



# THE STATE OF THE ERP MARKET: 2018

ANALYST

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## THE BOTTOM LINE

**In 2017, vendors in the enterprise resource planning software market took strides to improve the value their solutions deliver with industry-specific capabilities.** Nucleus predicts that market trends in 2018 will center on increasing the use and value of analytics, with a focus on edge computing. In our five-year outlook, Nucleus sees the innovation platforms available today finally proving their worth.

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## OVERVIEW

The market for enterprise resource planning (ERP) systems often resembles the following proverb: "You can bring a horse to water, but you can't make it drink." Vendors can have their shiniest and fanciest new toys on display, but that won't guarantee that any customers will be interested. That is not necessarily a negative when it comes to this type business technology: some level of conservatism makes sense when it comes to software that is mission critical and can function as a company's central system of record, manufacturing execution system, and financial accounting management tool. Somewhat understandably, customers tend to be risk-averse and prefer tried-and-true technologies and methods.

Eventually, however, the imperative to reduce costs and increase productivity becomes unavoidable, and the business case that warrants change overwhelms organizational inertia. The enterprise resource planning market is amid this upheaval, with many vendors pulling their customers and prospects toward a cloud-driven future. Nucleus has found that the business case keeps getting stronger as the technology matures, making it easier to overcome any lingering fear,

uncertainty, and doubt (Nucleus Research, *r208 – Cloud now delivers 3.2 times ROI*, December 2017; Nucleus Research, *q102 – Cloud ERP gets 43 percent faster payback*, June 2016).

In 2017, vendors focused on ways to deliver increasingly better value now with a view to the future and the capabilities that will be demanded by customers. Nucleus predicts that in 2018 vendors will focus on improving the value delivered by analytics, which remains mostly a nice-to-have, as well as integrating more automation to the finance and accounting process. In five years' time, Nucleus predicts that enterprise application customers will realize the potential of innovation platforms that are currently just in their infancy, as well as Infor coming good on its quest to match the primary market incumbents.

## WHAT WAS INTERESTING IN 2017

### VENDORS FOCUSED ON VERTICALS IN THE CLOUD

As cloud solutions have matured beyond a one-size-fits-all offering, vendors have increasingly looked to tailor their offerings to address specific industry needs. 2017 marked the year in which offering verticals ceased to be an additional perk and became a must-have for vendors, particularly in the manufacturing and professional services markets (Nucleus Research, *r159 – ERP Technology Value Matrix 2017*, August 2017).

Although vendors typically seek to address 80 percent of a customer's needs out-of-the-box, the timeline for implementing the remaining 20 percent has shrunk in the expectations of customers. No longer satisfied with a basic template that requires significant work by the vendor or a partner to address their industry, customers have pushed vendors to build out capabilities, giving vendors the chance to corner a market niche.

Cloud vendors have a variety of ways in which they bring flexibility to their solutions. SAP Business ByDesign offers a service-oriented architecture enabling the system to access dedicated repositories that can hold the customer's custom code, modified user experience, and run analytics (Nucleus Research, *s8 – SAP Business ByDesign delivers extensibility*, January 2018). Yet the solution still requires partner- or customer-built extensions to address specific needs, rather than offering industry verticals.

Similarly, Acumatica's Cloud xRP Platform relies on its flexibility as a differentiator and a value driver, integrating with independent software vendors' solutions and operating on any cloud or database and a large variety of programming languages

(Nucleus Research, *r11 – Acumatica Cloud xRP Platform delivers value*, January 2017). At the same time, Acumatica has released a steady stream of vertical editions of its cloud, addressing field service, commerce, and most recently construction. Nucleus expects vendors to continue to focus on serving more verticals with their cloud offerings, delivering better value in the process.

## SAP ANNOUNCED LEONARDO

After advertising its flagship software products on its S/4 HANA cloud database and receiving a tepid response from some customers, SAP changed its strategy in 2017, announcing a new digital innovation system dubbed Leonardo (Nucleus Research, *r111 – SAP unveils Leonardo at Sapphire Now*, June 2017). Designed to help businesses along their digital transformation journeys, SAP Leonardo played buzzword-bingo in naming the technologies it enables enterprises to use, touting Internet of Things (IoT), Machine Learning, Big Data, Blockchain, and others as within its capabilities.

Though the ability of the technologies Leonardo facilitates to deliver value is some distance in the future, SAP is laying the foundation for its customers to take advantage of capabilities that are designed to be deployed in the cloud. Operating on the SAP Cloud Platform, SAP envisions customers quickly gleaning insights from the data and analytics they bring to the platform and then developing new business models and staying agile in fast-moving and competitive global markets.

## ANALYTICS REMAINED A NICE-TO-HAVE

In 2017, ERP vendors spent a lot of time and energy discussing the analytics they've embedded in their application platforms, supposedly giving users new insights into the state of their enterprise and providing options for how they could address issues. However, despite what many vendors would suggest, most customers did not achieve significant value from the analytics capabilities included with new ERP solutions, making the technologies a nice-to-have rather than a business imperative when it comes to an enterprise's central system of record.

To be fair, vendors have made significant strides in improving the user experience of ERP systems, with better reporting, dashboards, role-based views, and management by exception. However, giving users views of KPIs to which they are responsible does not mean the analytics engine is providing any new insights that are of value. Unless the embedded capabilities within the ERP software are discovering meaningful patterns in the customer's data, they remain simply important reporting tools and should not be sold as anything more. As a result, companies that are leverage analytics to gain insights from their accounting,

procurement, manufacturing, or project management software do so as an added benefit, rather than making or breaking their business.

