

COMPETITIVE ANALYSIS

Canadian Enterprise Applications 2006 Vendor Shares

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IDC OPINION

The Canadian enterprise applications market continues to show strong growth, with a compound annual growth rate (CAGR) of over 6 per cent over the next five years. Recent trends in consolidation are being reflected in the vendor market share data in this billion-dollar market. As such, this study looks at leading vendors in the Canadian enterprise resource management (ERM), supply chain management (SCM), and customer relationship management (CRM) markets and the success they are having as organizations invest. Our research found:

- SAP continues to be the overall leader in Canada for enterprise applications.
- Oracle was second, but its position has continued to strengthen in 2006.
- Sage is the leading vendor in the Canadian small and medium-sized enterprise (SME) segment, but continues to feel increasing pressure from Microsoft Dynamics.
- Infor and Lawson have begun to carve out their positions in the market, but they may have challenges growing market share as Oracle, SAP, and Microsoft continue to get more aggressive.
- Partners will be key to expanding into Canada's SME market, and while each vendor continues to build out its partner channel, none has the silver bullet yet.

IN THIS STUDY

This study provides calendar 2006 software license, subscription, and maintenance revenue shares for Canada's leading ERM, SCM, and CRM vendors, along with a competitive analysis of these vendors. This study includes license, maintenance, and subscription revenue for these technologies as defined in *IDC's Software Taxonomy, 2007* (IDC #205437, February 2007).

SITUATION OVERVIEW

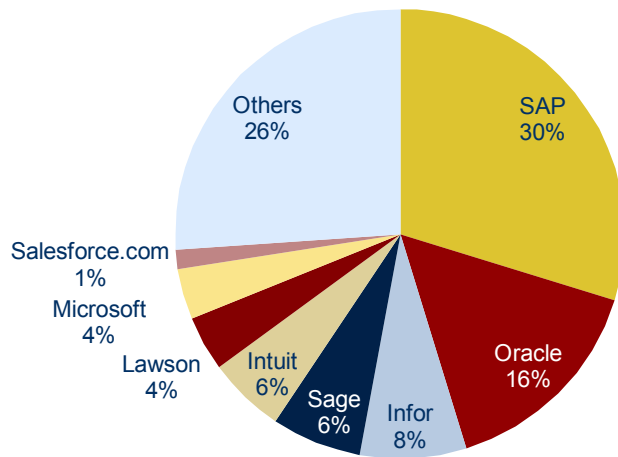
This study reviews the 2006 performance of the market leaders in ERM, SCM, and CRM. As IDC has tracked vendor consolidation activities in greater detail elsewhere, this study will focus on the market share changes in Canada. More information on global consolidation trends can be found in research referenced in the Related Research section of this document.

In 2006, the leading ERM, SCM, and CRM vendor in Canada continued to be SAP Canada Ltd. IDC estimates SAP Canada's license, subscription, and maintenance revenue for these applications at C\$369 million. SAP was followed by Oracle (with revenue of \$192 million), Infor, Sage, Intuit, Lawson, and Microsoft. The market's overall growth has benefited all leading vendors; however, some have fared better than others. Based on IDC Canada's 2005 market share, SAP and Microsoft both fared the best, recording over 11 per cent growth each based on calendar-year activity. Based on our estimates, Oracle grew over 6 per cent, a strong rebound from its previous year's slight decline. IDC attributes Oracle's rebounding growth to a strong second half and believes it is a reflection that Oracle's innovation-through-acquisition strategy has begun to resonate with customers and prospects. Sage also rebounded from a lackluster 2005, as its own acquisition strategy appears to be meeting customer expectations. However, Sage only increased its annual revenue by 4 per cent, less than the market average. Infor, another company on the merger-and-acquisition trail, finished 2006 strong after bringing SSA (including epiphany), Systems Union, and GEAC into the fold. It is estimated the vendor achieved strong revenue gains of nearly 6 per cent annually in 2006 over 2005. Lawson Software appears to have stalled in Canada in 2006; IDC estimates the vendor achieved little growth and recorded less than 2 per cent growth for 2006.

