



## ERP Doomsday Scenario: Death by SOA?

Thursday, August 17, 2006

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I've been thinking and talking a lot about the impact that web services and service-oriented architectures (SOAs) will have on the enterprise applications market, especially ERP. My conclusion: rapid adoption of SOA will lead to the end of the ERP market as we know it.

**SAP** and **Oracle** are investing billions to web-service-enable their ever-expanding product footprints. To date, the products are modest. SAP has announced the first 500 "enterprise services," while Oracle has yet to release any details on the number it has or plans to make available. SAP's Shai Agassi estimates that his company may have to provide up to 30,000 web services in order to fully web-service the whole suite across all the verticals served.

Here's the doomsday scenario, circa 2010: SAP and Oracle customers have stopped buying applications from their ERP vendors. Instead, they contract with low-cost Indian or Eastern European integrators to build custom composite apps that sit on top of their ERP backbone.

Between 2010 and 2012, these same customers start to gripe that their legacy ERP systems have become bloated "understructures" that have become too expensive to maintain. CEOs threaten to withhold maintenance payments if fees aren't sharply reduced. At the same time, the Indian and Eastern European vendors are now offering their own "business process platforms" built around the newest development tools and technologies. They begin replacing large chunks of the ERP backbone with their own software or through business process outsourcing (BPO) products.

### Who profits most from SOA? The integrators

While I point to the Indian and Eastern European integrators as likely beneficiaries, old timers like **Accenture** and **IBM** refuse to cede the nascent market to the newbies.

*Alert* readers likely saw the recent news from Accenture that it will be investing \$450M over the next three years on SOA labs and new services. As such, it will be working closely with **BEA**, IBM, Oracle, SAP, and others to build real-world scenarios.

Accenture and Oracle are also developing an Oracle Innovation Center around SOA, to be co-located and staffed at Oracle's headquarters in Redwood Shores; Accenture has a similar facility with SAP. Demand for SOA is increasing: the Accenture executive told me that his firm will take on between 250 and 300 SOA projects this fiscal year. True, that's a fraction of the overall installed base of ERP, but I think we will see an explosion in demand once the large ERP vendors make more web services available.

IBM's purchase of **MRO Software** continues to stretch the boundaries of infrastructure versus applications. I would argue that we will see IBM make additional acquisitions around core business processes. Accenture will, too. This week it bought **NaviSys**, a provider of software and services for the North American life insurance market. The press release described this acquisition as giving the firm a "life insurance platform...from front-office sales to back-office policy administration." Sounds like a business process platform to me.

### What happens to the big ERP vendors?

To repeat, I think the integrators will be the real beneficiaries of the move to SOA. Yes, Oracle and SAP will continue to generate enormous revenue from maintenance and upgrades. I'm sure we will also see some clever licensing schemes. I fully expect both vendors to come up with some sort of annual fee for using their infrastructure (such as web services, service bus, or registry/repository) and components that ensure they are compensated for all of the times their understructure is touched. This would be in addition to the maintenance fees.

We are at an inflection point similar to when large buyers moved from mainframes to client/server. Unlike **Cullinet** and **Dun & Bradstreet Software**, Oracle and SAP will be much tougher to displace. It may take a decade before a new company could touch them in terms of functional parity, and that might be for a limited set of verticals.

But new companies, like **Workday**, are eying the ERP replacement market. While legal documents prevent me from disclosing its product plans and strategy, a quick trip to the website shows that it is looking to hire employees with experience in developing applications for human capital management (HCM), financial management, and supply chain. One job description notes that the software will not be written in any "traditional programming languages; it's based exclusively on metadata."

Can Workday make it? If the company starts to gain momentum, won't Oracle or SAP just buy them or accelerate their own internal development to build Oracle 12 or SAP R/4? Who other than ERP vets Dave Duffield and Aneel Bhusri would even dream of playing the David role to the twin Goliaths?

Come back and reread this *Alert* in 2010. I'll bet you will find that SOA will have caused a sharp redefinition of enterprise software. I think SOA will make today's ERP systems look like yesterday's mainframe apps. A replacement market will come in the next decade. It may come from Oracle or SAP, India or the Czech Republic, Accenture or IBM, Microsoft or Workday, but it will come. Bet on it.

Of course, we'll need a new name for the category. It won't be ERP II.

Next week, we will be hosting John Wookey, Oracle's senior vice president for applications. I have a feeling he will have some feedback for me. In the meantime, though, what do you think? Am I overstating the changes that are coming? As always, I welcome your ideas and feedback—brichardson@amrresearch.com.

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