The Shifting Sands of Business Applications

By Vinnie Mirchandani, Deal Architect Inc

W E1 *Editor's Note: Blink and you may miss today's change in business applications. It seems as though what was spanking new and hot just yesterday is almost obsolete today, and maybe gone tomorrow if some predictions are correct. The business world, in particular, is ready to explode with new service-related software---and it's not just from the players you know: there's some new blood out on the field, ready to hit their home runs! So, are you ready for a glimpse into the future of business applications? (Even Larry Ellison may have spoken too soon!)*

Summary

The rate of change in the business application software market – the categories, the pricing models, the support ecosystems – is accelerating.

In 1989, Francis Fukuyama, then with the US State Department, wrote an article and followed it with a book titled "The End of History". He reasoned "…all of the really big questions had been settled." The Berlin Wall fell a few months after his article and he looked prophetic. Fast forward to today - so much has happened in the world since: in the Middle East, in China, and elsewhere, that his prediction now seems way off base.

Last year, Larry Ellison of Oracle, in the middle of a frenzy of acquisitions like PeopleSoft and Siebel, commented to the Wall Street Journal, "Microsoft is clearly a survivor (in the software industry), Oracle is clearly a survivor, as is IBM, as is SAP. I think I'm finished." He was declaring his version of "The End of History" for software.

Less than a year later we are seeing hundreds of new Web 2.0 software start-ups focused on search, collaboration, and social networking. We are seeing an impressive number of Software-as-a-Service (SaaS) products in the AppExchange ecosystem being put together by saleforce.com or being facilitated by NetSuite et al. We are seeing a flurry of investments in open source software start-ups. Ingres has been re-born as an Open Source vendor. India, historically known more for services than for software, is becoming an incubator for a number of software vendors.

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Beyond new software products, we are seeing hardware as a service – computing and storage by the drink. We are seeing exciting new mobile, VoIP, and other telecommunication advances. And new services like third party maintenance options for JD

Edwards customers. Plus BPO (Business Process Outsourcing) options for customers who want transactions processed without having to worry about vendors or release levels.

All these micro-trends in technology amount to one macro-trend: Traditional business application definitions are redundant. The sand lines are being redesigned in a major storm. Three ways applications are morphing: a) in scope b) in business models, and c) in implementation support.

a) The Scope of the Applications

Take supply chain management. A few years ago, planning and optimization was hot in SCM. Today, it is telemetry. Using GPS, RFID, and sensors, we can track, re-route, and easily find merchandise. Without this technology, UPS could not even dream of delivering 20 million packages a day over the holiday season. UPS is big on package flow process improvement and relevant technology, like finger scanners, to make their drivers ever so efficient. UPS drivers are equipped with 80,000 DIADs (Delivery Information Acquisition Device) which track the movement of each package from pick up to delivery. The detailed data it collects on its routes has allowed the company to reduce 100 million miles just in the US, or 14 million gallons of fuel, not to mention labor and overtime.

Also look at how CRM is morphing. Clearly, the hottest new trend in CRM is Software as a Service (SaaS) offered by vendors such as RightNow and salesforce.com and Open Source from vendors such as SugarCRM. But these are merely different ways of licensing and deploying existing

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CRM applications. In the next few years, mobile CRM applications will revolutionize the way we sell and service customers. We are already starting to see a plethora of consumer-oriented applications and content show up on mobile devices. Business applications beyond mail on Blackberries are next. We should see a new generation of order processing and other applications to make sales forces much more efficient. Marketing is morphing as on-line consumers proliferate, digital content explodes, and click-through metrics become far more important than traditional TV ratings. Digital channel management needs new applications.

Or HRM. As baby boomers age, there is a growing need for technology to keep aging workforces productive - from magnifying text to speech recognition to tremor monitoring. Documenting and transitioning knowledge - capturing nuggets of best practices and industry knowledge, training the next generation staff - is another huge opportunity. The next generation of workers needs a different set of communication protocols. They are much more used to blogs, podcasts, and wikis. Next generation HR systems will need to talk in their language.

Every major software vendor is investing heavily in rolling out its services oriented architecture (SOA). Beyond breaking up applications into much smaller lego pieces, they promise much easier integration. We are seeing early signs of "mashups" coming out of the Valley. Salesforce.com combined with Google maps. At a recent "camp," the mashup winner combined concert events from a site that lists events with bands that offer on-line music downloads. As you can imagine, we may be on the cusp of creating new applications that defy categorization, such as CRM or HRM. There are new applications for blogging, contextual search, and others, which were not even defined a couple of years ago.

The CIO of Dresdner Kleinwort Wasserstein goes even farther when he says, appropriately enough on his personal blog, "I believe that it is only a matter of time before enterprise software consists of only four types of application: publishing, search, fulfilment, and conversation." No ERP? CRM? The sand storms will be blowing pretty hard.

b) The Business Models

Software as a Service (SaaS) vendors combine software license, annual maintenance, hosting, and labor related to systems management and upgrades into a monthly fee per user. It is the equivalent of leasing a car and having regular maintenance and insurance thrown into the monthly payment.

Open source software usually provides the software for free (not always—and in some cases only the initial license) but vendors charge for training, documentation, and implementation services.

A growing option that a number of companies are looking at is Business Process Outsourcing, where a services firm takes over support of the application and a number of process steps around the software in a multi-year, service level agreement-driven contract.

Incumbent application vendors are increasingly discounting software licenses, but holding firm on annual maintenance rates, and traditional training and consulting rates.

One CIO was recently asked if he was pleased to see the growing choice in subscription versus traditional license versus open source models. His response: "Money is Money". In the end, smart buyers will continue to look at the lifecycle cost of software. They are wary of getting too excited as the software industry has disappointed so much in the past.

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c) Implementation and Maintenance Support

A major cost in most application projects is, of course, the cost of the systems integrator. Along with SaaS and Open Source vendors are coming new communities and smaller resellers and implementation firms. Even larger software vendors are aggressively encouraging ecosystems of developer communities. Many have also encouraged offshore vendors to build practices around their products. So, choices have proliferated. What has not changed much is the level of automation – business applications still take a lot of effort to configure, convert to, test, train on, etc.

One exciting area for buyers has been the growing availability of third party maintenance options such as TomorrowNow for People-Soft and J.D. Edwards customers. Maintenance from application vendors tends to be "one size fits all." Third party support tends to be much more component-based; their talent lies in bug fixes and support calls. While they cannot provide next releases, this is not as much of an issue for many application customers who do not plan to upgrade for years to come and find the lower cost of third party support financially attractive. The promise is as these offerings grow, application vendors will themselves offer more customized support at hopefully lower than the 90% plus margins common in software support today.

Conclusion

If Rip Van Winkle were to wake up from his two decade long slumber, he would be shocked to see the changes in the business application market. Why, if he had just taken a two year "nap" he would still be very surprised. Larry Ellison may have prematurely declared the market "consolidated" and mature.

Vinnie Mirchandani, *CEO of Deal Architect Inc,* is a former Gartner analyst who helps CIOs source a wide range of software and outsourcing contracts. He writes an influential blog on trends in these markets at **www.dealarchitect.typepad.com.**

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