

## Awakening a Sleeping Giant: Inside Microsoft Business Solutions' ERP Strategy

*by Simon Jacobson and Miles Prescott*

Today's brave new world of value chains and multi-enterprise collaboration is impacting how midsize organizations choose and leverage business applications. With IT budgets primed for growth and expansion, a perfect storm is brewing for **Microsoft** to capitalize on this opportunity with its technologies and Dynamics ERP product family. In this Report, AMR Research reviews the current progress of Microsoft Business Solutions' products and partners as well as what's necessary for the company to increase its market share in the ERP segment.

## Acronyms and Initialisms

---

BI	Business intelligence	OEM	Original equipment manufacturer
ERP	Enterprise resource planning	POS	Point of sale
FDA	Food and Drug Administration	R&D	Research and development
HR	Human resources	ROI	Return on investment
IP	Intellectual property	SaaS	Software as a service
ISV	Independent software vendor	SMB	Small and midsize business
KPI	Key performance indicator	SOA	Service-oriented architecture
MDM	Master data management	SOX	Sarbanes-Oxley Act
NGO	Non-governmental organization	VAR	Value-added reseller

© Copyright 2008 by AMR Research, Inc.

**AMR Research**<sup>®</sup> is a registered trademark of AMR Research, Inc.

No portion of this report may be reproduced in whole or in part without the prior written permission of AMR Research. Any written materials are protected by United States copyright laws and international treaty provisions.

AMR Research offers no specific guarantee regarding the accuracy or completeness of the information presented, but the professional staff of AMR Research makes every reasonable effort to present the most reliable information available to it and to meet or exceed any applicable industry standards.

AMR Research is not a registered investment advisor, and it is not the intent of this document to recommend specific companies for investment, acquisition, or other financial considerations.

This is printed on 100% post-consumer recycled fiber. It is manufactured entirely with wind-generated electricity and in accordance with a Forest Stewardship Council (FSC) pilot program that certifies products made with high percentages of post-consumer reclaimed materials.

# Awakening a Sleeping Giant: Inside Microsoft Business Solutions' ERP Strategy

by Simon Jacobson and Miles Prescott

Microsoft Business Solutions is ready to strike: The midmarket is ripe for ERP, and the company's four ERP products—AX, NAV, GP, and SL—have stable, long-term roadmaps as well as alignment with Microsoft's People Ready positioning.

The  
Bottom  
Line

## Executive Summary

Midsized organizations—the main target market for **Microsoft's** billion-dollar applications business—are investing their IT dollars for growth and expansion. Similarly, large companies with multiple divisions and various regional instances, which are considered midsized organizations on their own, are struggling with the complexities of big ERP and often finding it difficult to adapt their enterprise standard systems to all parts of the business.

The door is open for ERP vendors to sell into the midmarket, with many providers jockeying for market share. In fact, **Oracle, Infor, Sage Group, and SAP** together already account for 77% of ERP revenue, according to AMR Research's most recent ERP market sizing Report (see "The ERP Market Sizing Report, 2007-2012"). Microsoft Business Solutions, fifth on the list, has only a 4% market share.

Microsoft Business Solutions has spent the last several years fine-tuning its product strategy and developing the roadmaps for its four ERP product lines. At the same time, it has been incorporating other Microsoft technologies, such as Office SQL Server and SharePoint, and simplifying the purchasing experience for potential buyers and current customers. It's clear that the sleeping giant is awakening to the market opportunity.

AMR Research interviewed the Microsoft Business Solutions ERP product teams, key partners, and 20 customers for this Report.

## Key findings

- ERP, a crucial component to Microsoft Business Solutions' People Ready positioning, also presents revenue opportunities for other Microsoft businesses.
- The key to success is in how its partner ecosystem adapts the products to specific company needs.
- Value for customers, partners, and Microsoft as a whole depends on the value of business applications integrated with a stable back-end infrastructure.

## ERP is a crucial component of the People Ready business

With products such as Word, PowerPoint, and Outlook, Microsoft has a stronghold on the consumer software market, but the technology giant has historically relied on partners to provide software for business users. The partners, which include software providers across multiple application segments, provide Microsoft with increased sales of the operating system and infrastructure products necessary to support the applications, especially ERP.

