

# New breed



*Are the days of ERP dominance ending? PMP Research reports on the rise of best of breed packages in the enterprise and e-business applications market.*

Enterprise and e-business applications are changing shape as organisations seek solutions which transcend the usual corporate boundaries. The emphasis now is on supporting complete end-to-end processes, rather than automating a discrete activity. This calls for new ways of designing and implementing core systems.

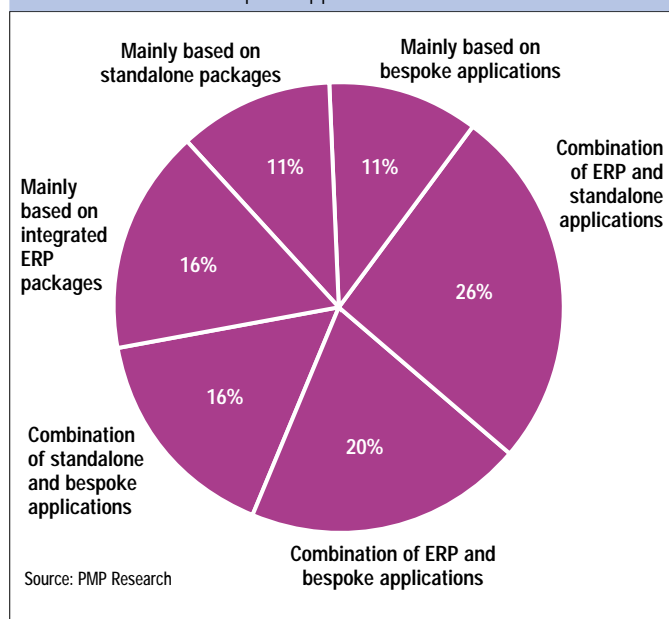
As this year's PMP Research survey highlights, most companies are currently in transition between the old regime and the new. The mountainous ERP systems implemented to deal with the demands of Y2K are casting a long shadow over the strategy many organisations have for their future enterprise applications.

However, this year's findings give the first indications that the traditional dominance of ERP systems may be about to end. Just 16% of those polled say their current enterprise application environment is mainly based on integrated ERP packages (see Figure 1), compared to the one third (34%) who reported this to be the case 12 months ago.

Instead, many companies are opting to supplement ERP solutions with either best of breed packages or bespoke developments. A quarter (26%) mix ERP applications with standalone choices, while one in five (20%) add to their ERP solution with bespoke applications.

By comparison, just 11% have an enterprise environment built entirely on either best of breed options or custom developments, and a further 16% use a combination of these two.

FIGURE 1: Current enterprise applications environment



While ERP packages continue to provide the backbone for enterprise systems, there is no doubt that many implementations are being fleshed out with specialised applications, either developed inhouse or bought from niche vendors.

Looking to the future, this trend seems likely to continue. We asked our sample to detail what kinds of investment they plan in new enterprise applications software over the next 12 months.

The majority (49%) will be aiming to enhance or upgrade existing ERP or standalone packages, while a quarter (26%) will be looking for third-party add-ons to existing ERP or best of breed solutions. The emphasis is clearly on squeezing extra performance out of what is already there, rather than looking for replacements.

Among those companies planning new purchases, opinion is evenly divided between the ones who will plump for new ERP packages (18%) and those who favour new best

## SURVEY STATISTICS

The organisations taking part in our survey come from a broad range of industry backgrounds, including construction, education, energy & utilities and leisure & tourism. One in five (20%) are in the public sector, where enterprise and e-business applications are currently the focus of considerable investment and innovation, as a result of the government's online and e-Gov strategies.

Manufacturing industry, which has been amongst the pioneers of B2B initiatives in areas such as e-procurement, accounts for 15% of our sample. We also sought the views of companies within the financial services sector (11%), which has been through major organisational change as a result of e-business, along with those in the retail industry (9%).

There is a wide spread of sizes of company. At the lower end of the range, a quarter (25%) come into the £10 million to £50 million turnover bracket. Moving up, 13% record a turnover of £100 million to £150 million while 29% fall into the £150 million to £1 billion range. At the top end of the scale, 11% report a turnover of between £1 billion and £5 billion, while 7% top the £5 billion mark..

