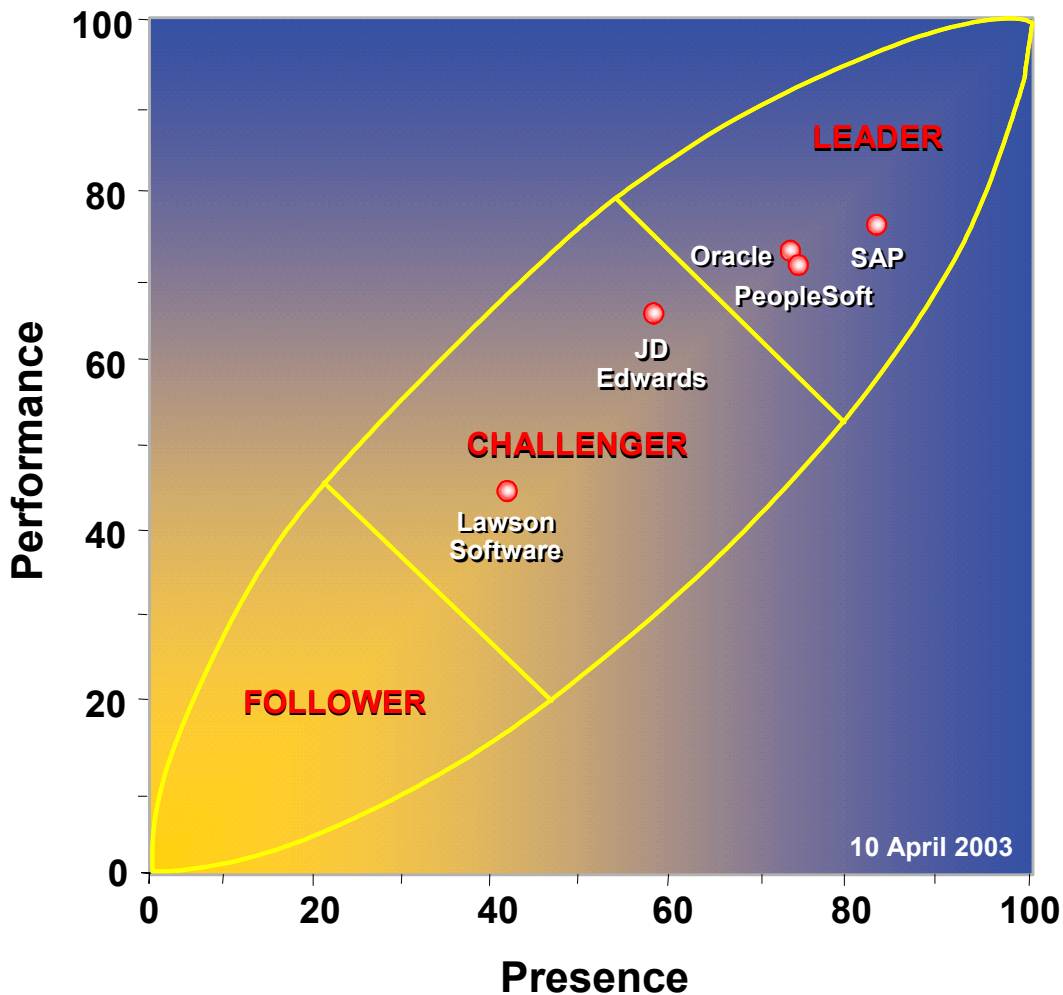


# Tier I Enterprise Resource Planning (ERP)

METAspectrum<sup>SM</sup> Evaluation



## Market Definition

META Group defines ERP as a suite of enterprise business applications including, at a minimum, financial and human resources applications and at least one of the following: manufacturing, supply chain (SCM), or customer relationship management (CRM). ERP solutions should be capable of satisfying at least 75% of the overall business application requirements for target customers (\$500M+ in annual revenues). ERP application functionality is mission-critical, and solutions are therefore regarded as core IT investments. This market reached \$15B globally in 2002 and is growing at 12%-15% annually.

