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Enterprises Seek Immediate Business Value as They Prepare for Next-Gen Applications

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As IDC market research has shown, 2010 has been a recovery year for the enterprise software market, with the return of low but positive growth. This recovery should continue its slow climb through 2011. The recession-induced, make-do-with-what-you-have mentality will slowly be replaced with the need to refresh corporate IT systems. The result will be a CAGR approaching 5% through 2014, with systems that facilitate financial control, corporate governance, risk management, customer management, or production efficiencies leading the way. This financial recovery comes at a time of great advances in enterprise computing architectures, which will play a vital role in spurring the growth in enterprise applications.

The following questions were posed by Oracle to Michael Fauscette, group vice president of IDC's Software Business Solutions research, on behalf of Oracle's customers.

Q. What is driving new investment in business applications these days?

A. While the recent economic situation created disruptions in spending, it also taught companies that there are different approaches to solving enterprise software challenges and gaining faster return on investment. Many new investments have been focused on applications that are immediately valuable to an enterprise, such as software that improves customer engagement or reduces risk and ensures compliance. Said differently, investments have been geared toward real opportunities or the prevention of loss and/or penalties.

Other software investments have been in specific industry vertical solutions. For example, retailers have minimized investments in core or back-office applications and instead invested in things like merchandising systems or in social CRM applications to engage better with the customer. Across all the different categories of software, IDC is seeing good investment, but it's often tied not to full suite deals but to specific business challenges. Many times, those specific business challenges are addressed by specific modules that can be purchased as software as a service (SaaS) or cloud based, or on premise.

Investments are trending toward a subscription-based pricing model versus upfront licensing, though IDC is still seeing investment in on-premise software too, depending on the business challenged being addressed. Across industries and deployment models, IDC is seeing much more spending in areas such as social CRM, enterprise collaboration, talent management in the HCM suite, global consolidations, and transportation management — solutions that have high cost or high risk as well as the potential of high reward.

Q. What are critical components that customers should consider when evaluating possible solutions?

- A. First, they should consider the advice given to enterprises for many years: Be clear on what goals the company is trying to meet before investing in a solution. Second, and related, is define success metrics and ways to know when the organization has achieved that success. In other words, know where the company and the proposed technology project are going first.

As an organization looks at different solutions, the market resembles a kind of chessboard with all the choices available. There are different delivery models, different licensing models, and a wealth of different types of functionality to consider. In addition, solutions must be evaluated based on their relationship to a technology platform and whether the application will be open or closed. In selecting an application, an organization must think strategically and often several moves ahead, similar to a chess match.

As enterprises plan ahead, they should know not only about their own organization's needs but also about the vendor and its products; for example, vendor stability, level of functionality, architecture, delivery model (e.g., on premise or cloud based), etc. Does the application have a modern user experience and offer key functionality that is in line with the company's intended business outcomes? Will it provide the kind of ROI that justifies the investment? This is why IDC always advises checking reference accounts.

Q. What should organizations look for in a road map and strategic direction from vendors?

- A. Organizations should look for transparency. Vendors need to share their strategic product direction and explain how their products will evolve over time. Is the story believable and reasonable? The product road map must be understandable and clearly show how the customer can migrate to a next generation. Also, vendors must have a history of execution against their product road map. Organizations should think twice about choosing a company that continually overpromises and underdelivers. Vision and execution are critical.

With the investments required in enterprise software, customers are looking for longer-term relationships and usually have partnerships with more than one vendor at a time. Clearly, a history of support and a willingness to work with customers to meet their needs in a heterogeneous environment are critical, especially in a world where there are mixed delivery and licensing models. Customers need to plan ahead, and to do so, they must understand not only how an application will give them return today but also what things will look like five or 10 years in the future. This must include delivery, support, training, change management, etc. So the road map must not only describe the application and its evolution but also discuss everything surrounding the actual application. The road map must demonstrate that the solution will continue to advance the business even as the business and the solution change.

Q. What do you see on the horizon for the next generation of business applications?

- A. There are some very interesting opportunities and changes happening in enterprise software that will lead to continued improvement in the future. First, the architecture certainly has to be on a modern (SOA-based) platform and the software needs to be multitenant and SaaS capable. This doesn't mean that all customers will go to a multitenant SaaS model, but the application must have that capability. Buyers will choose the best deployment model — which might be on premise, single-tenant SaaS, multitenant SaaS, or even appliance based — for their business. From an adoption and productivity standpoint, one of the most important things these days is focusing on user experience, especially creating an experience that resembles what the users have on the consumer Web. Customers will look for more

Web 2.0–type applications in the enterprise so that users have a much more engaging experience. The interface is simplified, but the functionality behind it is complex.

More applications will need to constantly provide information that is relevant to the organization, so they will need to have embedded real-time analytics. The business intelligence aspect will be part of the application itself. Also, embedded social and collaboration features will find their way into applications, as real time and context are increasingly critical to increased productivity. Other applications will create a social layer that ties to the embedded social functionality. Applications must also be built with forward compatibility and ease of migration as a part of the fundamental design. Most applications have a certain degree of customization, and it is imperative that there be a way to move that forward as next-generation applications are implemented. There must be a way to maintain a consistent user interface across multiple versions and even multiple delivery methods. In other words, change must not be disruptive.

Q. What should organizations do to prepare for next-gen applications?

- A. Having a clear picture or road map of where the organization wants to go is fundamental. This goes back to understanding company direction and the underlying strategic reasons for implementing technology. From there, companies must get ready for change. Are there the right skill sets to support these changes? For example, on-premise deployments require different skills than cloud-based deployments, so the company's road map and, therefore, the vendor's road map will be different. A service-oriented approach to application implementation, change management, and administration requires a mindset shift by both business and IT. Planning must also include key industry-focused solutions and encompass things like privacy issues and regulations/compliance.

IDC typically sees enterprises taking a modular approach to moving to next-generation applications. As they add modules, the IT infrastructure and application landscape incrementally improves and over a period of time (maybe a long period of time) replaces the entire legacy system. Enterprises typically start with a high-value module and go from there, so moving to the next generation is an add-on process. As a result, it is imperative that organizations start with a stable core and provide incremental improvements with each subsequent IT project. This goes right back to the enterprise's strategic plan and knowledge of the business and where it's headed. If an organization knows where it's headed, understands market pressures and dynamics, and can plan how technology can be applied to meet those challenges, then migration to next-generation applications becomes more efficient and cost-effective.

ABOUT THIS ANALYST

Michael Fauscette leads IDC's Software Business Solutions group, which encompasses research and consulting in enterprise software applications, including ERP, SCM, CRM, PLM, collaboration, and social applications; software partner and alliance ecosystems; open source software; software vendor business models; SaaS and cloud computing; and software pricing and licensing. He also provides thought leadership in the area of social applications and the transition to the social business.

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