Other notable vendors include software-as-a-service (SaaS) CRM purveyor salesforce.com and the small business accounting software company Intuit. Intuit racked up nearly 8 per cent growth on sales of its on-premise and subscription accounting software to small businesses, while salesforce.com has begun to show that, like Americans, Canadians have a thirst for a CRM SaaS model. The vendor quadrupled its revenue from 2005 to 2006.

FIGURE 1

Canadian Enterprise Applications License, Subscription, and Maintenance Revenue Share by Vendor, 2006



Source: IDC, 2007

FUTURE OUTLOOK

In 2007, the ERM, SCM, and CRM markets in Canada are expected to have an annual increase of 7.4 per cent. This is ahead of 2006 growth of 7.1 per cent and exceeds our last projection for 2008 of 7.2 per cent. The CAGR for this group of applications will be 6.1 per cent, and the leading submarket, CRM, is expected to show a five-year CAGR of 6.8 per cent (see Table 1).

TABLE 1

Worldwide Enterprise Applications License, Subscription, and Maintenance Revenue by Submarket, 2005–2011 (C\$M)

	2005	2006	2007	2008	2009	2010	2011	2006–2011 CAGR (%)
Customer relationship management	213	229	248	270	288	303	317	6.8
Enterprise resource management	751	805	862	923	981	1,039	1,089	6.2
Supply chain management	177	189	202	214	222	231	241	4.9
Total	1,141	1,222	1,313	1,407	1,490	1,574	1,647	6.1

Source: IDC, 2007

As previously stated, the market in Canada is expected to grow at just over a 6 per cent CAGR over the next five years. However, the economy's strength, which drove sales throughout 2006 and into the first half of 2007, may now be having the reverse effect. As the Canadian dollar appreciated significantly (over 20%) from early 2007 to mid-2007, when it reached a 30-year high of \$1.10 against the U.S. dollar, key local industries began to feel the impact on their own revenue and profits. While the energy sector has been proverbial fuel for the Canadian economy's fire, the rising costs of doing business with Canadian manufacturers and a less competitive retail sector have softened investment, and the pillars of the economy have tabled some investments until the rampant ascension of the dollar is stabilized.

As 2007 is now coming to a close and the dollar has returned to a level near parity with the U.S. dollar, IDC expects investments in ERM, SCM, and CRM to be back on the table as companies now have an even greater appreciation for greater transparency, cost controls, and customer information. Canadian firms are also more acutely aware of the globalization of their supply and customer ecosystems and realize that having a unified back- and front-office application platform, rather than ongoing legacy investments, is becoming a business requirement instead of something nice to have.

Vendor Profiles

The following sections summarize how the leading ERM, SCM, and CRM vendors in Canada are positioning themselves and their services in Canada. Vendors covered include SAP, Oracle, Infor, Sage, Lawson, Microsoft, and salesforce.com. IDC has chosen to leave Intuit out of the discussion based on its nearly complete volume market play.

SAP

SAP Canada Ltd. is the market leader in Canada in terms of license, subscription, and maintenance revenue. The company continues to see strong interest from customers and prospects in its business process approach to the market, and SAP Canada has continued to hone this message to make it more industry specific.

In 2006 and into 2007, SAP has continued to sharpen its midmarket strategy. While the majority of the vendor's local revenue continues to come from what IDC deems large enterprise accounts (companies with 1,000 or more employees), strategically, it understands the need for long-term growth means it must establish mindshare with medium-sized enterprises (companies with 500–999 employees). To address this market in 2006 and 2007, SAP offered its Business One and All-in-One products, although IDC did record sales of its more traditional SAP ERP products in both large and medium-sized accounts.

While SAP's competitors have embarked on large-scale market acquisition, SAP has for the most part continued to grow its solutions organically. Select acquisitions in 2006 and 2007 were of firms that often added functionality to existing SAP systems or filled a void in its composite applications strategy (e.g., Versa filled such a void in SAP's governance, risk, and compliance offerings). SAP Canada hopes the organic and selective acquisition strategy of its parent will provide it with access to a local portfolio that is well aligned with local large and medium-sized corporate needs. These composite applications are important to SAP's overall strategy to grow share of wallet within its existing customers, allowing them to phase out costly support for multiple back-office applications.

SAP has not traditionally invested in large-scale acquisitions (Business Objects in late 2007 being the first exception), which shows the vendor's strong belief that it has already developed the most stable applications and transaction platform for business. Based on IDC Canada's tracking of market share growth, so far, SAP seems to have made the correct call.

