

EXCERPT

Worldwide Financial Accounting Applications 2007-2011 Forecast and 2006 Vendor Shares (Excerpt from IDC #209617)

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IN THIS EXCERPT

This IDC excerpt is taken from the Worldwide Financial Accounting Applications 2007-2011 Forecast and 2006 Vendor Shares (IDC #209617, December 2007), by Albert Pang. All or part of the following sections are included in this excerpt: IDC Opinion, Situation Overview, Vendor Profiles, and Future Outlook. Also included is Table 1.

IDC OPINION

The worldwide financial accounting applications market is expected to reach \$16.4 billion in 2011, growing from \$11.9 billion in 2006. The continuing expansion of the market will depend on the following factors:

- ☒ Upgrade strategies among financial accounting applications vendors such as SAP will lead to wholesale changes to the general ledger systems being used among large and small enterprises, ushering in additional upsell and cross-sell opportunities.
 - ☒ Amid the current credit crunch, enterprises, especially those in the financial services industry, are expected to show greater willingness to reevaluate their risk management models with renewed emphasis on technology innovation and fiscal discipline.
 - ☒ Although future growth could be adversely impacted by consolidation trends, remote-access performance concerns, and server-side development issues, the overall market is expected to gain ground because of growing acceptance of on-demand financial accounting applications by small and medium-sized business (SMB) customers as well as advanced tools like mashups, Web-based collaboration, and embedded analytics that deliver the applications to more users demanding real-time financial data and reports.
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SITUATION OVERVIEW

The worldwide financial accounting applications market grew 11% to \$11.9 billion in 2006 as a result of increased adoption of the latest software applications and on-demand services to automate and improve business processes, which in the past were left untouched because of inflexible financial reporting tools and disjointed systems.

With the advent of Web services and on-demand computing, companies have spread the use of simplified reporting and analysis toolkits among their business users, while minimizing the burden of financial record keeping for transactions and tasks such as travel expense management and dispute resolution.

Increasingly, companies are beginning to extend their financial accounting systems to incorporate a full array of data sources and corporate information by using mashups linking financial reporting to production planning data as well as sources from third-party providers on a variety of external content from weather forecasts to environmental impact studies.

In fact, a number of major financial accounting applications vendors such as Concur, Oracle, and Wall Street Systems have benefited from the above trends by tweaking their products to become more open and standards based, thus allowing greater interoperability with other transaction processing systems, visualization tools, and third-party content providers. For example, Oracle's Application Integration Architecture platform, coupled with its BI Publisher and secure search technologies, is expected to reduce integration costs while boosting productivity for a large number of its financial accounting applications customers because of the extensive use of the open framework for enterprisewide collaboration and business-to-business communication. One scenario calls for users in the financial services industry to consolidate information from back-office systems into the Oracle Financial Services Accounting Hub and PeopleSoft General Ledger using Oracle's PeopleSoft Financials Integration Pack for Oracle Financial Services Accounting Hub.

Oracle's value proposition is one of many examples of how financial accounting applications are evolving to serve the needs of not just the corporate controllers or financial analysts but rather a broader class of business users that are increasingly demanding real-time insights into the profitability of their organizations while aligning their strategies accordingly to achieve optimal results.

Table 1 provides the 2006 results for the financial accounting applications market by vendor, with 2004 and 2005 comparisons. The following sections examine the strategies, product offerings, and road maps as well as challenges facing the top 3 financial accounting applications vendors.

TABLE 1

Worldwide Financial Accounting Applications License and Maintenance Revenue by Vendor, 2004–2006 (\$M)

	2004	2005	2006	2006 Share (%)
SAP	1,396.0	1,639.0	1,836.0	15.40
Oracle	979.2	901.9	1,056.0	8.86
Sage Group	869.5	909.6	983.1	8.25
Intuit	696.0	766.0	815.0	6.84
Infor	379.5	401.4	426.9	3.58
Microsoft	338.7	373.7	424.2	3.56
DATEV eG	214.8	217.0	221.7	1.86
McKessonHBOC	168.5	179.1	195.4	1.64
SunGard	140.0	160.0	185.0	1.55
Blackbaud	85.0	105.0	121.5	1.02
Subtotal	5267.152	5652.783	6264.754	52.54
Other	4,797.97	5,075.22	5,657.21	47.45
Total	10,065.1	10,728.0	11,922.0	100.00

Source: IDC, 2007

Oracle

Oracle grew 17% in the financial applications market in 2006, clinching the number 2 spot. Oracle rebounded from the decline in the prior year as it started reaping benefits from its product pairing strategy as well as the incremental gains through its vertical-industry acquisitions including i-flex.

Over the past year, Oracle has succeeded in pairing up products such as PeopleSoft Financials with Retek's merchandizing and sales audit applications, Oracle E-Business Suite with Siebel applications, or JD Edwards Enterprise One with Demantra applications. Not only has Oracle been able to achieve bigger wallet shares among these customers, it has also helped reinforce the notion that any one of these products can be readily adopted by Oracle's financial accounting applications customers using a growing set of Process Integration Packs under its Application Integration Architecture model to extend the core financial management, planning, and forecasting functionality to help them optimize order management, customer relationship management, logistics, and other functions.