ERP providers such as **Epicor**, **Exact Software**, Infor, **QAD**, **SYSPRO**, and SAP also provide substantial revenue opportunity from sales of SQL databases, SharePoint, and Office. Simultaneously, the Microsoft Business Solutions group continues to make headway in the ERP market with the Dynamics family of ERP products, which also complement the infrastructure and technology assets and promote Microsoft's People Ready positioning.

“People Ready” is Microsoft's phrase for describing applications that are intuitive, easy to use, and seamlessly integrated with the rest of the tools people already use in their work environments. Microsoft believes this to be a powerful differentiator for its applications. It may be right. For many customers, the benefit of using Microsoft ERP products is not just the application functionality, but also the connection of Microsoft technologies with business applications.

## The current evolution

Microsoft Business Solutions has undergone a significant transformation in strategy, leadership, and technology to create a common brand, Dynamics, across its business applications, with a portfolio of core ERP applications to constitute it: Dynamics AX, Dynamics NAV, Dynamics SL, and Dynamics GP.

It also brings to market non-ERP products:

- Financial budgeting, planning, and reporting
- A dedicated retail management offering
- Microsoft Dynamics CRM

Microsoft Business Solutions entered the ERP market through acquisition. In 2001, Microsoft acquired **Great Plains Software** and then **Navision** in 2002. The acquired organizations had different interpretations of the messages emanating from corporate and between the product groups. In short, Microsoft Business Solutions needed a common direction. A research initiative code-named Project Green was launched initially to create a brand new product line that would incorporate the combined functionality of Microsoft Business Solutions' existing business applications. However, the idea of a single converged product represented a major threat to a highly fragmented channel that is mostly aligned by the Microsoft Business Solutions ERP product supported. Also, building a new product from scratch would also take Microsoft a few steps back from the competitors and jeopardize its ability to create products and functionality in a timely and relevant fashion.

The Project Green strategy has since changed from converging code into a single product to creating a common look and feel across all four ERP applications by incorporating other Microsoft technologies, such as Office, SharePoint, Windows Workflow Foundation, Business Intelligence (BI), and SQL Server, with the goal of creating the following:

- Role-tailored user interfaces with embedded, contextualized business intelligence
- Adoption of service-oriented architectures (SOAs) to support model-driven, business-process-centric application modeling
- Consistency across the product roadmaps, with respect to the major release cycles for products that will come every two years

SharePoint has become the unified portal interface for each of the applications. Originally Microsoft had incorporated SharePoint using different pricing and packaging schemes per product. For example, in Dynamics AX, SharePoint was known as the Enterprise Portal, while for the GP and NAV products it was known as the Employee Portal. Moreover, the two portals had different, confusing price points and licensing options.

---

## **Role-tailoring key to People Ready positioning**

Role-tailored user experiences are key to Microsoft's People Ready positioning, representing the culmination of a research project done with the University of Copenhagen to understand subconscious reactions to visual cues. Microsoft translated the findings back into the development of 30 role-based user experiences built from predefined organizational roles, coupled with integrated reporting, key performance indicators (KPIs), and task management functionality. The objective was to deliver actionable data in the context of the application itself to abate multiple clicks and switches from screen to screen or to other applications, which can hinder end-user productivity.

References, both early adopters of the new role-driven interfaces and companies in the process of deployment, were quick to extol the current and planned effect of the role-based experiences. The CIO of a large global field services organization using AX described the benefit as "role segregation"—that is, allowing people to do their jobs in the context that the application is delivered to them, which ultimately drives a better standard of work and application usage across the organization, as there is little room to be distracted. A GP customer indicated that the benefit of the role-based experience was having the flexibility to manipulate or adjust end-user requirements, since their tasks change frequently. A NAV customer predicts a significant effect on his business, as all users will be able to access everything on one interface designed for their jobs.

---

While competitors rely on a blended model of direct and indirect sales, Microsoft Business Solutions goes to market through its 10,000-plus partner channel. These partners include not only independent software vendors (ISVs) with IP for augmenting the Microsoft ERP products, but also an army of value-added resellers and implementation services companies.

While much of the competition is assembling and marketing complete products for targeted industries or subverticals to eliminate the number of modifications or customizations, Microsoft Business Solutions continues to leave the products open for partners to make modifications and functional additions to suit the needs of the customer. Partner success is not predicated on knowledge of the core ERP products or the ability to adapt them to fit business-specific needs alone, but the knowledge of and ability to incorporate other Microsoft technologies that enhance the ERP applications as well. For many of the customers we interviewed, the benefits of using Microsoft ERP products don't only live in the applications. One customer described them as the "glue to keep everything together"—that is, the connection of Microsoft's infrastructure assets with ERP assets.

