

CONSOLIDATION HAPPENING IN SOFTWARE SECTOR TOO

This month, Anglia Business Solutions' David Hurley explains how consolidation in the produce industry is being mirrored in the computer software business

MANY COMMENTATORS have remarked on the consolidation taking place within the fresh produce industry. The sheer scale of these activities has taken some by surprise. A similar situation exists within the business management software industry.

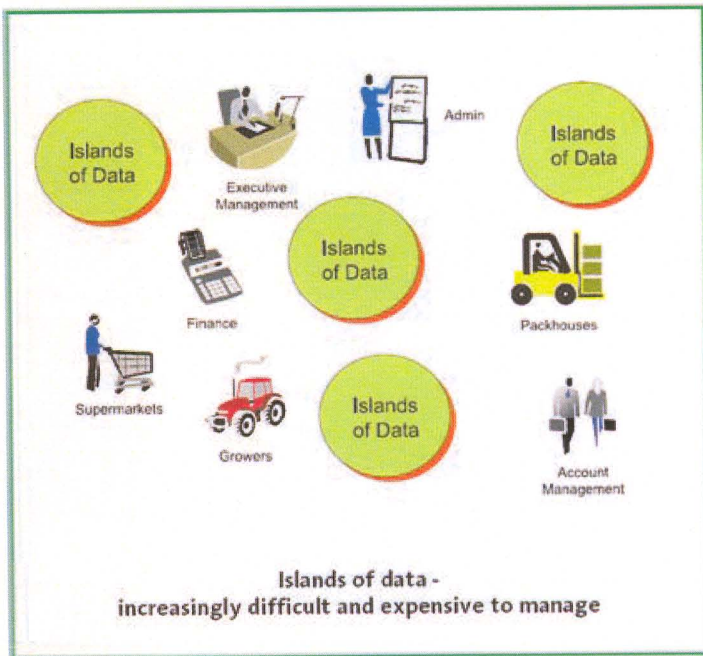
At a recent industry conference, an analyst revealed that five years ago, there were more than 4,000 global ERP suppliers. The figure now is down to 600, meaning that a massive 85 per cent of the market has been consolidated. This is quite remarkable in a worldwide industry forecast to grow from \$176 billion (£88bn) to over \$190bn this year.

However, according to analysts, the situation going forward looks far from rosy for many of the remaining vendors. Some had realised that they could not compete on a global basis with generic products against some of the larger players. They sensibly adopted a strategy of specialisation in particular markets as a means of leveraging their unique selling points. Now this vertical space is being targeted by the larger players, as the buying behaviour of customers changes.

In the past, 80 per cent of business management software solutions were purchased based on the facilities offered 'out of the box' by standard applications. Market research indicates that this is undergoing a radical change. The forecasts are that in future, 80 per cent of potential customers will seek solutions that have been written specifically for their industry sectors. There are a number of drivers for this behavioural change. As always, cost plays a big part in the decision. Nevertheless, it is just one factor in an ever-changing landscape.

The key reason is the growing importance of information technology as a business facilitator. In that scenario, what many senior managers need to help them manage low-margin produce against increasing customer demands is one version of the truth. Furthermore, in the fast-moving fresh food industry, they want to have access to that information as the product moves through the supply chain. Finding out that things went wrong yesterday is of little use, as the product has probably been despatched.

Traditional legacy business applications can do a good job in



certain parts of an operation. However, where they sometimes fail is in the financial area, where a weak set of financial applications fail to monitor all of the costs as the products move through the operational cycle. As a result, users develop other means of tracking costs via tools such as spreadsheets, alternative financial applications, databases or even manual methods. The inevitable outcome is the creation of islands of data. This leads to the consequential increase in administrative costs, while interesting discussions take place on the profitability or otherwise of a deal.

The reality in the fresh produce sector, as we see it, is that market consolidation activities are creating some much larger enterprises. These have more sophisticated requirements than the smaller organisations, as they strive to manage the operational requirements of the enlarged business. As one would expect, having purchased a company, they have an abiding interest in how that business is performing from a financial perspective. After all, they would like to know when they can see a return on their investment. It is here that a powerful, enterprise-ready financial suite comes into its own.

There are many excellent operational systems in the market

from independent vendors across all sectors of business. However, few have the necessary people and financial resources to develop the powerful but easy-to-use fully integrated applications that will be required by tomorrow's customers. The \$2.2bn invested annually by Microsoft provides an indication of the scale of the required investments.

As the larger vendors move into their vertical markets, the trend has been for the niche players to sell the business for the client base. The technology is then placed in maintenance mode, where future developments are halted and the customer maintenance fees are harvested over a period of time. While this may not be beneficial to the client, it can provide the acquiring company with a valuable source of recurring income against a low cost base.

In summary, when deciding on the business management systems of the future, it is worth bearing in mind the trends now taking place within the industry. After all, these systems should be expected to serve the company for between seven and 10 years. Global forces have raised the stakes as the big three of SAP, Oracle and Microsoft battle it out for the leading market share. With a \$200bn market, which is forecast to grow at 15 per cent per annum, one can see the attraction. ○