

Midmarket Software:

Technology Offers More Functionality to Meet Business Needs

BY DENNIS HOWLETT AND KEITH RODGERS

Dave Caruso, general manager of manufacturing industry strategies at industry analyst group AMR Research, recently led a panel discussion of chief information officers that examined the relationship between the IT department and line-of-business managers. The evidence from the assembled experts was that the role of the IT function has evolved from its traditional roots as technology “mechanic” into something closer to a strategic adviser. “They were saying that it’s on their shoulders to open the eyes of business people to how close technology was to the fabric of the business,” Caruso recalls.

This educational role is becoming increasingly prevalent in the small and midsize market as tight economic conditions force organizations to scrutinize every investment they make. From the amount of customization work users request for new applications, to the changes in business processes that software implementations often drive, the IT department has an influential role to play in ensuring that the business community understands the full implications of technology investment.

This closer alignment between technology and business requirements is changing the shape of the software

market for small and midsize businesses. In established application areas such as financial and human-resource software, vendors are packaging their solutions into vertical market templates. These templates not only provide for rapid implementation of solutions but also deliver a faster Return on Investment (ROI) by reducing the amount of custom work that solutions require to become productive. Likewise, in newer breeds of applications such as customer relationship management (CRM), the emphasis is falling on “out-of-the-box” solutions that vendors design to deliver the bulk of functionality that users require from day one. Today, three core factors are prominent in the business

buyer’s mind: reducing the amount of customization required to install new systems, rolling out applications as rapidly as possible to speed ROI, and containing the ongoing costs of running a system. Kevin Myers, vice president of product marketing and business development at CRM vendor Interact Commerce, says: “What we’re hearing from customers is, ‘Give me a pragmatic solution.’”

Cutting Customization

The demand for less customization work in the installation of new software is not confined to the small and midsize markets. The enterprise software space, dogged in the 1990s by cumbersome



implementation projects that frequently dragged on for years, has also seen a strong reaction in favor of minimizing custom coding work. But for the lower end of the market, reducing the amount of customization is business-critical. Not only are IT and cash resources severely constrained, but highly publicized failures at several well-known enterprises have also heightened sensitivity to the disruptive impact of reorganizing business around software applications. Just as important, extensive customization complicates upgrading to new versions of the software because application vendors rarely, if ever, support custom changes. In the long term, custom work usually increases the ongoing cost of software ownership.

The problem for the IT department, as AMR's Caruso points out, is that these implications may not always be understood by end users, who request software modifications and frequently believe IT can simply throw code at the problem. Caruso suggests that IT professionals should put the onus back on the end users, asking them to explain whether a suggested modification is essential to one of the critical success factors of the company. It may be vital, for example, that an engineering firm build links between a new computer-aided design (CAD) application and its existing enterprise systems; in contrast, requests to modify software simply to suit existing working practices or to meet low-priority departmental objectives should be rejected. "If you're going to modify the software," says Caruso, "make sure it absolutely drives the performance of the company."

Taylor Macdonald, senior VP of business partners at Best Software, argues that organizations should distinguish between "invasive" and "non-invasive" customization. "When you look at customizations that [modify] the system but don't prevent the next software release being

layered on top, that's OK," he says. Non-invasive modifications would include adding fields to screens, changing the look and feel of a report writer, or linking third-party applications. In contrast, once the system is opened up and the IT department starts hard coding, the long-term implications are significant. "As soon as you open the product up and do coding in a module or application, whenever new releases come out you'll have to go back and do some work," says Macdonald. "The job of the software publisher today is to provide as many tools and capabilities as possible so the customer can get a great solution without resorting to real custom coding. There are some unique businesses we have to custom code for, but there are fewer today than there were three or five years ago."

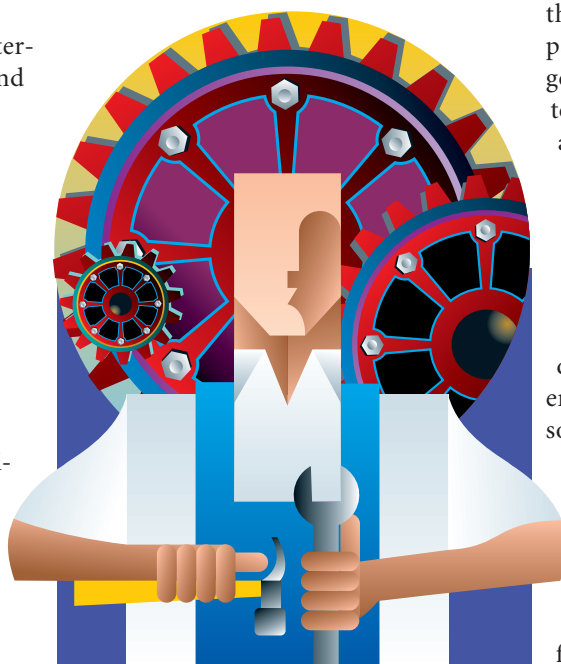
Reducing Implementation Timescales

Reducing the amount of customization is a major factor in meeting the second business priority, cutting implementation timescales. Following the lead of enterprise resource planning (ERP) vendors such as SAP, Oracle, and PeopleSoft, which have developed rapid-rollout programs for the enterprise and midmarket spaces,

many small and midmarket software vendors now offer fixed implementation timescales. Interact Commerce, for example, guarantees a vanilla installation of its full SalesLogix CRM package in 30 days through its Quick-Start program. In most cases, guaranteed timescales are strictly scoped, and customization or integration work will fall outside the service. In particular, the arduous process of converting data from existing systems usually is not included in these types of programs.