### **A customer-ready pricing strategy**

In addition to changes to the physical product strategy, Microsoft also made sweeping changes to the licensing model for its Dynamics products specifically targeted at new business sales against its midmarket rivals. In 2006, Microsoft unveiled a new pricing program, Business Ready Licensing (BRL), through which it sought to lessen the rigidity of the legacy pricing models across all products, providing flexibility to the purchasing company and Microsoft partners for longevity in competitive deal cycles (see "Microsoft Simplifies Licensing Model for Business Apps" for more on this).

As the company continues to evolve its Software plus Services vision, with its strategy to bring the best of on-premises and hosted software together under one umbrella, Business Ready Licensing must continue to evolve as well. Software plus Services makes sense for midmarket companies against the black-and-white, software-as-a-service (SaaS) or on-premises models. Many midmarket companies are only interested in a services-based model if it means they can shift costs from capital budgets to an expense budget, especially if the current downturn continues any further. For companies that don't require or demand a full-blown SaaS deployment, hosting can achieve the same end result. If anything, we expect more partners to offer hosted applications over the coming years.

Some notable enhancements have been made to the BRL strategy to maintain alignment with market drivers and Microsoft's long-term Software plus Services vision:

- **Hosting**—Software Provider Licensing Agreements (SPLAs) enable partners to acquire ERP applications and host them for customers. SPLAs empower resellers and channel partners to provide the Dynamics ERP products as a service. The licensing agreements stipulate that the service provider is the licensee of the software and may provide access to and use of the software to one or more customers for a monthly fee.
- **Financing**—Seeking to eliminate the high, upfront costs of software investments, Microsoft's Total Solution Financing covers the full cost of the business system with one price, including software like third-party certified applications, implementation and consulting services, hardware, and products such as BizTalk and SQL Server. For resellers, this ability to bundle lends to increased deal longevity. In today's uncertain economic climate, it also eases the costs of buying software by providing an incremental purchasing model as well as partner-driven lease options.

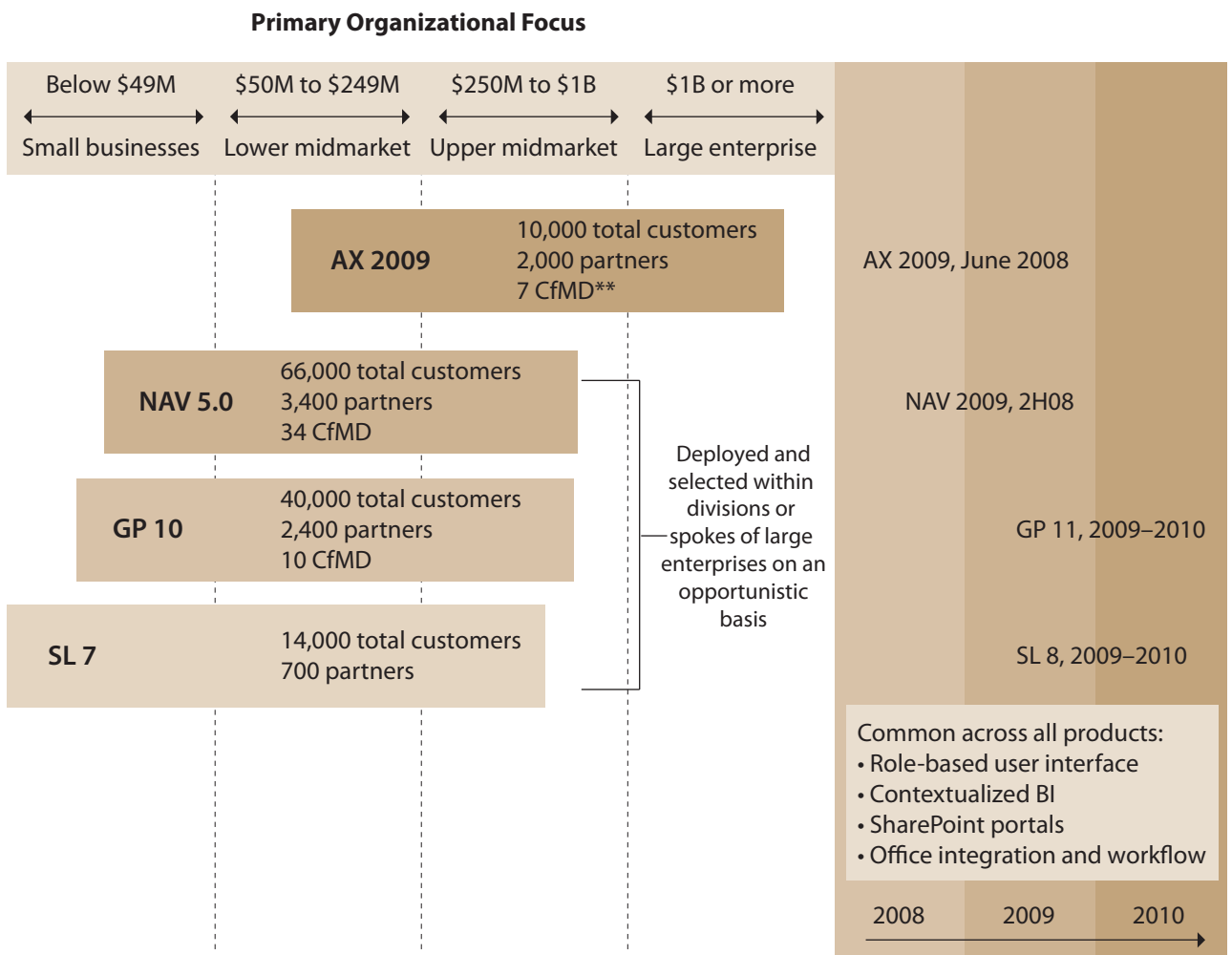
In addition to flexible purchasing options, partners can also take advantage of Software plus Services through integrating on-premises ERP with online services like **eBay** for excess inventory auctions as well as third-party applications to support supplier quality initiatives or expense and tax management.