The same applies to Oracle's growing arsenal of industry-specific applications that allow the vendor to deliver best-of-breed solutions for banking, retail, telecommunications, and utility customers. Oracle is aligning its financial applications closely with industry-specific requirements in telecom, utility, financial services, and retail. For example, by leveraging the recently acquired content management applications from Stellent, the vendor will be able to provide a more robust content repository on customer billing and service metrics that feeds directly into Oracle financial applications, thus making it easier for telcos to determine customer profitability and revenue forecasting.

For instance, BT Group is in the process of standardizing on Oracle applications for more than 90% of its system needs as a means to build a common chart of accounts in order to do any meaningful financial analysis of its global operations. The British telco is replacing 1,000 legacy applications with 50 key applications primarily from Oracle.

Indeed, after using these best-of-breed solutions for functions such as anti-money laundering, merchandizing, billing, and asset management, these customers may become more receptive to using other Oracle applications once their core financial or human resources management systems are due to be replaced after years of building and maintaining them on their own.

As Oracle continues to fine-tune its product pairing strategy and enlarge its presence in strategic verticals, a lot is riding on the upcoming release of Fusion applications, which could affect the positioning of its acquired products. What's not clear is whether the Fusion applications — due out in 2008 — represent an evolution or a clear departure from Oracle's current product pairing strategy. Oracle has stated its intention of giving customers the choice of whether they need to upgrade to Fusion applications; there will be no forced migration from their existing applications. However, if Oracle is going to incent customers to swap out existing financial accounting applications, will the replacement offer all the functionality plus features that previously might have to be licensed separately? If Oracle plans to incent the accelerated adoption of Fusion applications, it may have no choice but to offer more features in a single bundle to enhance the customer experience in order to prevent incursion of any on-demand service from ever establishing a foothold among its accounts.

The most pressing challenge for Oracle is to migrate thousands of customers — the majority of them running on different releases of 11i.10 — to the latest release 12 of its flagship ERP brand Oracle E-Business Suite, let alone Fusion applications, which may be years away before they become fully stable. Early results suggest that Oracle's upgrade strategy is gaining traction. About 1,600 customers have downloaded the latest release 12, with more than 20 having gone live and many more expected to follow suit by year-end.

For the time being, Oracle has assembled a rich catalog of core financial accounting and business management applications as well as industry-specific solutions, and its Application Integration Architecture (AIA) approach will mitigate the risks for customers to adopt any combination of these products.

What it boils down to is how Oracle can effectively leverage different products to transform disparate customer engagements into a more unifying and long-term relationship that could become more profitable for the vendor over time.

FUTURE OUTLOOK

Multibook Accounting Facilitates System Consolidation

A growing number of financial accounting applications vendors are developing multibook capabilities in a move that could streamline the closing processes of their customers. For example, Infor is developing modules that can replace or extend existing functions within the ERP brands such as Visual to offer multibook, costing, pricing, and promotions features. Similarly, SAP, along with its upcoming release of the enhancement package that offers X-Cross system closing for intercompany reconciliation, is making available tools such as Closing Cockpit, which ensures efficient valuation for accounting at multiple subsidiaries rolling up to the group close.

Oracle already includes the multi-book capability within the eBusiness Suite and PeopleSoft. In fact PeopleSoft helped popularize the Multi-Book Accounting concept with the introduction of Multi-book Accounting functionality in 1998 with the 7.5 release. In addition, PeopleSoft supports Multi-GAAP Accounting and use of Alternate account for Statutory Chart of Accounts. Interim Closing, as often as daily, and Year End Closing is also supported functionality.

The widespread support of Multibook Accounting is expected to help customers streamline their reporting processes, paving the way for them to standardize their accounting systems across the enterprise.

Financial Applications Take on Mashups

Although mashup services and other enhanced Web-based content may still be limited to the consumer space, it will not be long before business users are able to take advantage of tools from vendors such as Serena Software that essentially allow them to create mashup content on the fly. While customer relationship management applications vendors are already taking the plunge into mashup services by melding content such as location-based information with product search and delivery functions, the same can extend to financial accounting applications with Web 2.0 functionality like adding real-time collaboration to collections workflow for finance departments and others to form ad hoc discussions using instant messaging.

Business mashups could also be the impetus to jump-start financial accounting applications, allowing users to incorporate external variables from weather forecasts to environmental impact studies into their financial planning, forecasting, and reporting processes, not to mention the risk assessment of their investment returns.

Consolidation Changes Financial Accounting Market Dynamics

The acquisition of Hyperion by Oracle, as well as SAP's pending purchase of Business Objects and IBM's deal to buy Cognos, will have considerable impact on existing financial accounting vendors, which may have to rethink the long-term value of their reporting tools.

Major vendors may start positioning their analytics products as either a commodity item that would be discounted heavily to help them gain market shares or a Trojan horse to unseat other products from their competitors within an account.

Either way, financial accounting applications vendors need to decide whether they are willing to cede the account control to their competitors. Though it is not clear whether SAS Institute — the last major independent analytics vendor left standing — will be caught up in the current market consolidation, it could become a viable option for financial accounting applications vendors looking for a mutually beneficial partnership. What it also means is that the growing consolidation among the leading analytics vendors will open room for start-ups to take their place.

The other alternative appears to be platform vendors such as Microsoft, which offers Performance Point and FRX reporting tools widely used by accounting professionals, despite the fact that Microsoft also sells financial accounting applications through its Dynamics division. Still, Microsoft is probably more interested in selling its server products than its accounting applications, which account for less than 2% of its revenue.

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