To continue to fuel growth, SAP is focused on further gaining mindshare with non-IT executives in Canada and continuing to invest in industry-specific expertise. In Canada, SAP is strong in manufacturing, distribution, energy, and retail, and the firm is continuing to grow its customer base in these industries. Areas promising growth for SAP include the public sector and financial services. Composite applications are both increasing share of wallet and aiding in the vendor's growth ambitions.

The vendor's weak spot, if it has one, may be in its midmarket channel. While supporting strong relationships with global systems integrators, SAP has only a handful of midmarket partners in Canada. IDC expects SAP to address this deficiency in several ways going forward, including developing a software-as-a-service offering, supporting global SIs in their efforts to move downmarket through marketing and promotional incentives, increasing its own services operations (which includes the vendor bringing in support from global SIs and Indian partners), and introducing a mandate to double its local partners each year over the next several years.

Oracle

Oracle Canada has quickly risen to the number 2 spot in the Canadian market, primarily through its aggressive acquisition strategy. Unlike SAP, Sage, or Microsoft, but akin to other business applications providers, the company bases its business leadership out of the United States, employing primarily a sales, consulting, support, and research team in Canada. IDC expects future vendors that it acquires to be consolidated into this operations model quickly and effectively.

Oracle's primary enterprise applications ebusiness suite, including Oracle PeopleSoft, JDE Enterprise One, and Oracle Siebel, makes up the lion's share of the vendor's local license, subscription, and maintenance revenue. Each of these applications has allowed Oracle to gain applications presence within well-defined industries (e.g., PeopleSoft in the public sector and JDE Enterprise One in midmarket energy and manufacturing). By bringing all of these applications under the Oracle brand, the vendor is now aiding customers with the consolidation of their legacy enterprise applications and better management of their software costs.

In 2006, Oracle rolled out its Fusion strategy to bring these and other enterprise applications under a single code base. But more important, to protect its existing installed base while the market was educated, Oracle promoted Applications Unlimited. Applications Unlimited is Oracle's commitment to preserving the application environment that its customers depend upon for their business needs. IDC points to customers placing their trust in Oracle's Applications Unlimited strategy to its rebound in growth from 2005 to 2006. By augmenting this strategy with a cost-effective pricing policy, Oracle positioned itself well for its 2007 Accelerate and Application Integration Architecture (AIA) offerings, both of which have begun to resonate with customers that are running their business on a mix of Oracle application platforms (via acquisition) and other third-party or custom-built legacy applications.

Many acquisitions over the past 24 months were of PLM, retail, industry-specific, and supply chain technology providers. Through the use of AIA and Oracle Fusion Middleware, partners and systems integrators can be expected to reengage new prospects with core business applications by Oracle and an industry-tailored approach similar to that of Oracle's competitor SAP.

IDC continues to see a couple of primary challenges for Oracle in Canada. The first is its lack of midmarket partners. Beyond Oracle's JDE Enterprise One partners, its midmarket presence is currently limited. Oracle may find it a challenge to build a partner-led medium-sized-company business model while running its programs from the United States. As such, IDC expects Oracle to encourage United States-based medium-sized partners to expand into Canada and entice Indian-based partners to help it deliver solutions for the local Canadian market. Customers of products and services Oracle has acquired that are accustomed to having a local partner may consider alternative application platforms from competing vendors if Oracle cannot improve its midmarket partner coverage in the next 12–18 months.

The second challenge for Oracle may arise from its Applications Unlimited commitment. Support for aging applications in Canada, especially those dealing with Canadian tax, dual-language, and governance requirements, may be more costly for the company than supporting the United States-based customers for which the

program was primarily developed. As such, it is IDC's opinion that Oracle must leverage its new Accelerate and AIA solutions to accelerate the migration of its customer base to newer platforms sooner rather than later.

Infor

Infor continues to target manufacturing and distribution companies in Canada with its acquired ERP solutions. Via acquisition, Infor has a strong collection of SME and large enterprise offerings. In the last two years, Infor's base of installed customers has grown more than that of any other company.