Overall, it's the customers using their Microsoft investments to the fullest that are seeing the merit of Business Ready Licensing versus the companies that are not. One Dynamics GP customer extolled the value of having the ability to lay a foundation for future software acquisition. The individual costs versus additional annual enhancement fees for some modules made it more cost effective to purchase now than to buy piecemeal.

# AX, NAV, GP, and SL: Differentiation, competition, and direction

Microsoft Business Solutions will provide a major release for each of its ERP products every two years. With the incorporation of common technology constructs, it has become easier to communicate the product roadmaps and enhancements, which helps differentiate the products. Figure 1 depicts the product roadmaps and Table 1 provides a high-level differentiation of the ERP products.

**Figure 1:** Microsoft Dynamics core ERP product portfolio—today and tomorrow



\*\*CfMD—Certified for Microsoft Dynamics

Major future release schedule (not inclusive of service packs)

Source: AMR Research, 2008

**Table 1:** Product differentiation

Product	Ideal Scenario	Primary Geographic Focus*
Dynamics SL	ERP for project-focused environments	North America
Dynamics GP	General ERP, with strong focus on accounting and finance	North America, Central America, and South America
Dynamics NAV	General ERP, with multinational support for manufacturing and distribution focus	Europe, North America, and Asia-Pacific
Dynamics AX	General ERP, with global support for manufacturing and supply chain focus	Europe, North America, and Asia-Pacific

Source: AMR Research, 2008

\* Doesn't include opportunistic sales into other geographic markets.

## Dynamics SL

Dynamics SL is targeted at project-driven businesses in industries such as field services, engineering and construction firms, media and advertising, and other professional services organizations (including IT services). In these environments, lead times are longer than in traditional manufacturing environments, with more one-to-one or customer-specific engagements. Future releases will expand upon role-specific Business Intelligence and SharePoint connections with Microsoft Project to tie together multiple project-driven environments. A challenge Microsoft has with Dynamics SL is differentiating against Dynamics AX and Dynamics GP as well as the project-centric ERP providers with similar market focuses like **Deltek**.

## Dynamics GP

Dynamics GP provides financial and operations management functionality, including BI, forecasting, and budgeting capabilities. GP 10 was the first product release to contain the role-based user experience where the application is not only tailored to individual roles, but also wrapped in Microsoft .NET, mirroring Office on look and feel. Additionally, GP 10 delivered an HR module, with capabilities for workforce management, recruiting, and employee self-service. GP 11, slated for release to the market in 2H09 or 1H10, will have deeper industry-specific capabilities for customers and prospects in public sector, higher education, retail, and non-profit and NGOs. Microsoft is aggressively positioning GP as an alternative to ERP applications like SAP's BusinessOne, but also to financial management applications like those from **Intuit** and Sage.