## Market Forecast

During 2003/04, reduced spending on new ERP projects by Global 2000 (G2000) firms will cause Tier I ERP vendors to focus on selling additional functionality to existing G2000 customers, further penetrating the small and medium business (SMB) market, developing more vertical extensions, and buttressing their technology infrastructure. During 2004/05, vendor viability concerns will drive SMB ERP market consolidation as these vendors become increasingly threatened by Tier I vendors and Microsoft. By 2005/06, Tier I ERP vendors will leverage their application breadth and component architectures to significantly reduce application complexity, along with associated implementation cost and time. G2000 activity will increase in 2007, as firms look to replace ERP infrastructures installed before 2000.

## Key Findings

The Tier I ERP market is mature and concentrated, and the five vendors in this analysis — JD Edwards, Lawson, Oracle, PeopleSoft, and SAP — account for a large percentage of the investment (more than 80%). Because ERP purchases usually represent 10+ year commitments to application architecture and supporting infrastructure, a track record of longevity, consistent performance, and market leadership is crucial. Presence and performance criteria are thus equally weighted for this market. Although three of the vendors are large (with annual revenues in excess of \$2B), size does not guarantee high performance, and the smaller vendors often perform at levels close to the market leaders for specific criteria. Ranking vendors in this market is complex, because application functionality must be compared to that of best-of-breed vendors (e.g., Siebel for CRM, i2 for SCM), while the rest of the performance and presence criteria must be evaluated relative to the ERP vendor pool.

## Leaders

Tier I ERP leaders — SAP, Oracle, and PeopleSoft — demonstrate an ability to both define a vision/strategy for ERP and execute against it globally across a wide range of industries. Product breadth and depth, marketing prowess, and geographic coverage are critical factors, as is the robustness of the technology platform (core architecture, integration, and application management), because firms count on these applications to run mission-critical business processes.

## Challengers

Tier I ERP challengers — JD Edwards and Lawson — are stable, financially successful firms with a long track record of supporting customers through multiple technology transitions. However, they lack breadth across numerous industry verticals, geographic coverage (Lawson), and sufficient brand awareness to be designated as leaders. These challengers have developed expertise in a smaller number of specific verticals (e.g., healthcare, retail, and professional services for Lawson; construction, energy, and manufacturing for JD Edwards) and will continue to compete effectively with the market leaders in those industries.

## Followers

There are no vendors designated as followers in this market analysis; however, several ERP firms that serve the midmarket may at times compete with both leaders and challengers. They were not included in this analysis due to various factors, including small size, narrow customer target, and limitations in geographic coverage and functional breadth.

## Bottom Line

Current ERP customers should be mindful of out-of-the-box integration benefits and evaluate their vendor's functional extensions for fit before considering best-of-breed components. G2000 firms contemplating switching their ERP platform should consider integration, depth of vertical industry expertise and functionality, geographic coverage, technology, and market reputation as primary criteria.

*Business Impact: Successfully implemented ERP platforms deliver mission-critical support by embedding leading technologies and best practices into business processes, thereby enabling revenue growth, expense reduction, and optimal resource utilization.*

Our market presence evaluation includes a review of each vendor's product and service attributes — representing vendors' ability to **deliver** value to customers. The following eight criteria areas provide a summary of our presence analysis. For complete details on how vendors fared with each criterion in our evaluation, visit [metagroup.com](http://metagroup.com).

| Vision/Strategy |                     |
|-----------------|---------------------|
| SAP             | Very Good/Excellent |
| Oracle          | Very Good           |
| PeopleSoft      | Very Good           |
| JD Edwards      | Good                |
| Lawson Software | Good                |

| Channels/Partners |                |
|-------------------|----------------|
| PeopleSoft        | Very Good      |
| JD Edwards        | Good/Very Good |
| SAP               | Good/Very Good |
| Oracle            | Good           |
| Lawson Software   | Fair/Good      |

### What We Evaluated

**Messaging** — External, visible communication to the market about vision, views, expectations, priorities, and value.

**Customer Life-Cycle Management** — Depth of principles, strategies, business processes, and ecosystem components focused on keeping customers through multiple phases of technology and/or product innovation.

