Players focused on the unique requirements of niche industries. In the case of the process industries these requirements were typically in the manufacturing operations. These vendors partnered with operations management first on single-plant solutions then later on “enterprise’ solutions.” These solutions worked very well at the plant level delivering substantial value. After proving themselves at the operations level these vendors then tried to ‘sell-up’ to the corporate level. But often the Platform Players were already talking to the corporation executives. The Best-of-Breed Players would all too often only be successful if the Platform Players were not already talking to the company executives about the value of their integrated, company-wide systems.

## Evolution of ERP – Features and Functions Race

The different players, Platform and Best-of-Breed, approached marketing and product development very differently. Platform players marketed toward those who were selecting specific hardware, network, and database platforms. They developed functionality that most companies could use generically, namely the financial modules. It didn't matter that these companies may have dissimilar operations. Due to these differences in their client base, the Platform Players focused initially on providing very broad, general functionality and rolled out the functionality in the order depicted below. One could say the "went broad and generalized." Examples of these applications include those from SAP, PeopleSoft, and Oracle.



The second evolutionary path, Best-of-Breed Players, sought to address niche business requirements for specific industries or types of manufacturers. Classic examples of these applications were Marcam PRISM and GEMMS Datalogix which were designed to address the functionality of the process manufacturing industries. These players focused on the unique business requirements of these niche industries following the path shown below believing they could deliver more value. Typically the greatest value for process manufacturers was in the manufacturing operations and then inventory management:



Relative to the Platform Players, the Best-of-Breed Players provided narrow and deep functionality to their niche markets. One could say they "went deep and specialized." Sometimes while the Best-of-Breed Player was developing extensive functionality in one area they would partner with other companies to provide needed functionality. Such was the case when Marcam partnered with JD Edwards to provide accounting functionality to PRISM, never developed accounting modules, and today the vast majority of PRISM users still employ JDE World financials.

## Product Manager otherwise known as *Piñata-Boy* or *Piñata-Girl*

When it comes to decisions about what goes into the ERP application, companies rely on product managers or a team of product managers to understand the marketplace and determine software development priorities. The product manager seeks out input from many sources including customers, prospective customers, industry analysts, government regulations, etc. Take it from an ex-product manager; there are always more desired enhancements than available development resources. In an attempt to

please all of the factions, the product manager becomes a master of trade-offs and rationalization. All too often customers, especially smaller ones, feel their requested enhancements never get into the product. Other customers believe the custom enhancements that they paid significant dollars for get added to the standard product benefiting the ERP development budget but at the customer's expense. Years later these customers still feel slighted and perceive they helped build the product at their expense. A pessimistic product manager may define success as having 50% of your decisions annoying less than 50% of your customers! Needless to say it can be a frustrating experience trying to address everyone's requests for functional enhancements to an ERP product.

**Evolution of ERP – A Product Manager's View**

Often the stated goal of ERP product management is to provide 80% of the functional requirements of the "marketplace" believing that the other 20% is unique to the customer and should be custom programming (paid for by the customer of course) ... the 80 / 20 rule. The problem is 80% of what? 80% of process manufacturing requirements? Process manufacturing includes food, chemical, and pharmaceutical (more frequently referred to now as bio-technology) manufacturing industries. Perhaps 80% of the food manufacturing industry? Maybe 80% of the food and beverage category within the food manufacturing industry? Is the 80 / 20 rule just a myth? The decision of what level depends on the strategic goals of the organization and the marketplace potential of delivering the requisite functionality to that level.

Examples of 80 / 20 rule:

Platform Players:	Initially, entire process manufacturing industry didn't comprise 20% of their client bases. Focus on product not process
<ul style="list-style-type: none"> <li>• Oracle</li> <li>• SAP</li> <li>• SSA</li> </ul>	

Best-of-Breed Players	Focus on process and not as much product
<ul style="list-style-type: none"> <li>• Marcam</li> <li>• Datalogix</li> <li>• SCT</li> </ul>	Complex Formula, Co-Product, By-Product, Yield Complex Process – Batch, Continuous, Reactive Formula Optimization vs. Operation Optimization

In the 1980's and 1990's the Best-of-Breed Players were very successful saturating target markets such as the process manufacturing industries. Legacy mainframe applications were replaced with process-ERP solutions that delivered substantial value positively impacting the bottom-line.

While the Best-of-Breed Players are providing robust functionality for niche specific areas of the ERP product, they struggled to hit the 80% mark. They depended on user groups and special interest groups to help drive product direction. They also developed partnerships to fill in voids in their ERP footprint while they focus on the unique requirements of their niches.