## Dynamics NAV

Dynamics NAV has the highest volume of partners and customers across the four ERP products. Microsoft claims to have over one million licensed users on NAV, which is localized for over 40 countries. Partners take the base NAV platform and build, sell, and support industry-specific software to small and midsize businesses (SMBs) in either specific geographic or industry target markets. Examples include German partner **tegos** and its *enwis* product, which provides functionality specific to the European waste management industry, and **Landsteiner Strengur's** LS Retail product, which integrates single or multiple point-of-sale (POS) and store systems into a common ERP backend for financials and inventory planning. **Tectura** offers broad, industry-specific products like Tectura EDI for automotive, process manufacturing (with products for the chemicals, plastics, and food and beverage subverticals as well), and regionalized content for specific countries. Customers we spoke with pointed to the open nature of Dynamics NAV, which leads to configuration and fine-tuning for industry-specific functionality as a differentiator against competitive software from **Activant**, Epicor, Exact Software, Infor, Oracle, and SAP.

NAV 2009 (due 2H08) will provide 21 preconfigured, role-based user experiences, ranging from executive management to shipping and receiving. This is in addition to deeper support for SQL Server Reporting Services (SSRS) and expanded web services capabilities for connecting with other enterprise systems for exchanging customer data, vendor records, and price lists. This helps support broader enterprise master data management (MDM) initiatives as well as overall data accuracy.

## Dynamics AX

The recently released Dynamics AX 2009 brings over 400 different features and improvements to market. It's evident from discussions with Microsoft executives and partners that AX 2009 is the first true peek at the future of Microsoft's business applications strategy. Notable enhancements include the following:

- Role-based user experiences
- Multisite support for scale and complexity while maintaining access and control of information at individual locations, which translates to better supply chain planning, order and fulfillment, and revenue management across multiple facilities
- Improvements in scalability and technology architecture specifically for transactional threshold levels and database compression
- Support for compliance through a newly announced Compliance Center

Compliance Center is a one-stop shop for companies to define their organizational risks, establish their own repositories of business rules, create controls for compliance functions and segregation of duties to mitigate the risks, and track the performance of these processes. While it's positioned currently for financial compliance, it's safe to assume it will be extended for other task-automated compliance scenarios beyond Sarbanes-Oxley (SOX), such as environmental compliance. However, it's still not clear whether the Compliance Center will be the long-term repository for all compliance matters (environmental, industry specific, etc.) or who will ultimately claim responsibility for maintaining it (customer, partner, or Microsoft, which will most likely directly manage this as a service offered from the cloud.)

The multisite support will continue to elevate the profile and attractiveness of AX in the upper midmarket. This places further importance on the ability of Microsoft's partners to position the AX product, as well as any partner-provided functionality, in competitive scenarios against products from Epicor, **IFS**, Infor, **Lawson**, Oracle, QAD, and SAP.

Microsoft should consider using itself as a case study more often: The company is not only a Dynamics ERP customer, but also the perfect example of a hub-and-spoke organization. While Microsoft is an SAP customer, it has also deployed the AX product within its many divisions. For example, it's used within the company's Xbox division, which handles chipset and component lot tracking for manufacturing gaming consoles, as well as at a Microsoft site in Puerto Rico for CD and DVD manufacturing, which handles order management, planning, and inventory management and forecasting functions.

---

## **Microsoft capitalizing on the complexity of big ERP with a hub-and-spoke approach**

The evolution toward value chains and performance-driven business networks that require multi-enterprise collaboration to capitalize on market opportunities has put strain on many legacy ERP implementations and instances that were built during simpler times. These applications were architected for quarterly and monthly planning cycles within single companies, infrequent introductions of new products and configurations, and even less frequent changes to the design of relatively static supply chains.

Several big ERP vendors are trying to backtrack from years of embedding best practices in monolithic business logic and repackaging their products as flexible business process platforms for digestible consumption in the midmarket. But their customers, whether acquired entities, standalone businesses, or individual country sites, need modern technology to provide the flexible, stable foundation for the local business as well as integrations back to an enterprise hub or single instance to consolidate financials and optimize decision making and business processes. It's this hub-and-spoke, or two-tier, deployment scenario that allows Microsoft and its partners to capitalize on the People Ready positioning. With this approach, they will be able to provide and adapt any of the four Dynamics ERP applications to meet the specific needs of the customers within the fertile ground of the divisions and subsidiaries of Fortune 1000 companies as well as the multiple tiers of suppliers, distributors, and trading partners that lag modern technology.