**Innovation/Thought Leadership** — Ability to generate new market-shifting ideas and incorporate them into the product set. Ability to articulate innovative ideas to the market and position the company as having leading-edge domain expertise.

### Analyst Commentary

This criteria area carried the highest weighting within presence category, recognizing that successful ERP vendors must not only develop a compelling product offering, but also articulate a clear vision for how the solution adds enterprise value. Through 2004/05, we believe the messages presented by ERP vendors will continue to move away from specific functional feature/benefits to address how their solutions support inter-enterprise, cross-functional business processes. Generating and promoting market-shifting ideas is important, but equally critical is having processes in place to retain customers through multiple technology and product changes. Each vendor evaluated leads innovation and drives market definition in particular areas (e.g., SAP in business intelligence and cross-process applications; Oracle in financial supply chain and unified suite approaches; PeopleSoft in human capital management and enterprise performance management; JD Edwards in implementation methodology and value creation; Lawson in services automation).

### What We Evaluated

**Application/Technology/Channel Partners** — Active and complementary relationships with third-party application vendors and technology partners, ease of partnering, and channel conflict management. Strength, reach, and effectiveness of all non-direct sales channels.

**SI Partners** — Number and extent of active and complementary relationships with third-party consultants and systems integrators. Ease of partnering.

### Analyst Commentary

ERP vendors must develop and maintain partnerships to ensure long-term survival and improve market penetration. Although each vendor takes a different approach to partnering, all categories will be in transition through 2005/06. Current systems integrator relationships will be challenged as vendors compensate for softer license revenues by bolstering their own services organizations; application partnerships will dissolve as ERP vendors add native functionality; technology partners will come and go as vendors decide on which technology areas to support; and channel partners will undergo constant scrutiny to determine effectiveness and ROI.

| Awareness/Reputation |                     |
|----------------------|---------------------|
| SAP                  | Very Good/Excellent |
| PeopleSoft           | Very Good           |
| Oracle               | Good/Very Good      |
| JD Edwards           | Good                |
| Lawson Software      | Fair/Good           |

| Geographic Coverage |                |
|---------------------|----------------|
| Oracle              | Excellent      |
| SAP                 | Excellent      |
| PeopleSoft          | Good/Very Good |
| JD Edwards          | Good/Very Good |
| Lawson Software     | Good           |

### What We Evaluated

**Mind Share** — Publicity, sales, marketing, service, and development activities that build positive perception in the market and extend visibility above and beyond the organization’s size and/or market share.

**Vendor Reputation** — Market perception of the vendor, including customers, partners, investors/analysts, and employees.

### Analyst Commentary

The expanding application footprint and generally recognized benefit of integrated solutions has increased the presence of ERP vendors in most G2000 firms. Every vendor desires “trusted partner” status, but only the leaders have the broad mind share and reputation to achieve this on a regular basis. Although the focus is often on technology and domain expertise, marketing prowess is a critical core competency for this market; those that are unwilling to invest resources will ultimately lose the mind share battle. Vendor reputation is built slowly over time with a series of credible actions but can be seriously damaged with one substandard release (e.g., Oracle’s early problems with 11i); the impact on the firm can linger for 18-24 months and require significant additional investment. ERP vendors will invest in increased application stability and more robust upgrade processes through 2006 to improve their chances of becoming a trusted partner.

### What We Evaluated

**North America** — Extension of business reach, availability, and delivery via directly controlled entities or partnerships in North America.

**Latin America** — Extension of business reach, availability, and delivery via directly controlled entities or partnerships in Latin America.