FIGURE 2: Main drivers for enterprise applications investments

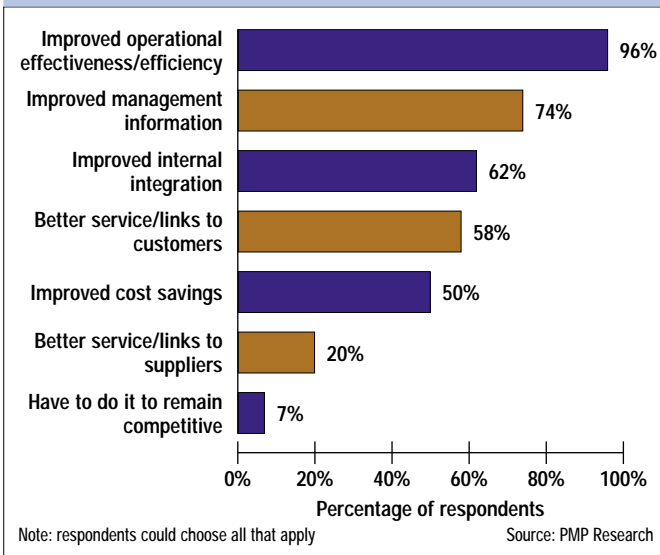
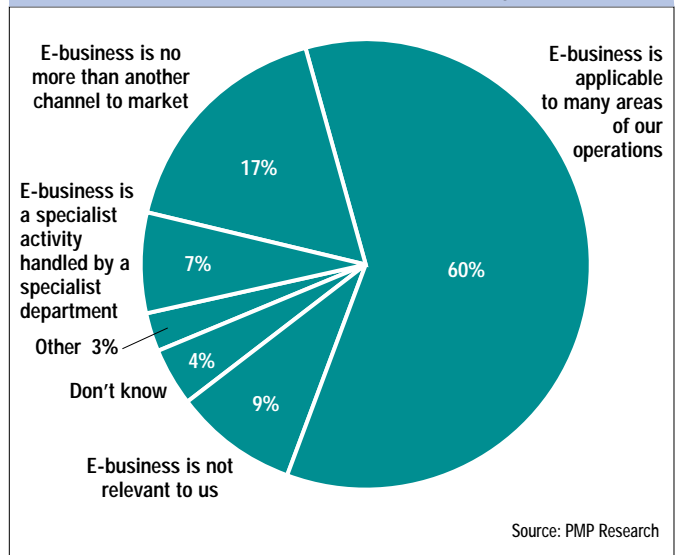


FIGURE 3: Nature of e-business initiatives within organisation



of breed options (again 18%). Interestingly, bespoke development also features strongly in the list of possible choices, with 20% indicating they will be going down this route.

Not surprisingly – given that many companies are now less dependent on ERP packages than in the past – the recent upheavals amongst the main vendors in this area are having little influence on buying decisions. The vast majority of respondents (79%) say market developments have had no effect on their plans, while just 4% are considering delaying investments until the situation is clearer and only 2% are thinking of switching vendors.

## Drivers

However their approaches differ, all organisations are in complete agreement about why they spend money on enterprise and e-business applications. The number one aim is to improve their operational effectiveness and efficiency, acknowledged by 96% (see Figure 2).

Three-quarters (74%) cite better management information as a key driver, along with the need to improve internal integration between different applications (62%).

In contrast, some traditional reasons for investment have slipped in importance. Better customer service, which once topped the list, is now identified by only 58% of the sample as a good reason to spend on applications. Cost savings (50%) have also reduced in significance, while the idea of investing in enterprise systems simply to keep up with the competition (7%) is now only a distant memory.

Instead, the main factor which has shaped the current enterprise applications environment is the need to improve business processes, mentioned by 71% of our sample. This is seen as a stronger influence than pressure from end users (35%) or suppliers and customers (20%), for example.

## E-business

One big change in recent years has been the way e-business applications fit into enterprise-level IT.

Early implementations tended to view online working as a separate kind of activity, usually developed and supervised by a specialist department or unit – often running in parallel with more conventional systems but with little, if any, direct connection.

In such cases, the emphasis was on e-business as a means of capturing information and orders, not as a way of processing them.

Our survey suggests this picture has changed. Only 7% of the sample say that e-business is a specialist activity handled by a specialist department (see Figure 3). For the majority (60%), e-business is now applicable to many areas of operations, while 17% view it as no more than another channel to market.

Significantly, only 9% claim that e-business is of no relevance to their organisation.

