The ERP II Discrete-Manufacturing, Large-Enterprise Market

The 1Q03 ERP II Discrete-Manufacturing, Large-Enterprise Magic Quadrant reflects economic malaise and a lack of large-scale user IT investments. This is depressing vendors' short-term viability and long-term investment capabilities.

Vendors that appear in this Magic Quadrant (see Figure 1) have generally moved downward (that is, they have shown a lower ability to execute) because of decreased user investment in IT. Some vendors have moved to the right because they have proved their visions through vertically focused, discrete-manufacturing functionality or technology to support heterogeneous application environments.

Figure 1
ERP II Discrete-Manufacturing, Large-Enterprise Magic Quadrant — 1Q03

Source: Gartner Research (March 2003)
Economic conditions are pushing users to maintain or decrease their IT budgets. As users reassess IT strategies to reflect these changes, the results affect their level of commitment to enterprise resource planning (ERP) II vendor projects. Large-scale business application vendor commitments are being deferred or replaced by smaller point-solution projects. Cost-containment strategies, such as the consolidation of multiple product instances and a reduction in the number of vendors in the user application portfolio, are foremost in tactical IT initiatives.

In some cases, users are making long-term decisions for a two-tiered approach: implementing ERP II with a larger vendor at the consolidated financial level and with a midmarket vendor at the division or plant level. Although most ERP II vendors are moving their architectures toward supporting this environment, user issues will arise as they realize that actual vendor enablement varies greatly by product.

As a result of these conditions, ERP II vendors have turned their focus to delivering extended applications in such areas as supply chain management (SCM), customer relationship management (CRM) and product life cycle management (PLM) to compensate for the loss of revenue from the large-scale projects. Gartner is seeing a willingness on the part of users to sacrifice functional breadth and depth in extended applications from a best-of-breed vendor for “good enough,” integrated functionality from their ERP II vendors. In these cases, users should get commitments to vertical industry depth in the extended functionality from their ERP vendors to mitigate the long-term risks associated with deployment of a general product.

The downturn in new customer decisions for large-scale vendor projects is affecting ERP II vendors’ ability to deliver product enhancements to which they've already committed. Vendors assume a certain level of revenue to support the investment associated with a product release. As revenue declines, vendors are making choices to change the scope and timing of their releases, and, in many cases, they are narrowing the number of specific industries they support to contain investments. This is also affecting technology investments, sometimes pushing the vendors to change their architectures over time, rather than commit to total rewrites.

These trends will continue to affect larger-enterprise vendors. This will push the market toward a few “megasuite” vendors that can serve the larger users’ heterogeneous application environments and extended functionality requirements.
The Leaders

**SAP:** With the largest global customer base, SAP continues to lead the discrete ERP II manufacturing market. The vendor has a vertically focused solution that serves many industries and a technology vision that is able to positively influence users' traditional perception of SAP as a monolithic solution (see "SAP NetWeaver Offers a New Option for Software Infrastructure"). However, SAP is not without challenges. Much of its installed base is trying to cut IT costs, resulting in such activities as decreasing the number of product instances and globally centralizing common enterprise business processes. As users reconsider SAP strategies, they are confused about the fit of the many offerings (such as R/3 Enterprise, mySAP, mySAP All-in-One, Business One and xApps). Over time, this confusion will affect SAP’s ability to penetrate further into an enterprise. SAP users should develop enterprise-owned competency centers to support users within their ecosystems. These competency centers should also develop expertise to assist in understanding how SAP products can benefit the enterprise.

The Challengers

Based on Gartner's criteria, the market lacks any challengers at this time. A challenger in this quadrant would have a large installed base, a vertical vision across a few vertical segments and a technology vision that may not yet have been executed by a large number of users.

The Visionaries

Visionary vendors of ERP II discrete-manufacturing, large-enterprise systems have developed solutions that fit vertical industry requirements, as well as provide a compelling, proven technology vision.

**Oracle:** This vendor is considered a visionary because of its breadth and depth in discrete manufacturing and its large installed base, which follows Oracle’s technology vision. In discrete manufacturing, Oracle’s installed base has evolved from users that follow its vision. Oracle’s solution has broad functionality for discrete manufacturers with at least one team in the discrete-manufacturing segment showing promise for building a compelling vertical vision for high-technology manufacturing. This team has packaged a product that exhibits depth of understanding of industry drivers for this segment.

Oracle is challenged by the lack of an industry strategy for business applications, global penetration and continued reports of 11i issues, specifically in order management. Reports of
problems with order management quality and performance are highest at r.11.5.6, with improvements in both areas at r.11.5.8. High-technology manufacturing prospects should put Oracle on their shortlists. Users of r.10.7 considering an upgrade to 11i should test product performance in a production environment, as well as look at references from users that have implemented order management in their specific industries.

**Industrial & Financial Systems (IFS):** With a component-based technology, IFS has shown continued growth as a global vendor and depth of functionality for complex discrete-manufacturing enterprises. IFS continues to grow new account revenue in a tough economic climate (approximately 10 percent growth in 2002, as compared to 2001). Recent vendor announcements show more focus on specific industries, such as aerospace and defense and automotive, although deployment still varies by geography. A major advantage for IFS customers is the lower total cost of ownership (TCO) after the initial implementation, because IFS is a componentized product with no large upgrade required. Although this strategy can be slightly more complicated in keeping up with differing levels of components, users can choose when and how much to spend on implementing new functionality.