**EMEA** — Extension of business reach, availability, and delivery via directly controlled entities or partnerships in Europe, the Middle East, and Africa.

**Asia Pacific** — Extension of business reach, availability, and delivery via directly controlled entities or partnerships in the Asia Pacific region.

### Analyst Commentary

Globalization concerns, once limited to larger firms, are spreading quickly to the SMB market. It is currently common to see even small enterprises (e.g., a \$250M manufacturing firm) with sales and distribution facilities in multiple countries. Organizational goals to bring disparate applications and information onto a single ERP solution (even if processes are executed on multiple instances) will continue to drive Tier I ERP vendor investment in “feet on the street” around the world, including regional support centers to enable follow-the-sun support for critical issues. Tier I ERP vendor coverage is best in North America, followed by EMEA, Asia Pacific, and Latin America. Overall, SAP and Oracle provide the best global geographic coverage, followed by JD Edwards and PeopleSoft.

| Business Drivers |                |
|------------------|----------------|
| SAP              | Good/Very Good |
| JD Edwards       | Good           |
| Oracle           | Good           |
| PeopleSoft       | Good           |
| Lawson Software  | Good           |

### What We Evaluated

**Business Drivers** — Core competencies, value propositions, patents, trademarks, licenses, intellectual property, capital, and other less tangible assets that act as competitive barriers — enabling sustained business momentum and differentiation.

### Analyst Commentary

Tier I ERP is not a market that greatly depends on traditional intellectual property intangibles (patents, trademarks, licenses, and the like) to erect competitive barriers to entry. The biggest barrier is vendor size and longevity, and each of the main players has attained the critical mass to ensure market viability over the long haul. The second barrier is a core competency in business process integration, as these vendors have invested years in technology, processes, and partnerships to help firms tie disparate business processes together. The third barrier is the growing sophistication of business processes is general, which requires accumulation of significant domain expertise (in development, sales, implementation, and support). These business drivers will remain important, given ever-increasing business complexity and a cautious IT spending environment.

| Industry Focus  |                |
|-----------------|----------------|
| Oracle          | Good/Very Good |
| SAP             | Good/Very Good |
| PeopleSoft      | Good           |
| JD Edwards      | Good           |
| Lawson Software | Fair/Good      |

### What We Evaluated

**Vertical Coverage** — Scope, depth, and relative strength within a given market as demonstrated by market share, expertise, tailored technology/services, sales coverage, and marketing activities.

### Analyst Commentary

Verticalization for some Tier I ERP vendors (SAP, Oracle, and PeopleSoft) represents a means to grow revenues by delivering specific product functionality (usually along with focused sales and support teams) to a market subsegment. For others (JD Edwards and particularly Lawson), it has been a means of survival against the bigger vendors. We believe continued vertical industry focus will be mandatory through 2006/07 as a key growth strategy for every Tier I ERP vendor, and all signs point to continued investment. Vendor performance in 20 common verticals was evaluated to arrive at an aggregate ranking.

| Investments     |                |
|-----------------|----------------|
| Oracle          | Good/Very Good |
| PeopleSoft      | Good/Very Good |
| SAP             | Good/Very Good |
| JD Edwards      | Good           |
| Lawson Software | Good           |

| Share           |           |
|-----------------|-----------|
| SAP             | Excellent |
| Oracle          | Very Good |
| PeopleSoft      | Very Good |
| JD Edwards      | Good      |
| Lawson Software | Fair      |

### What We Evaluated

**Research and Development** — Percentage of revenue put back into R&D, and investments in leading-edge technologies for competitive differential.