---

## The industry-ready business: Still a work in process

The majority of Microsoft's partners tend to be specialists in geographic focus, industry, or functional add-ons for a product or a combination of the three. There are over 1,900 partner applications listed on Solution Finder, Microsoft Business Solutions' search site for Dynamics ERP partner add-on software. Still, confusion exists on behalf of buyer and partner—as well as potential partners—on how Microsoft tiers and structures its partner network relative to geography or industry.

**Table 2:** Partner programs explained

Program	Description	Number of Partners
<b>Solution Finder</b>	Horizontal and vertical add-on applications built by Microsoft-certified partners that can be integrated with Dynamics ERP products. All products have been validated by at least two local customer references or Microsoft.	AX: 430 NAV: 980 GP: 471 SL: 113
<b>CfMD</b>	CfMD applies to all four ERP products as well as Dynamics CRM. Products must be tested to ensure code compliance with each current Dynamics ERP product release and will be recertified upon each major release. Partners must provide 10 active customer references to ensure the certified application is not a one-off. Also, any partner seeking CfMD certification must be a current Gold Certified partner. CfMD is Microsoft's opportunity to engage partners more intimately for co-development and application creation on a product-by-product basis, providing a similar environment of certified applications that are partner owned, but still fit within the same code-testing qualifications of a program like Microsoft Dynamics AX Industry Solutions. Since the integration is tested and certified, it theoretically indicates a faster ramp-up time for the customer to actually start using the software.	AX: 8 NAV: 33 GP: 10 <i>(As of July 2008)</i>
<b>Microsoft Dynamics AX Industry Solutions</b>	An internal initiative with key partners, Microsoft Dynamics AX Industry Solutions' promise is simple: Partner IP is certified and OEMed into the core product by Microsoft, sold on the price list, and synchronized with the Dynamics product development organization. This will help Microsoft extend the Dynamics AX brand into target markets such as apparel and textile manufacturing, field services, industrial equipment manufacturing, professional services, retail management, consumer-driven planning, and process manufacturing. Also, it still provides an opportunity for other independent software vendors to extend the core functionality into subverticals.	5

Source: AMR Research, 2008

In 2005, Microsoft announced the Industry Builder Initiative (IBI) program, with intentions of using ISV partners for Dynamics AX to extend the business into vertical markets, such as process manufacturing and retail, through the co-construction of integrated enterprise systems. IBI was also driven largely in part by demand from larger customers that were concerned about a multivendor approach and pushed for some core industry functionality to come directly from Microsoft Business Solutions. IBI participation for partners not only verified their financial stability, but also the stability of the add-on code. IBI has since dissolved into two new partner programs that carry rigorous certification requirements, yet also create better-defined opportunities for partners to engage with Microsoft Business Solutions: Microsoft Dynamics AX Industry Solutions (formerly Microsoft Dynamics Industry Solutions, or MDIS) and Certified for Microsoft Dynamics (CfMD).

Partners want Microsoft to align the software development and partner management organizations closer on future product roadmaps and direction, not only for the next product release, but also for the ones to come. This will contribute to mutually established, long-term product development maps. It will also expose opportunities to engage key partners such as **TXT e-solutions** and **Fullscope** further to fill, or co-develop functionality to fill, current product white spaces. Closer alignment will also provide a way to better identify growth markets and industries.

CfMD is still morphing, indicating Microsoft Business Solutions' desire to involve partners more intimately in product roadmaps to achieve the best of both worlds for them and their prospects and customers: a stable core product with certified extensions into target vertical markets. As of this past July's Worldwide Partner Conference, there were just over 50 partner applications with CfMD status, up from 20 in May 2008, and available for over 60 countries. Microsoft also had over 30 additional partner products still in the testing phases awaiting CfMD status.

## Consistent delivery capacity needed globally and locally

The bulk of Microsoft's current partners across all the ERP products are not fully equipped to support global projects for prospects or existing midsize customers in growth mode. The natural target organizations for the Dynamics ERP products are standalone, midmarket organizations. AMR Research's IT spending studies indicate that many midsize organizations are seeking to transform and grow their businesses, which means that expansion either locally (organic) or globally (inorganic, merger and acquisition) is inevitable.