Questions regarding viability continue to surface with the announcement of missed profit targets at the end of 2002. IFS has taken cost-containment actions, including moving a major development location from Sweden to Sri Lanka. Because its code base is componentized, this should have little effect on its ability to deliver. Users considering a global implementation of IFS products must ensure country focus in their specific industries. Users in the larger-enterprise space may find that non-manufacturing product components, such as financial applications, may not meet their multinational and consolidation requirements. Discrete manufacturers specifically in "to order" should put IFS on their shortlists.

**PeopleSoft:** PeopleSoft's placement in the Visionary quadrant results from proven technology (PeopleSoft 8) that supports the extended application environment, as well as components that focus on specific "pain points" of the discrete manufacturing segment, such as supplier relationship management (SRM). Although these components are suitable for enterprises with general-manufacturing needs, they may not be specific enough to address some users' vertical requirements, such as in high-technology and consumer packaged goods (CPG). Likewise, the core PeopleSoft product is generic, rather than specific to a given industry. Users considering PeopleSoft should use customer references in their specific industries to validate component functionality, as well as suite-based functionality.
J.D. Edwards (JDE): Its placement in the Visionary quadrant results from JDE’s vision as a global vendor with technology to support the extended functional environment of discrete manufacturers (such as SCM and CRM) and a technology focus across three platforms (NT, AS/400 and Unix). JDE is most suitable in the discrete manufacturing market as an alternative to Oracle or SAP, but it has fewer large enterprises in its installed base that use it as a centralized solution. In addition, JDE lacks "mind share" in specific vertical industries. Its extended enterprise applications, such as CRM and SCM, are relatively new and lack proven large-scale users as an integrated application set. Users considering JDE should evaluate the integration of functionality specific to their industries across all product areas (including ERP, SCM and CRM), specifically focusing on user references that involve deploying the product similarly.

The Niche Players

QAD: This solution can operate at the division or plant level of a larger enterprise, and it has acquired global market share as a second-tier solution in SAP or Oracle centralized environments. QAD’s strengths lie in its depth of functionality and its focus in automotive, medical devices and general manufacturing. However, QAD isn’t recognized as a provider of centralized solutions for larger-enterprise implementations; rather, it is seen as more of a midmarket-focused manufacturing solution that integrates with enterprise applications in a corporate environment (such as financials). This makes it suitable for the second-tier solution in an SAP, Oracle or JDE corporate deployment. QAD’s challenge is that users at this level are questioning its long-term viability. QAD is being painted with the same broad brush of viability concerns as its midmarket peers. Although its health is better than most, general market risks may force it to consider consolidation with another vendor. Divisions of larger enterprises with a focus in QAD’s stated vertical segments should consider QAD a plant- or division-level solution.

Invensys/Baan: Baan’s ability to attract new customers continues to be inhibited by the questionable viability of its parent company, Invensys, as well as its own inability to move current users from Baan IV to the latest release of Baan V. With the announcement of its release of Gemini, Baan has increased the risk of customer attrition, because some users will find themselves two major product releases behind. With a Baan IV de-support date at the end of 2009, users have time to consider staying with Baan or implementing a new solution. Recent financial release information shows Baan is still in a precarious position with Invensys as it announced plans to "reconsider its Baan asset." Baan needs more than a few consecutive positive
financial reports to turn its current mind share to positive. Users of Baan IV or earlier releases should move to Baan IVc4 to maximize support, while taking advantage of the long-term support window to evaluate migration to Baan V, Gemini or an alternative solution. Baan V customers should begin to explore alternatives as Baan’s development resources move toward Gemini initiatives, leaving Baan V as an "orphaned" release.

Intentia: Intentia is in the Niche Players quadrant for its ability to be a plant-level or secondary solution to a larger vendor and because of its large installed base in Europe. In addition, its vertical-specific functionality is a good fit for noncomplex, distribution-oriented manufacturers. However, Intentia’s many false starts in North America have led to a lack of confidence from customers operating in a global environment where a requirement for a strong North American presence is a factor. This, plus an overall lack of decisions being made in the large-enterprise market, will continue to affect Intentia’s ability to execute at the larger end of the discrete-manufacturing market. Users considering Intentia should evaluate the vendor’s ability to implement and support the product locally and globally, as well as its ability to deliver functionality for more-complex discrete manufacturers.

Bottom Line: Enterprises seeking discrete-manufacturing solutions should evaluate the vendor’s long-term commitment to their specific industry segments. Although vendors in this market have reached parity in general manufacturing, commitments to deliver specific vertical functionality, as well as technology changes, may be altered as market conditions continue to adversely affect these vendors’ ability to invest. Users that have already made a commitment to a specific vendor should understand their vendor’s long-term commitment to their industry requirements and forge partnerships with customers using the same vendor’s products. Users may find that consolidated views of industry requirements back to the vendor may result in functional improvements. In some cases, users may find themselves faced with the decision to decommit from further entrenchment with a vendor and to search out alternatives to begin a longer-term turnover implementation strategy. Users assessing extended enterprise functionality from enterprise resource planning (ERP) II vendors should carefully evaluate the vendors’ ability to meet industry-specific requirements of these extensions against long-term integration costs.