**Acquisitions** — Success in determining, buying, and integrating acquisitions.

### Analyst Commentary

The ERP vendor landscape continues to be extremely competitive, with each vendor introducing a steady stream of functional and technology enhancements in an attempt to gain a leadership position. These enhancements are delivered to the market in two major ways: 1) direct research and development (which we believe to be of prime importance); and 2) acquisition. ERP vendors often acquire best-of-breed vendors to quickly fill functional gaps or deliver differentiating technology; however, the old saw of most acquisitions not achieving their objectives certainly holds true in this space. Although each vendor can point to acquisitions that were quickly and smoothly integrated and now significantly contribute to success, each has others that were problematic. In short, the record here is decidedly mixed.

### What We Evaluated

**Revenues** — Share of market relative to competitors, measured in annual revenues.

### Analyst Commentary

In the Tier I ERP market, size weighs heavily. Although each vendor has achieved the critical mass necessary for long-term viability, the firms with the greatest share have established the ultimate proof point about the acceptance of their applications by their customers. Market share will continue to be somewhat important as each vendor attempts to establish “bragging rights” for the next three to five years.

Our market performance evaluation includes a review of each vendor's product and service attributes — representing vendors' ability to **provide** value to customers. The following seven criteria areas provide a summary of our performance analysis. For complete details on how vendors fared with each criterion in our evaluation, visit [metagroup.com](http://metagroup.com).

| Technology             |                       |
|------------------------|-----------------------|
| <b>SAP</b>             | <b>Good/Very Good</b> |
| <b>PeopleSoft</b>      | <b>Good/Very Good</b> |
| <b>Oracle</b>          | <b>Good/Very Good</b> |
| <b>JD Edwards</b>      | <b>Good</b>           |
| <b>Lawson Software</b> | <b>Fair</b>           |

### What We Evaluated

**Financials** — Domains evaluated: general ledger, accounts receivable, accounts payable (including the purchase-to-pay component of procurement), asset management, and expense management.

**Human Capital Management** — Domains evaluated: core HR/payroll/benefits administration, compensation, performance management, recruitment, career development, and succession planning.

**Analytics** — Domains evaluated: delivered metrics/KPIs (key performance indicators), standard reporting, balanced scorecard, dashboards, and data mining, consolidation, and reporting.

**Supply Chain Management** — Domains evaluated: execution (warehouse management, transportation management, global trade management, global logistics, supply chain visibility), planning (demand planning, supply planning, replenishment planning, production planning/scheduling, transportation planning, tactical network optimization), and supplier relationship management/procurement.

**Customer Relationship Management** — Domains evaluated: operational, analytical, and collaborative CRM capabilities.

**Localization/Globalization** — Language, currency, regulatory, technology (e.g., double-byte, Unicode), standards, and cultural support.

**Integration/Interoperability** — Application interoperability (internal), integration capabilities/toolsets, and published APIs/interfaces and packaged connectors.

**Core Technology Architecture** — Architectural consistency, scalability, performance, openness, standards adherence, platform/DBMS support, distributed processing, data model, and client deployment options.

**Technology Implementation/Application Management** — Rules declaration/management, application configuration, application extensibility, visual modeling/workflow, design/development environment, testing, admin tools, upgradability, patching, complexity, and implementation.

### Analyst Commentary

The technology/functionality offered by vendors is by far the most important of all the performance criteria areas, because this represents the heart of product offerings. Actual product functionality (financials, HR, CRM, SCM, and analytics) is weighted at 65% of the criteria area total; technology aspects (localization/globalization, integration, core architecture, technical implementation/application management) constitute the remainder. Functionality is ranked compared to best-of-breed niche vendors, and each ERP provider excels in particular functional areas (e.g., Oracle in core financials; PeopleSoft in human capital management; SAP and JD Edwards in SCM execution; PeopleSoft and SAP in analytics). On the other hand, technology is evaluated based on comparison to best-case approaches and scenarios. Of the five vendors evaluated, SAP, JD Edwards, and PeopleSoft deliver the best overall technology, followed by Oracle and Lawson.

| Services        |                |
|-----------------|----------------|
| Oracle          | Good/Very Good |
| JD Edwards      | Good           |
| PeopleSoft      | Good           |
| SAP             | Good           |
| Lawson Software | Good           |

### What We Evaluated

**Business Process Methodology** — Published implementation methodologies, accelerators/templates built into the product, vertical methodologies, change management, and project management.