Nonetheless, the pace of acquisitions does seem to be slowing as management has begun to focus on nurturing its customers in efforts to increase share of wallet by cross-selling other Infor solutions in a legacy customer base. New solutions in expense management, analytics, and human capital management are expected to be integrated as composite applications and leverage Infor's services-oriented architecture strategy, made up primarily of universal serial bus and Web-based APIs.

Infor is currently ranked third in the Canadian market. This is primarily due to its strong growth in the local midmarket (companies with 500–999 employees). Many of Infor's acquired companies in Canada, specifically SSA, Visual Manufacturing, GEAC, and Workbrain, had an install base that was growing steadily, and combined together, this customer base propelled Infor from obscurity to a leader in this category.

Infor, with the help of its well-heeled investors (e.g., Golden Gate Capital), is having an impact in the ERP market, given its outsized representation in the medium-sized enterprise segment, with its unique blend of business strategy execution, acquired industry expertise, and scalable business model. Infor has positioned itself to support aging legacy systems to continue to generate strong, highly profitable maintenance from manufacturers and distributors, which often choose to continue paying for proven but limited systems over moving to more modern architectures.

Sage

Sage's Canadian operations have maintained small and medium-sized business (SMB) market leadership due to Sage's strong Accpac and Simply Accounting financial applications. Investments in CRM (both Sage CRM and SalesLogix) are also beginning to have a positive impact on the vendor's market presence in Canada. With the additions of HR and CRM to its traditional financial package offering, Sage appears to have lifted itself out of maintenance mode and back into market growth mode.

Sage targets industries such as accounting (services based), as well as a broad spectrum of small businesses, including hospitality, construction, manufacturing, and real estate. Sage promotes its long-term relationship with charter accountants and the usage of its products in colleges and university courses. In the SMB space, Sage has strong mindshare among customers via its presence in education and with professional organizations such as the Canadian Management Association. The success of Sage Accpac can be attributed to ongoing customer and user familiarity with the product.

While Sage's competitors have outlined various road maps to a common code base, the vendor has chosen to differentiate based on having a multibrand approach to cover the full range of business needs of small companies. While the vendor has begun to outline a strategy for some of its applications to move to a common code base, it has also committed to the ongoing support of industry-tailored applications. This commitment is based on Sage's belief that companies have invested in its products based on their belief that its solutions have built-in best-in-class tools essential to their way of doing business and ability to compete in the marketplace.

Sage's plans for ERP in 2007–2008 include having its North American operations place greater emphasis on products such as Accpac, ACT!, FAS, MAS, Peachtree, SageCRM/SageCRM.com, SalesLogix, and Simply Accounting that are expected to generate higher-than-average organic growth over the next few years.

Preparing for future growth, the North American operation has recently undertaken a major reorganization program by grouping its products into four divisions: the Business Management Division (BMD), which includes accounting, ERP, and customer relationship management (CRM) software products and services such as hosted ERP and CRM; the Industry & Specialized Solutions Division (ISSD), which includes construction, real estate, nonprofit, human capital management, and online payroll services; the Sage Healthcare Division (SHD), which focuses on Sage's dedicated healthcare products and services; and the Payment Solutions Division (PSD), which offers Sage's portfolio of merchant payment–processing solutions.

IDC believes the biggest challenge for Sage is that it has little to no migration path between its applications. End users that wish to upgrade from Simply Accounting to Accpac or MAS are virtually assured a rip-and-replace effort will be required. While Sage has invested in tools to ease data migration across its platforms, the difference in how the user interacts with the applications and the level of change resulting from a migration does create opportunities for competitors to wedge themselves into a Sage business opportunity. In addition, Sage lacks business intelligence and performance management solutions. This is a challenge for Sage, as many of the partners that supplied these solutions for Sage are now being amalgamated into competing products.

Lawson

In 2006, Lawson executed on its vision by delivering the building blocks of its service oriented architecture (SOA) with the shipment of Lawson System Foundation (LSF), as well as major releases such as Lawson 9.0 and M3 7.1 that could sharply increase its add-on sales opportunities for its enterprise performance management products for strategic planning and embedded business intelligence.

HCM applications are core to Lawson's expertise. IDC research in Canada shows this market is overdue for growth and, as such, the vendor's message may resonate among customers in the public sector and healthcare verticals, where its productivity tools for recruiting and HR performance management fare well for companies struggling to meet the needs of an aging workforce. Lawson also targets manufacturing and professional services.