## ASC 606 AND IFRS 15 PREPARATIONS WERE A NON-EVENT

Although the number of pages devoted to the subject might suggest otherwise, preparing for the new accounting rules that went into effect at the beginning of 2018 was less of a headache than many had anticipated. In general, customers found that their vendors were ready to keep them compliant without much fuss. Customers deployed in the cloud were the least perturbed, with compliance included in the standard updates released by their vendors.

## WHAT TO LOOK FOR IN 2018

### VENDORS FOCUS ON THE EDGE

As part of their strategies to lay the foundation for innovation platforms and intelligent applications to prove their worth, vendors will put significant energy (and marketing dollars) into convincing customers about what they can accomplish with edge computing. By leveraging the power and scalability of the cloud and enabling data capture and analysis closer to the source (such as IoT device signals), edge computing decentralizes where customers use services offered by vendors and allows customers to take advantage of cloud technology without jumping wholesale to the cloud. Although the value that customers can realize from the “intelligence” vendors are infusing into their application suites is still in its early days, 2018 will produce more use cases that demonstrate how the technology can transform the ways in which customers do business.

### PSA MEETS ANALYTICS

As the likes of Salesforce make technologies like Einstein more accessible and operational, professional services automation (PSA) software customers will have greater opportunity to glean benefits from their analytics capabilities. Vendors such as Deltek and FinancialForce, who have tailored their solutions for project-centric companies, are providing visibility of every stage of the project lifecycle and are on track to deliver analytics insights that alert managers to conditions where projects fall behind or at risk of going over budget (Nucleus Research, *r133 – FinancialForce defines core at Community Live*, July 2017; Nucleus Research, *r190 – Deltek unifies cloud for professional services*, October 2017). Using analysis of historical data, vendors can train algorithms to recognize early warning signs for issues across a customer’s project portfolio, helping organizations remediate and improve performance, customer satisfaction, and profit margin. Though still in its initial

stages, vendors will start to operationalize these technologies for their customers in 2018.

## **USING AI TO AUTOMATE ACCOUNTING AND FINANCE**

Although using software to automate enforcement of business rules in account reconciliations and the financial close is not new, in 2018 vendors will focus on bringing artificial intelligence (AI) to the back office. Marketing may muddle the difference, but AI requires a feedback loop to the business rules to make incremental improvements learned from past iterations rather than automating without any feedback and learning mechanism. Vendors such as BlackLine have made integrating AI a priority this year to further its automation capabilities and reduce customers' accounting and audit costs.

## **LOOKING AHEAD TO 2023**

### **INNOVATION PLATFORMS PERFORM AS ADVERTISED**

Despite being on the market for some time, the innovation platforms delivered by vendors such as Microsoft, SAP, Oracle, and Infor will only live up to the hype a few years from now. While they do make application building, leveraging IoT devices, and advanced analytics possible, most organizations are not ready to take advantage of the capabilities these platforms deliver. Additionally, most vendors do not have these technologies market ready outside of a couple hypothetical use cases. If customers are prepared to start using the technologies these vendors promise, it is only in narrow business segments which, in general, do not justify the investment at this point. However, these initial pilot use cases are the tip of the iceberg, and their success justifies expanding the catalog of ways businesses can innovate and adapt using their enterprise application platforms.

### **ERP WRANGLES COMPLEXITY WITH THIRD PARTY CPM**

Companies are looking to corporate performance management (CPM) vendors to take care of their most complicated close and consolidation practices, especially in situations where multi-national organizations have many general ledgers (GLs) and are operating in several currencies. For these companies, CPM products drastically simplify accounting processes, and Nucleus case studies find an average savings of around 10 employee hours per monthly accounting cycle for businesses with small accounting teams. Since these savings increase based on size and complexity of accounting requirements, Nucleus expects bigger companies to save significant financial planning and accounting team time by selecting a CPM product that matches the complexity of their ERP requirements.

## INFOR MEASURES UP

After successfully consolidating several ERP solutions and ably serving the needs of global customers with its cloud-based enterprise applications, Infor makes good on its goal of matching the likes of Oracle and SAP. The vendor is already winning deals where Oracle or SAP is the incumbent legacy provider, however, strategic acquisitions of best-of-breed analytics and supply chain management solutions with Birst and GT Nexus, respectively, add capabilities that provide value-add services to customers across all the industry verticals Infor targets (Nucleus Research, *p142 – Infor to acquire GT Nexus*, August 2015; Nucleus Research, *r76 – Infor acquires Birst to access full value of data*, April 2017). With the \$2.5 billion investment by Koch Industries to backstop its expansion goals, Infor will make significant strides in the next five years to become a vendor not to be taken lightly.

## CONCLUSION

Over the next year and five years, as cloud adoption increases—albeit still slower than many other areas of business IT—ERP vendors will look to help customers take advantage of what the cloud is best at delivering: decentralized, scalable compute power and the ability to analyze and use data in innovative ways. Having analytics for the sake of having analytics may be a sufficient selling point for enterprise vendors currently, but the customers are demanding more than KPI reporting and data visualizations that provide limited value beyond a real-time view of current levels. Companies are only beginning to leverage their enterprise data in ways that generate sufficient value to justify the investment, so there is significant room for improvement. Vendors that are able to deliver industry-specific, data-driven insights will be best positioned to succeed as the ubiquity of cloud forces vendors to differentiate based on the services packaged with their software.