## **Evolution of ERP – “One Size Fits All”**

As ERP products from the Platform players matured with functionality that covered most of the breadth of the business, they introduced the concept that the benefits of an “integrated system” outweigh the benefits of meeting the underlying specific needs of business which the Best-of-Breed Players were striving to address. Implementations of these systems became notoriously late and over-budget with software industry covering after massive failures. The classic example was Hershey Chocolate missing the enormous Halloween holiday due to an initial SAP implementation failure. With the help of the largest business consulting firms, the Platform Players pushed the notion of “vanilla” implementations. The consequence of these implementations:

- Sub-optimized business with frustrated employees
- Loss of process-driven competitive edge
- Stifled innovation and process improvement

A leading global hardware and middleware innovator very successfully employed a culture of innovation. They encouraged the local plants to work “outside the box” fostering friendly competition between the factories. They achieved worldwide recognition for their innovation and leading edge technology. They selected SAP along with a mandate to implement “vanilla” across the entire organization. It was a very long, costly, painful implementation. After two years the vanilla implementation had destroyed their culture of innovation. The company lost its edge in the marketplace. They are now launching an “every plant to itself” implementation of SAP corporate-wide to regain their culture and their reputation.

## **The ERP Landscape Today – Mergers and Acquisitions**

The Year 2000 (Y2K) problem of years ago (1997 to 2000) turned into substantial profits for many software companies. Companies running legacy ERP systems that couldn't easily be upgraded to handle the year 2000 bought new ERP applications that were certified Y2K compliant. Software companies provided upgrade services to install their Y2K compliant new releases for existing customers. The Platform Players had the ear of the executives and momentum at the time and their market share grew tremendously at the expense of the niche Best-of-Breed Players. The result was the beginning of a period of mergers and acquisitions that continues today.

Ever since many of the primary ERP providers business strategy has been to gain market share by acquiring competitors. The dot-COM bust (a.k.a. dot-bomb) accelerated this industry consolidation. The one-size fits all approach morphed into one vendor has it all. The result is that a few companies such as Microsoft, Oracle, SAP, and Infor now own very large and complex collections of software solutions. Some offer different approaches to integrating these solutions such as Oracle Fusion. Infor markets theirs as “business-specific solutions” which sounds very much like best-of-breed. With the largest companies having completed their implementations of solutions from the Platform Players, the next battleground is the mid-market. How will these players compete for the mid-market?

In 2006 Forrester Research noted a trend regarding competition for the mid-market (a.k.a. SMB market). “Vendors are responding by . . . and expanding their partner ecosystems . . . Despite the short term turbulence, customers stand to benefit over the next five years from . . . stronger partner networks.” What is different about the mid-market that would cause these companies to reverse their prior direction of doing it all alone?

### **Emerging Trends**

The mid-market demands specialization which the ERP vendors cannot ignore. The vendors must address the special vertical needs of the mid-market. The vanilla implementations addressing only generic business requirements won't sell software. Once again these vendors are becoming “partner friendly.” They are increasingly calling on industry experts to implement, configure, integrate and customize their “collections” of products to the needs of their mid-market customers. Product-centricity and innovation are the emerging focus areas within mid-market companies. They require virtualization, automation and tools to compete in the global economy.

Forrester Research noted in May, 2007 that “Partner ecosystems are essential for enterprise software vendors to extend a vendor's product portfolio, fill white space in solution road maps, and augment and expand the execution team. These ecosystems increasingly specialize and rely on the intellectual property (IP) Innovation Networks of partners, suppliers . . . As software vendors and system integrators expand into new markets, they will form solutions-centric ecosystems to enable exclusive, complementary, and "co-opetive" relationships. Technology strategy professionals must determine how to thrive in this era of solutions-centric ecosystems.”

Infor Global Solutions' website states “When it comes to business challenges, one size clearly doesn't fit all. Infor delivers business-specific software that requires less customization, shorter implementation times, and fewer IT resources to maintain. And the future is built in, too. Our Open Service-Oriented Architecture (SOA) is designed for your growth, letting you take advantage of new products and upgrade to new composite solutions.”

We have all heard the expression, “If you wear something long enough, it will eventually come back into style.” Based on the terms “ecosystems” of multi-vendor solutions and new “composite solutions”, Best-of-Breed has come full circle and is now the solution of choice.

## **Recommendations**

As we look at how ERP has evolved over the years, at the consolidation of the software industry, and at the future trends the following recommendations are appropriate:

- Invest in software solutions that will provide your organization additional competitive advantage addressing topics such as product, process, innovation, and globalization
- Question the “single vendor” mindset which may lead to a less than optimal software solution that doesn’t address the all your underlying business requirements. Often the more specialized your business requirements are, the less you matter to a single vendor that cannot address all of your requirements. Even the ERP market leaders admit they can’t be “all things to all people”
- Open applications with the technological underpinnings to integrate with other applications are in vogue reducing the historical concern of the complexity of integrating best-of-breed solutions. The ERP market leaders have recognized the need to allow customized and “best-of-breed” solutions to plug in
- Avoid purchasing applications that lock you into a single vendor’s solution without the ability to integrate to other applications you may want to run your business in the future
- Work with people who know and understand your business and your business requirements and who are expert in your industry niche.