For 2007 and 2008, the vendor is expanding a planned rollout of its SOA, LSF 9. Ideally, this will create opportunities to cross-sell Lawson's ERP applications, as well as expand its on-demand human resource applications. Lawson's LSF 9, aided by bundled offerings from IBM and Lawson's StepWise accelerated deployment methodology, are meant to promote faster returns for its customers, especially those seeking to use the latest technology to differentiate themselves in the marketplace. Given the push by Oracle for both its AIA and Accelerate solutions and SAP for its BBD and composite offers, Lawson may have a hard time driving interest in its products over the two leading ERP suppliers.

The best opportunity for Lawson in Canada's medium-sized enterprise segment is to make the most of out its IBM partners and IBM's focus on building a strong ERP presence in the SME market. The vendor will have to prove that its industry-specific features and marketing message offer a choice that is competitive in features and price to the offerings of Oracle and SAP.

Microsoft Dynamics

Microsoft is leveraging its ERP applications to offer a complete technology solution for customers and prospects looking to unify their systems and centralize their technology investments. This is increasingly of interest to small and medium-sized companies that continue to invest in legacy applications and their rising maintenance and support costs.

To bolster its investment in its ERP product set, Microsoft announced several key initiatives that should benefit Canadian customers. These include the Dynamics Client for Microsoft Office and SharePoint Server, a new deployment architecture (SureStep) to increase partner capabilities, an increased number of industry-certified solutions, and the development and integration of online community tools for IT and line-of-business customers.

With ongoing development in job-specific application functionality, Microsoft is enabling its applications to deliver information in the context of the task at hand. IDC's research showed this to be an increasing request from SMEs to increase the reach and relevance of ERP within organizations of all sizes.

Microsoft's commitment to its channel partners and their commitment to Microsoft will be important to the Business Solutions group's success. Microsoft must make sure that its partners, especially those for Dynamics AX, do not get "SAP envy." In other words, if they focus too much on the potential consulting and customization fees, they will not focus on getting new customers up and running with real-world data as soon as possible. IDC believes that for Dynamics AX to reach its full potential in Canada, Microsoft's partners must focus on adding customers and getting them live quickly to promote the value of moving data away from legacy systems and making it more available to business decision makers. Proving this to skeptical late adopters will create upsell and cross-sell opportunities that long protracted consulting engagements in the SME market will hinder.

Microsoft GP and NAV will continue to see strong competition from Sage, Epicor, and other SME-focused vendors. Microsoft will need to align its GP offerings with tools that small enterprises need today, such as SharePoint Server and PerformancePoint.

Microsoft's integration of GP with Microsoft's productivity and email suite should make the vendor's offering a compelling solution that is easy for companies to get users to adopt and use right out of the box. Finally, a slew of new releases are in the pipeline, including AX 5.1 in the first half of 2008 and GP 11 and SL 8 in 2009.

Salesforce.com

Salesforce.com opened its Canadian office in 2005. This office supports eastern Canada and parts of the northeastern United States and is exclusively focused on subscription sales and marketing activities; any support and customization is done in the United States.

While the vendor has many SMB customers in the United States, its Canadian operations have generated strong sales via large, international United States–based accounts. These sales have kick-started the company's local operations and allowed the Canadian office to witness strong growth in both 2006 and 2007. As such, IDC expects the vendor to overcome much of the high turnover costs associated with its operations in the United States. Because it is able to show SMB customers in Canada a strong list of global customers, we expect salesforce.com to continue to be the leading SaaS CRM provider in Canada until a suitable competitor appears.

The company's big partners, including PwC, Deloitte, and Accenture, have not delivered on large enterprise deals in Canada. The reason is that there's not much money in it for them; the application was (rightly or wrongly) not perceived as enterprise ready, and larger organizations have been more reluctant to go with an on-demand model.

Salesforce.com is aware it is missing out on business in Quebec, not only in the region but also in verticals that are well represented there, such as pharmaceuticals. Currently, the company has a limited ability to bring in midmarket and large deals (>\$1 million) from Quebec with its existing sales team. Given the surge in economic activity in Alberta, it is surprising that salesforce.com isn't showing more obvious interest in that market. It is true that the industry driving the growth — energy — is not a big vertical for salesforce.com, but the hot economy is spinning off more activity in secondary industries. For now, salesforce.com seems content to see if its new initiatives, specifically the Google partnership and Force.com, will result in viral uptake, with salespeople in Toronto providing support.