**Hosting Options** — Capabilities relative to the hosting continuum (e.g., business process outsourcing, application management/ASP, data center operations) provided by the vendor or a third party.

**Implementation Services** — Vendor and SI consultant depth/skill sets/quality, end-user training, and knowledge transfer.

**Post-Implementation Services** — Ongoing customer support (e.g., follow the sun).

**Value Drivers** — Ability of the vendor to demonstrate and measure the value (e.g., ROI, time to market) of its offering to customers. A key to this subcriteria is a service provider's ability to embed continual (not just project-related) value measurement.

### Analyst Commentary

Weighted second in importance among the performance criteria areas (along with vendor financials), the services category covers the entire scope of how vendor technology and functionality are delivered to customers. The extent of vendor and systems integrator capability is the most important subcriterion, and will remain so through 2007; of particular interest is the changing mix of what is delivered by the vendor itself versus what is handed off to systems integrators. Increased attention will be paid to implementation methodologies through 2004/05, with a greater focus on demonstrating implementation value (JD Edwards' new OneMethodology stands out due to its comprehensiveness, enterprise view, incorporation of measurements, and focus on value). Post-implementation services will continue to evolve in breadth and depth, as customers demand more sophisticated vendor support. Hosting options (provided either directly by the vendor or through a third party) will remain an important aspect of overall vendor services delivery.

| Pricing         |                |
|-----------------|----------------|
| JD Edwards      | Very Good      |
| Oracle          | Very Good      |
| Lawson Software | Good/Very Good |
| PeopleSoft      | Good           |
| SAP             | Good           |

### What We Evaluated

**Strategies/Models** — Alternative price models provided to enable flexibility in the purchase and/or use of products and services, plus terms and conditions surrounding application usage.

**Relative Cost** — The relative cost of software, services, and maintenance, taking into account existing discounts and the vendor's openness to negotiate (e.g., to gain reference accounts).

### Analyst Commentary

Pricing in the mature Tier I ERP market is of lesser importance, as vendors and customers alike have arrived at a common understanding of the relative value of these solutions to the enterprise. In negotiating deals, customers have become sophisticated enough to reconcile different pricing models as part of the buying process. Enterprises will continue to move beyond the short-term focus on license fee discounts to understand the total-cost-of-ownership (TCO) ramifications of maintenance fees. Oracle deserves special mention because of its publicly available pricing models, while JD Edwards and Lawson lead in relative cost over a five-year period.



| Execution       |           |
|-----------------|-----------|
| JD Edwards      | Very Good |
| PeopleSoft      | Very Good |
| SAP             | Very Good |
| Lawson Software | Good      |
| Oracle          | Good      |

### What We Evaluated

**Executing Strategy** — Effectiveness of new product introduction management, translation of vision into product reality/revenue, and release management, promptness, and quality.

**Customer References** — Ability of the vendor to provide meaningful references for in-production (e.g., live), current-release customers, as well as for high-transaction/interaction volume customers.

### Analyst Commentary

The best-conceived business strategy is nothing without solid execution. We evaluated each vendor's track record, with a particular focus on the promptness and quality of the last major product release. As the ERP market has matured, the customer base has become less tolerant of delays and release management issues, and vendors have responded with renewed efforts to improve software quality and upgrade processes. Through 2006/07, customers will continue to raise the bar on their expectations of vendor execution.

| Agility         |                |
|-----------------|----------------|
| Oracle          | Very Good      |
| SAP             | Very Good      |
| JD Edwards      | Good/Very Good |
| PeopleSoft      | Good/Very Good |
| Lawson Software | Good           |

### What We Evaluated

**Product Integration** — Vendor's ability to integrate acquired products, new in-house developed products, and partner/OEM products with adeptness, speed, and quality.