With this paradigm in mind, it's imperative that Microsoft improves its partner-delivery capabilities and grows the base of vertically focused implementation partners while continuing to attract more to fulfill global deployments. To move upmarket in the short term—especially as AX 2009 gains traction—partners such as **Avanade**, **Columbus IT**, Fullscope, **Hitachi**, and Tectura will be called upon to be major contributors to the overall Dynamics product-line revenue stream as well as counter competitive threats from vendors with global delivery capacity, such as Epicor, Lawson, Oracle, and SAP. Microsoft Business Solutions also has the opportunity to continue to promote the “ecosystem within an ecosystem,” where large partners create their own delivery ecosystems. For example, Avanade and Tectura have grown their global delivery capacities through strategic acquisitions of regional players.

Arguably, the global delivery opportunity should be ripe for Indian service providers that have already created sizeable Microsoft practices either on the standalone technologies or with the Dynamics CRM product. A Dynamics ERP practice from **Infosys** is starting to emerge—expect others to follow suit. Furthermore, there may be an opportunity for Microsoft to use its internal services organization, Microsoft Consulting Services, but feedback from customers indicates that current comfort is with the partners, thanks to their local and industry-specific expertise.

---

## Consistent delivery requires a Sure Step

Microsoft Business Solutions understands that, regardless of the company implementing its products or where they are deployed, consistency in that delivery process is key. At the 2007 Convergence user conference, Microsoft unveiled Microsoft Dynamics Sure Step. Through a standard approach that uses a collection of tools, templates, and best practices, the Sure Step implementation framework replaces the individual, product-focused, rapid implementation tool and aligns the products themselves to drive a structured method for increasing the amount of repeatable implementation processes. Because of this, Sure Step accomplishes the following:

- Provides the Microsoft Business Solutions product development teams with ongoing feedback on implementation time frames, product adoption, and benefits so they can continue to drive continuous improvements in R&D.
- Becomes a lever for partners to use in sales cycles to remove any concern on behalf of the buyer on implementation time frames and documentation. It's also a great way to drive partner-to-partner networking. For partners without global reach seeking to help support the global expansion of some of their customers, Sure Step is designed to drive commonality across the implementation experience.

Since its announcement, Sure Step has been adopted by 400 partners, with 1,700 individuals trained. Ideally, it will encapsulate the deployment of ERP applications and other Microsoft technologies as well. This will further propel the greater Microsoft story and excite other groups within the company about the prospect of selling their own ERP and CRM products.

---

## Partner success dependent on knowledge of Microsoft beyond ERP

The connection between Microsoft's technologies and business applications is what drives the revenue opportunity for both the company and its partners. Partners that cannot capture both ends of the opportunity are missing out. The fees for Dynamics software licensing, maintenance, and services are only a quarter of the opportunity that exists when bundling the ERP software with servers and SQL databases, SharePoint, business intelligence, and other Microsoft technologies.

Consider this scenario: A total deal opportunity might be \$4M. It's estimated that only \$1M can be claimed for the actual ERP software, services, and maintenance. Some partners either don't have the skillsets to communicate the full Microsoft story or are more lifestyle businesses content to focus on the application opportunity alone, which may keep them—and Microsoft—from capturing as much as three-quarters of the total opportunity.

Examples of partners that have capitalized to extend beyond just ERP include the following:

- Tectura provides a Visio-based process modeler for NAV environments.
- Fullscope's Wise XE includes modules like WiseOFFICE, which links AX to Office applications and SQL databases to drive better business intelligence.
- Hitachi acquired the Dynamics ERP business of field services specialist **Iteration2**, which was focused on adding functionality to the AX product for field services scenarios to complement and expand its current Microsoft business.

Additionally, partners should understand where their industry and geographic strengths and capabilities are, but also be able to effectively articulate the value of Business Ready Licensing and Microsoft Financing, deliver software to clients under Sure Step, and assess whether pursuit of CfMD certification will be a competitive differentiator.

