

BY MARK ENGLEMAN

Getting a Handle on Consolidation

What to expect in the ongoing saga of enterprise software acquisitions

Uncertainty and confusion. These are typical reactions on the part of enterprise software users when they ponder how consolidation—the buying of enterprise resources planning (ERP) and distribution software companies by other enterprise software firms—affects them. This uncertainty and confusion can have a dramatic impact on an organization's enterprise software strategy.

Consolidators are very visible in the market. Oracle and SAP, of course, focus on larger manufacturing and distribution firms. Players such as Consona, Epicor, Exact Software, Infor, Microsoft Business Solutions, Sage Software, and SoftBrands tend to focus on serving midmarket and smaller firms. All of the consolidator firms

are subject to at least a subset of the driving forces we're going to explore in this article.

Key drivers

The reasons for consolidation among ERP and distribution software vendors have been in place for years. These reasons, though, accelerated in the last five years as the enterprise software market continued to mature. Plus, in the business software industry, company values largely are made up of intellectual property and customer bases. Therefore, there are more options and fewer barriers to the type of consolidation examined here.

The primary drivers for enterprise software vendors interested in being acquired are the substantial business obstacles they face. These obstacles

take the form of increasing costs and risks in continuing to modernize enterprise software offerings and the high cost and need for visible momentum to win new business. These factors place increased pressure on many enterprise software vendors and influence fundamental viability. Buyers of enterprise software are aware of this viability issue and are placing increasing value on it as they make their purchasing decisions.

Considering the status of the enterprise software market, the consolidators can increase revenues (immediate maintenance and future sales), market presence, and momentum by buying customers through the acquisition of other enterprise software firms. The old adage that it is easier to sell to a current customer

than develop a new customer is especially true in the enterprise software business. Another form of increasing sales is through cross-sell opportunities, depending on the product mix a consolidator controls and the type and quantity of customers gained in the acquisitions. Contributing to cross-sell opportunities is the tendency for a software buyer to prefer fewer vendors. Also, some consolidators want to gain access to new industry verticals in which company leaders believe their firm should have an improved presence.

Further consolidation will occur based on the factors just mentioned. ERP/distribution software vendors—those that are not consolidators—are still candidates for acquisition if they possess a sufficiently healthy customer base or if they have enterprise software that caters to a specific industry vertical not widely served. However, the majority of these kinds of enterprise software companies already have been acquired. Also, some consolidators likely will be acquired in the next few years just as SSA Global, a one-time consolidator, was acquired by Infor in 2006.

The effect on buyers of enterprise software

There are pros and cons to be considered in purchasing enterprise software from a consolidator. The net result of these factors depends upon the consolidator and, to a lesser degree, the buying company.

The typical negative factors for buyers of ERP/distribution software are largely a result of the following challenges faced by consolidators, often spawning confusion and risk when buying products from a consolidator.

Administrative consolidation. Organizing and eventually blending

or eliminating the personnel and physical infrastructure of different companies is difficult and subject to risk. This can result in damaging

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relationships with the existing users of the acquired vendor's products or new customers to whom the consolidator sells this product. These challenges include the melding of different management and administrative systems, physical offices, and administrative and management personnel.

Product support.

It is difficult to effectively implement and support multiple business systems and versions for a sustained period of time until more standard products are offered by the consolidator and accepted by customers. Compounding this baseline difficulty is the potential for further disruptions in implementation support resources of the acquired ERP/distribution software company. For example, if the acquired firm has a network of independent implementation consulting firms, these firms will have new uncertainty in how the consolidator will want to support implementations and may make adjustments in their business focus. This disruption is less likely with consolidators that have acquired specific industry vertical solutions.

Product consolidation strategy.

No consolidator wants to support multiple products indefinitely. It is in the best interest of all involved that the consolidator build (or build upon an existing product) the next generation of enterprise software that will be an attractive and useful upgrade to current customers and a competitive product that can win new customers.

This next generation most likely would have carefully developed industry configurations for industries supported by current products

the consolidator owns. This consolidation strategy is affected by many changing and dependent factors and is therefore difficult to get right. The uncertainty translates to some confusion and risk for buyers in confidently knowing what to purchase from the consolidator. Naturally, buyers want to purchase a product that is likely to be substantially tied to the consolidator's future state product offering.

Marketing and sales consolidation. Aligning multiple and potentially redundant direct sales and marketing resources with different styles and allegiances can be an enormous challenge. In addition, there often is difficulty in effectively educating—rather than confusing—analysts, and in developing rebranding strategies. This again translates to potential confusion and inaccuracy in interacting with the consolidator in the sales process.

The upside

The good news is that consolidators, as a group, are companies that are stronger than other ERP/distribution software vendors. In specific terms, they tend to be sufficiently capitalized and therefore are likely to continue modernizing their products.

They have more visible momentum and are more likely to be in the news. They also typically have sufficient resources dedicated to business development activities.

Finally, consolidators generally have aggressive and forward-looking professional management. They likely will be around for five years or more, unless they also are acquired. Of course, a given consolidator may or may not possess all of the positive factors outlined here. Conversely, a few nonconsolidator ERP/distribution software firms possess some or all of these positive factors.

Another potentially positive factor is that many consolidators offer a broader product offering, which can provide advantages when the buying company needs these other products. For manufacturing firms, some

of these products would include product lifecycle management, customer relationship management, advance planning and scheduling, and various augmentations to supply chain management. However, many of these business software products are well served by software firms that specialize in the functional areas and that have well-established collaboration strategies (where relevant) with ERP/distribution type software. Therefore, it always is advisable to review other offerings even if the consolidator offers a solution in the space.

What is the effect on buyers? Because of the multiple variables and the general status of the enterprise software market, the overall effect is likely neutral to the buyer of enterprise software when compared to purchasing software from a nonconsolidator. If buyers know how to navigate the risk that comes with


the negative factors listed, they probably will have a net positive result, as they can more fully take advantage of the average consolidator's strengths.

Effect on current customers

If your ERP/distribution software vendor is acquired, the acquiring company (consolidator) values your firm as a future customer and will strive to take care of its customers, earn ongoing maintenance revenues, and eventually offer you worthwhile new products to improve your business. This is the obvious business goal of the consolidator; however, in the complicated process of managing a consolidator firm, the actual result will be uncertain.

Most of the factors discussed previously could affect existing owners of software from the acquired company. Further, it is possible representations in prior contracts or other

casual commitments can become lost or watered down.

Overall, it is reasonable to expect a net positive result as your business transitions from an enterprise software vendor that likely would have increasingly struggled to modernize its offering to the product of a consolidator that has great motivation to build and offer attractive products in the future. 

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