ERP: A Morphing Market
(2008-05-06) - Contributed by Bob Violino

The ERP market has experienced massive flux since its inception. Understanding its past may be the key to envisioning its future.

The applications that represented the beginning of enterprise resource planning (ERP) solutions appeared in the 1960s in the form of material requirements planning efforts, which helped companies plan and schedule materials shipments for the manufacture of products. The 1970s saw the founding of SAP, Oracle and JD Edwards—vendors that would eventually shape the ERP market.

PeopleSoft emerged in the 1980s with an enterprise application that enabled organizations to better manage human resources. This technology was essentially the first ERP product. Soon after, vendors released similar client-server platforms to support processes such as engineering, finance, project management and procurement.

Those products were the first to be called enterprise resource planning systems. The latter part of the 1990s were boom times for the ERP market, as organizations plunged millions of dollars into projects to replace legacy systems because of Y2K concerns. Also, as businesses became more global, many implemented ERP applications to track transactions worldwide.

There was "a seismic change in the way enterprises invested in these implementations, based not just on the size and amount of transactions they had to manage, but often on the global scope of the projects," says Albert Pang, director of enterprise applications research at research firm IDC. "A lot of companies wanted a standard system to keep track of global operations, but it really never panned out exactly the way they wanted because of localization issues and the need to incorporate a lot of customized interfaces."

The dot-com crash of 2000 and 2001 brought an end to the technology spending spree, and investments in ERP began to decline. Within a few years, most of the ERP vendors were revamping their products to become Web-enabled, so more users could have easy access to the data generated by the applications.

A Mature, Consolidated Market

In recent years, consolidation has had a huge impact on the ERP market, with some of the major vendors gobbling up smaller competitors. Today, the major players include SAP, Oracle, Infor and Microsoft, but many smaller companies offer ERP products.

"The market is more mature and more concentrated among a few dozen key players, as opposed to hundreds of them in the 1990s," Pang says. He breaks down ERP suppliers into two main camps: the big vendors that offer broad product suites aimed at horizontal customers, and smaller niche vendors that sell to vertical industries such as health care, distribution and the public sector.

The market is beginning to see overlap, as the big horizontal players try to become more vertically oriented and the vertical players strive to become more horizontal. "It wouldn't be surprising to see the two markets converge at some point," Pang says.

One factor that's causing disruption is the emergence of open-source ERP projects such as Compiere, Open for Business and Openbravo. "They are not as stable and mature as the client-server-based systems, but open source has become one of the well-tested technologies out there," Pang says. He advises CIOs to take a look at open-source vendors to evaluate whether they can deliver the applications their companies need.

However, as with any other open-source technology, organizations shouldn't expect to get the same level of support and hand-holding they would receive from commercial software providers. That can be a major issue for organizations with limited IT support. Another trend in the market is the emergence of software as a service, which provides on-demand

delivery of ERP software. Since the introduction of the first SaaS offerings for customer relationship management, the delivery model has spread to virtually every type of application, including ERP.

Overall, the ERP market will grow to $45.2 billion in 2011 from $30.6 billion in 2006, according to an October IDC report. "Higher growth is expected to come from small and midsize organizations rather than large enterprises, as many of the SMB customers are using ERP systems as a means to facilitate their expansion plans after years of underinvestment in software technology," the report states.

Also see:

The Next Generation of ERP

Five Questions Before Upgrading Your ERP System

Back to homepage