## The value quantified: What's in it for the customers?

Many references we spoke with shared that their IT stacks are blended tapestries of multiple applications, including various ERP and supply chain products. A common theme across these blended environments was that Microsoft software was the cheapest to run. While total cost of ownership fluctuates as companies expand and contract their software usage—in most cases, making the calculation more an art form than a hard-data reality—references were able to identify other forms of hard-dollar savings and business benefits from deploying the full Microsoft picture:

- One AX customer in the food and beverage segment shared some financial measures used during its evaluation of Dynamics AX against SAP. While initial costs of software acquisition from Fullscope (the partner facilitating the deal) seemed to be equal, it was through balancing the price of long-term resources versus the ongoing software impact (ongoing changes, modifications, etc.) over the lifecycle of the application that demonstrated to the client it would cost significantly less per year to support the Dynamics package.
- Another AX customer indicated that, compared to the other applications from the ERP providers living within its blended IT environment, the modifications and changes made to its AX instance were the most painless and inexpensive, with cost estimates starting below the six-figure range. Furthermore, the total cost of running Dynamics AX with all modifications is 20% to 30% of the cost of maintaining any of the customer's other legacy applications.
- While not every reference was able to identify concrete numbers relative to total cost of ownership or ROI, customers continually pointed to big-picture savings and benefits related to the retasked or reduced overall IT head count. In terms of ROI, however, one retailer using the combined **Junction Solutions**/AX retail product expects to see an ROI on its \$6M investment (50% services, 50% software and infrastructure) in the first year, in addition to a 10% expense reduction in all departments.

While the benefits are clearly there for customers to grasp, they have not held back on communicating where they feel Microsoft can improve. A major need communicated by customers and partners is for the company to provide a great investment in industry-specific functionality, such as e-signatures for FDA-regulated environments, within the standard products versus employing partner and ISV-driven add-on enhancements. At the same time, customers understand that Microsoft's model is heavily predicated on partner-driven efforts. They are aware that Microsoft continues to make investments in its partner community, building out deeper processes for certifications as well as OEM agreements of some functionality, but also stratifying the partner base to align partners and Microsoft together to best serve the client.

For customers coping with ERP's legacy and paying annual maintenance and support for the 10-year-old software that's running on aging hardware and creaky databases, the advantage of running modern applications integrated with Office, Outlook, Windows, and SQL Server might be attractive. By keeping its support for the brave new world of value chains and multi-enterprise collaboration for both mature and emerging markets in mind, Microsoft seeks to deliver a new breed of software and services products, with Dynamics ERP at the core.

Even if there is no interest in these applications for internal use today, corporations should familiarize themselves with Microsoft's products and services. They are likely to become an important factor in allowing smaller suppliers, customers, and distributors to participate in broader business networks.

## Conclusion

“The biggest decision I’ve made as CEO was pushing into the business applications area—one of the best decisions I’ve ever made, one of the most important decisions I’ve ever made, and the reason that brings us all here today. I’m darn excited about what we’ve done, what we can do for you, and certainly our long-term commitment to the area.”

*Steve Ballmer, CEO, Microsoft Corporation, March 2008*

In 2005, AMR Research identified that in order for Microsoft to remain competitive as an enterprise application and platform vendor, it needed to ensure it had viable, next-generation applications on the market by 2008. The company has reached that milestone (see “Microsoft Paints Project Green a New Hue”).

CEO Steve Ballmer’s long-term business applications goal is to take advantage of productivity, adaptability, innovation, and a partner ecosystem bonded together through the use of the Microsoft Business Solutions’ Dynamics ERP products. Microsoft Business Solutions and its partners have a tremendous opportunity to exert a unique leadership position in the midmarket through delivering not only business applications, but also the surrounding infrastructure, all of which is backed by Microsoft’s brand reputation of ease of use, strong R&D dollars, and executive leadership.

# Notes

---



### Research and Advice That Matter

AMR Research is the No. 1 independent advisory firm serving supply chain, operations, and technology executives. Founded in 1986, AMR Research focuses on the intersection of business processes with value chain and enterprise technologies. We provide our clients in the consumer products, life sciences, manufacturing, retail, and technology sectors with subscription advisory services and expert-led Peer Forums. To learn more about our research and services, please visit [www.amrresearch.com](http://www.amrresearch.com).

More information is available at [www.amrresearch.com](http://www.amrresearch.com). Your comments are welcome. Reprints are available. Send any comments or questions to:

AMR Research, Inc.  
125 Summer Street  
Boston, MA 02110  
Tel: +1 (617) 542-6600  
Fax: +1 (617) 542-5670



This is printed on 100% post-consumer recycled fiber. It is manufactured entirely with wind-generated electricity and in accordance with a Forest Stewardship Council (FSC) pilot program that certifies products made with high percentages of post-consumer reclaimed materials.

 **AMR Research**

**AMR-R-21712**