ESSENTIAL GUIDANCE

Advice to End User

As Canadian organizations look to acquire enterprise application software, IDC recommends that customers consider the following:

- ☒ As vendor consolidation continues, end users need to develop and continually update their IT strategy. Look at how your organization can take advantage of vendors' expanded product portfolio; consider the vendor's product road map and how its evolution to a single product will impact your organizations' current

business operations and governance policies as well as longer-term IT strategies and operations.

- ☒ While all vendors have some sort of service oriented architecture (SOA) capabilities as part of their offerings, it may not be realistic to expect that it can resolve all of your integration challenges. A careful understanding of how the middleware platform will enable your organization to incorporate composite applications and functionality into your IT operations will be essential. In addition, it will be even more important to integrate SOA technologies into your business processes in order to manage and optimize an IT environment that enables business agility , helping position the IT team as responsive to the organizations' business needs.
- ☒ As you consider implementing a new enterprise application solution, or extending existing package by integrating composite applications, whether in the form of on-premise or on-demand licensing, consider the competencies needed by both your IT staff as well as end users to maximize usage and realize the anticipated benefits. Training is usually an afterthought, but consider building training requirements into both the IT and business, strategic, and operational plans.

Advice to Vendors

To be successful in the Canadian enterprise applications market, IDC recommends that vendors consider the following call to action:

- ☒ In the next five years, much of the ERP market activity is expected to center around the SMB segment, as an increasing number of ERP vendors have acquired the expertise, critical mass of users, and channel programs to sell and support a new set of affordable, intuitive, and Web-based ERP applications, some of which are becoming easily accessible because of the on-demand delivery model. The adoption of both on-premise and on-demand enterprise application software will require a balance between flexibility and clearly defined value propositions for each approach to address both short- and long-term customer needs.
- ☒ Aiming to dominate the SMB market segment, vendors such as Infor, Microsoft, Oracle, Sage, and SAP have embarked on an all-out war to launch high-stakes development projects, initiate acquisitions to shore up product portfolios, retain and recruit new channel partners, and raise the barriers of entry of their current vertical industries by continuing to build their partner ecosystem as well as promoting simplified methodologies for rapid implementation, knowledge transfer, and business process integration.
- ☒ The strong dollar and a skills shortage continue to challenge many companies, especially in the manufacturing and retail sectors in Canada. To justify IT investments, vendors will have to promote the effectiveness of their ERP solutions in improving the bottom-line performance. At the same time, vendors will need to refine their training programs for both end-user organizations as well as partners (sales and technical training programs for both direct sales and channel partners staff) to leverage best practices and lessons learned to accelerate all phases of the buying cycle.

- ☒ The consolidation of many products and rationalization of the expanded portfolio will require vendors to clearly articulate a product road map that helps protect investments in existing ERP applications, resolves integration challenges while taking advantage of new functionality to streamline workflows, and delivers a rich end-user experience while improving business performance .

LEARN MORE

Related Research

The following documents provide further insight into IDC Canada's coverage of the local enterprise applications market and can be found on www.idc.com:

- ☒ *The Canadian Market Opportunity: ERP* (IDC #CA6EA7, October 2007)
- ☒ *Worldwide ERP Applications 2007–2011 Forecast and 2006 Vendor Shares* (IDC #208945, October 2007)
- ☒ *SAP Plugs into to Canada's Utility Market* (IDC #lcCA20836907, August 2007)
- ☒ *Canadian Enterprise Applications Opportunities: Vertical Views* (IDC #CA2EA7, May 2007)
- ☒ *Canadian Enterprise Applications 2007–2011 Forecast* (IDC #CA5EA7, May 2007)
- ☒ *Acquisitive Vendors, Investors Profit from the Latest 36-Month Period of Worldwide Enterprise Applications Market Consolidation* (IDC #206021, March 2007)
- ☒ *Canadian Software 2007 Top 10 Predictions* (IDC #CA1EA7, January 2007)

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