**Reaction to Market Change** — Vendor's ability to react to and predict competitive, economic, cultural, technological, and political change, including how it impacts customer and prospect requirements.

### Analyst Commentary

Because the Tier I ERP market has matured, growth and opportunity now come via extending product footprint into new functional areas. Often, vendors attempt to speed entry into a new functional area through acquisition, partnering, and OEM agreements. The ability to make these product extensions part of the integrated whole is therefore weighted the most critical subcriterion, though the vendor's general ability to react swiftly to market change is almost as important. Agility will maintain its current weighting through 2006/07 as vendors continue to use these means to plug critical feature/function gaps in their solutions, and the nature of partnership agreements will continue to change as vendors constantly replace partner functionality with native capabilities.

| Personnel       |                     |
|-----------------|---------------------|
| Oracle          | Very Good/Excellent |
| SAP             | Very Good/Excellent |
| JD Edwards      | Very Good           |
| PeopleSoft      | Very Good           |
| Lawson Software | Fair/Good           |

### What We Evaluated

**Technology Skill Sets** — Proficiency, depth, and experience of the vendor's technical staff.

**Domain Knowledge** — Business process expertise of the vendor's application design and development staff.

**Management Team** — Market/financial experience, charisma, leadership, and knowledge of the vendor's executive management.

### Analyst Commentary

The core competencies, skill sets, and expertise of the people at work in each of these firms are crucial to vendor success. The relatively low weighting of this criteria area is more a recognition of the vendors' parity than it is a measure of the importance of staff. Of the three subcriteria, we weighted technology and business domain skill sets as equally important, with the strength of the management team a close third. The vendor community remains close-knit, and it is a rare senior software executive who has not worked for at least two of the five vendors during his or her career. Domain knowledge will increase in importance through 2006/07, and those who have demonstrated a competency in cross-functional business processes will be in especially high demand.

| Financials      |                     |
|-----------------|---------------------|
| Oracle          | Very Good/Excellent |
| SAP             | Very Good/Excellent |
| PeopleSoft      | Very Good           |
| JD Edwards      | Good/Very Good      |
| Lawson Software | Good                |

### What We Evaluated

**Viability** — Viability of operational business model, financial situation, sources of operational funding, balance-sheet condition, and long-term standalone viability.

**Growth** — Revenue growth relative to market and competition, revenue per employee (trending), and future growth prospects.

### Analyst Commentary

A well-conceived product strategy, a great marketing campaign, and a thorough implementation methodology are all useless if the vendor lacks the financial wherewithal to bring plans to completion. The current IT spending drought has made deep pockets and long-term viability more important than ever in the vendor evaluation process. Although each player evaluated has demonstrated a track record of longevity and financial performance, a wide range exists between number-one SAP and number-five Lawson (less than 7% of SAP's annual revenues). Even though Oracle must divide its attention between technology and applications, its overall size gives it the flexibility to invest disproportionately in applications at management's behest. Clearly, the large players can spend more than the smaller in absolute numbers, making it more critical for the smaller firms to make every investment a good one. Vendor viability and growth will remain vital through 2006/07.

### **About METAspectrum<sup>SM</sup>**

METAspectrum<sup>SM</sup> evaluations from META Group (Nasdaq: METG) provide IT professionals with a view into critical market success factors and vendor positioning. METAspectrum, in combination with META Group's SPEX modules — which provide detailed technical analysis of product features and capabilities — delivers comprehensive evaluations of both technology markets and vendor product offerings. METAspectrum evaluations are a standard component of a META Group retainer service subscription and are updated periodically, depending on the characteristics of individual markets. To view completed market evaluations, or learn more about the METAspectrum methodology, visit [metagroup.com/metaspectrum](http://metagroup.com/metaspectrum). For more information on META Group's SPEX offerings, visit [metagroup.com/spex](http://metagroup.com/spex).

### **About META Group**

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