The other shift is the move away from the business-to-consumer (B2C) applications which grabbed the headlines two or three years ago, towards business-to-business (B2B) implementations. While 29% of our sample plan to invest in more B2C functionality, 38% are putting their money into B2B.

FIGURE 4: Enterprise application integration activity

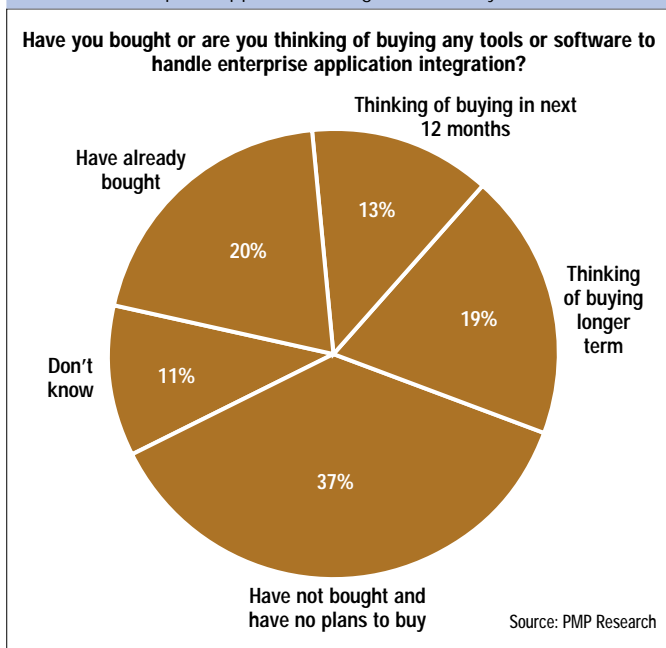
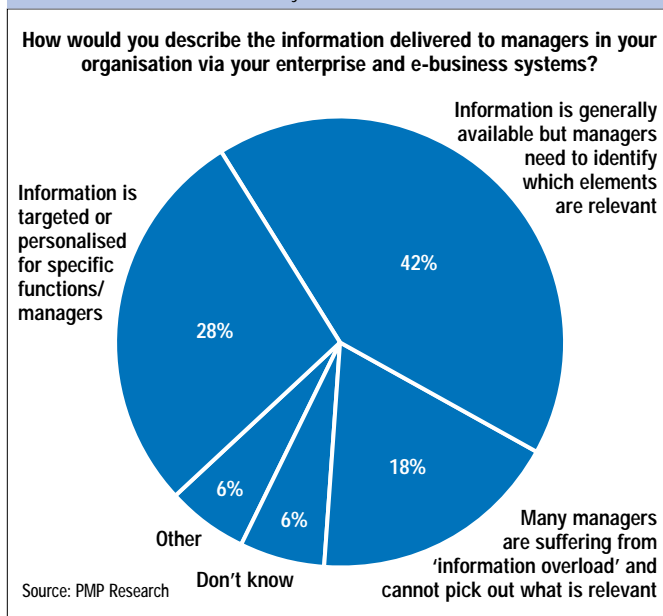


FIGURE 5: Information delivery



In the aftermath of the dotcom downturn, it has become clear that only a very few companies, such as Amazon, are going to be able to sustain an entire business model online. However, B2B applications have the potential to offer many companies real benefits coupled with substantial savings.

Online working has achieved a high profile within the public sector, and while concepts such as online auctions and procurement got off to a faltering start, our research shows how these are now set to become part of a new wave of enterprise and e-business applications.

But for e-business to become part of everyday corporate life, such online systems must be linked with existing operational applications – and two-thirds (67%) of our sample say their organisation has been making efforts to link front-end e-business systems with back-office processing over the past two years.

However, achieving end-to-end business processes is proving to be more difficult than some might have predicted, and our findings suggest some confusion about what is happening here.

Half (51%) of those polled maintain they have changed their business processes to match their applications. Yet two-thirds (67%) also reckon to have first determined the process and then found an application to support it. No doubt different departments have adopted different solutions, but that is also part of the problem.

The solution to this conundrum lies in greater integration, an option which the majority see as important for the future. As Figure 4 shows, one in five (20%) of our sample have already bought tools or software to handle enterprise application integration (EAI), with 13% indicating they will be doing so within the next 12 months and 19% planning an investment in the longer term.

The two options identified as having the greatest impact in future integration plans are XML (40%) and web services (38%). These open standards are viewed as much more important than either specialist EAI tools (15%) or proprietary offerings such as Java (4%).