Pat Phelan, research director at industry analyst Gartner, points out that product type and the state of the organization's business and IT setups will influence speed of rollout. Packages aimed at the higher end of the midmarket will likely require greater work, because complexity bites deeper at larger businesses. But the length of the implementation program will also be influenced by the number and type of legacy systems that need to be converted, and by the effectiveness of existing business processes. "It may have nothing to do with company size," says Phelan. "It's your business model, where you're at in terms of legacy systems, and the software you install that will determine the time. You've got to know those baseline parameters. If a company's been around 100 years and has got mixed-up processes, it will need to go through a major organizational adjustment before it even touches the product."

Macdonald at Best Software reinforces the view that customer-driven factors—as opposed to choice of product—will play a major part in determining rollout timescales. Are employees capable of running the software? Has management bought into the idea of implementing as quickly as possible and in a professional manner? Is there a commitment within the organization to training? Is there a process and methodology in place for the implementation? Throw in a selection of business unknowns—such



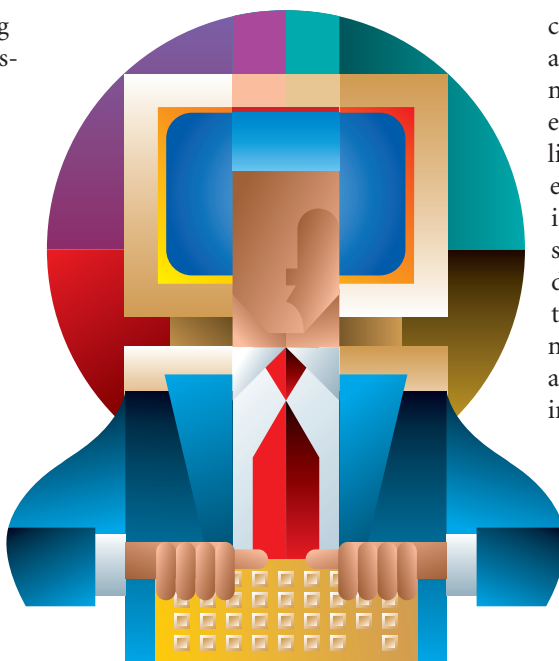
as key employees leaving or joining during the implementation process—and the huge number of variables becomes apparent.

This large range of factors will determine unique implementation timescales for every business. However, you can apply one rule of thumb to midmarket implementations: Typically, the ratio of software license fee to implementation costs should be between 1:1 and 1:2.

Total Cost of Ownership

Customer-related factors also influence the third business priority for small and midsize markets: understanding the ongoing costs of running an application. Although total cost of ownership (TCO) has crept up the corporate agenda in recent years, most organizations continue to end their planning efforts at the go-live date, consistently underestimating post-implementation support and integration costs. Major application rollouts can involve ongoing software maintenance fees and significant upgrades within 18 to 24 months—“I’ve seen some companies that have to do a business case just to justify an upgrade,” says AMR’s Caruso—and even smaller packages require patches and enhancements throughout the year as technology evolves.

“Just keeping software current in two or three plants can put more strain than expected on IT resource,” says Gartner’s Phelan. “People are not building these factors into their IT plans, and that’s when c-level people [e.g., CEO, CFO] come back to IT.” Macdonald points out that over five years, the software solution itself accounts for only 30 to 40 percent of the total cost—or less if you factor in the cost of taking employees out of their existing roles to be involved in the project. “People worry about getting a great deal on the software,” he says, “but in reality, training, development, and ongoing



maintenance will be greater than the cost of any software purchase.” Caruso adds that decommissioning—creating the leanest application footprint at the user site—is also essential to managing ongoing costs.

The Role of Analytics

Besides shifting to a more holistic view of software implementation, the small and midmarket application space is increasingly leveraging the power of analytical software. Historically, most implementations have focused on business process automation. Back-office applications in the fields of finance, HR, logistics, and manufacturing predominantly centered on automating manual and administrative activities. Likewise, the first wave of implementations for newer applications, such as CRM, has primarily focused on process: capturing core data in areas such as sales or automating information flows to service centers. While basic business reporting has long been part of many midmarket financial applications, rarely has it driven purchasing decisions.

That picture, however, is set to change. Compared to the early years of the business intelligence market, when IT “super users” were the

custodians of highly sophisticated analytical tools, the vendor community is now focusing on delivering easy-to-use analytics to end users and line-of-business managers. At the enterprise level, some of these analytics are embedded into operational software as a standard part of the delivered product, and over time those developments will occur in the midmarket. This trend stretches across the application arena, from HR in the back-office to CRM in the front, and plays to the concept of the “intelligent business.” By providing insight into the effectiveness of operations—and ultimately, aggregating data for strategic performance analysis—specialist business intelligence (BI) players and mainstream application developers are beginning to arm small and midsize users with tools to drive their businesses more effectively. In the short-term, Microsoft Excel-based analysis will remain prevalent, but the trend is slowly beginning to shift.

For software purchasers, the depth of analytical functionality contained within small and midsize packages—or offered as a third-party add-in—will become increasingly important. Vendors are changing focus to accommodate user demands for rapid returns and fleshing out product capabilities to meet the need for BI to underpin ongoing performance management. This shift confirms the trend outlined by AMR’s IT panel discussion: Technology is being weaved ever more tightly into the fabric of business. ■

About the Authors

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