## Decision making

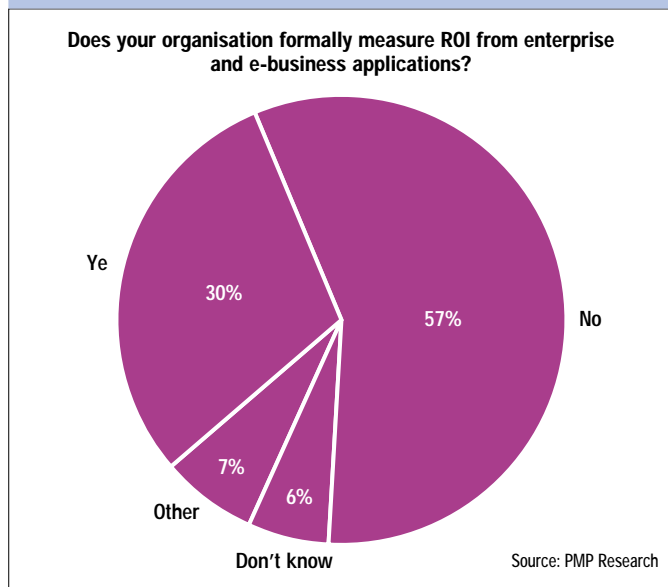
One reason for attempting to couple applications more tightly together is to improve the quality of the information held in the organisation's core systems, by reducing the risk of errors creeping in through duplication or re-entry mistakes.

For organisations to operate more effectively and efficiently – identified in the survey as one of their key goals – it is vital that those responsible for decision making have timely, up-to-date and comprehensive data on what is happening at the operational level.

We asked our sample to describe the information delivered to managers within their organisation via their existing enterprise and e-business systems. The majority (42%) feel that the required information is generally available, but that managers need to pick out those elements which are relevant to their particular area of concern (see Figure 5).

A much smaller proportion (28%) claim that the information within their company is targeted or personalised for specific

FIGURE 6: Return on investment



job functions or particular managers' needs. In contrast, 18% are prepared to concede that many managers within their organisation are suffering from 'information overload' and cannot identify what is useful to them.

While existing systems may be churning out dozens of lengthy reports, in many cases end users cannot see the wood for the trees. As one respondent puts it, "exploiting information is the next issue in the new ERP system", while another says this topic is "currently under review to ensure more relevant and accurate information".

Nor are these lone voices: almost two-thirds (60%) of our sample have taken steps to make enterprise information more personalised to people or functions, while 71% have initiated actions designed to encourage departments or functions to share information more readily.

Of course to do this, as well as make other additions to enterprise and e-business applications, requires money.

Cost constraints (45%) emerge as one of the biggest threats to the success of any initiatives in this area, along with ill-defined project objectives (49%), the difficulty of

mapping business processes onto applications (45%) and problems in managing outcomes and expectations (45%).

Indeed, while 44% of those polled say that recent changes in the economic or business climate have left their IT investment plans for the next financial year unaffected, a third (30%) have reduced their IT budget. A further 13% have re-allocated existing budget between projects, while a mere 9% plan to boost their IT spend.

With cash for enterprise applications so tight, it comes as a surprise to learn that only a minority of organisations formally measure their return on investment (ROI) in such systems, as Figure 6 shows.

This may be because enterprise and e-business applications are now so fundamental to companies' operations that there is no need for this kind of justification, or that the value of the systems speaks for itself, but there are signs that companies are trying to address this question. 42% say their approach to ROI has become more rigorous over the past year, with only 4% loosening the reins at all.

Significantly, no respondents expect ROI to be delivered within a shorter timeframe than before. Instead, around a quarter (24%) are seeking alternatives to the usual purely financial metrics as a way of assessing ROI.

One respondent succinctly lists these as "compliance, service and penetration", while others are looking at a range of issues such as customer service, speed of response, headcount and reduction in unit cost of products, or opt for a balanced scorecard approach.

In summary, the picture emerging from this year's survey of enterprise applications is a mixed one. While there is a new and welcome focus on improving integration and finding ways to include e-business within the corporate fold, lack of investment means it could be some time before those aims become a reality.

● If you are interested in this study, please contact Steve Markwell at PMP Research. Email: [stevem@pmp.co.uk](mailto:stevem@pmp.co.uk).