Why a Partner Ecosystem Results in Superior Value:
A Comparative Analysis of the Business Models of Two ERP Vendors

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ABSTRACT

The paper carries out a historical analysis of business conducted over 25 years by two enterprise resource planning (ERP) software vendors in Denmark-Maconomy and Navision—each employing its own business model. Maconomy adopted a business model where the company itself would develop, sell, and implement ERP packages directly to its customers; whereas, Navision adopted a business model which relied on an ecosystem of partners consisting of value added resellers (VAR) and independent software vendors (ISV). Using the Resource Based View (RBV), the paper compared and contrasted the capabilities and resources of the two companies. The key finding is that Navision provided superior customer value and, consequently, collected superior rent, as shown by its selling price of as much as 16 times the selling price of Maconomy. The analysis shows that the main reason for this huge difference is the value of Navision’s ecosystem, which had enabled the company to achieve substantial economies of scale. This finding has implications far beyond the ERP field. The results of the study point to this direction: Technology will lead to more intermediation and the inclusion of more economic units in the traditional value chain or value network due to lower transaction costs and increased focus on core competences.

Keywords: Business Model, Ecosystem, Enterprise Resource Planning (ERP), Resource Based View, Value

1. INTRODUCTION

In the early days of e-commerce and e-business (Kalakota & Robinson, 2000; Timmers, 1999), it was believed that the number of economic parties in the value chain would be reduced due to the advantages of going directly to the (end-) customer even in business-to-business (B2B) relationships. The demise of intermediaries like wholesalers and retailers was predicted. However, our research in the field of ERP systems for small and medium enterprises (SMEs) shows that a business model of using partners for handling all sales and service to the ERP user organizations is far superior compared to
the direct sales model (Sarker, Sarker, Sahaym, & Bjørn-Andersen, 2012).

This paper tracked the development of two Danish ERP vendors, Maconomy and Navision, and the different business models they each adopted to expand their market share. Since both of them have now been acquired by U.S.-based companies, we were presented with an excellent opportunity to measure the value of the business model as reflected in their respective acquisition values.

The contrast between the approaches taken by these companies is seen in the decisions and strategies each company made to sell and implement their respective ERP solutions. Maconomy executives decided that their company had the capability of selling and implementing their own system for two reasons: first, because they felt that they could better assess how to meet customer requirements through software modifications and customizations; and second, because they believed that this allowed them to gain valuable information for future revisions and further development of the general software.

Navision, on the other hand, decided that in order to provide superior customer value and higher economies of scale in selling licenses, it would be advantageous to sell through partners. This approach meant that the architectures of the kernel systems and the development tools for customizing to clients’ needs became very different between the two companies. While Maconomy could rely on the competencies of their own staff regarding the development of their ERP system, Navision had to develop a number of development tools for the partners and a procedure for collecting information about customer requirements for future developments.

In 2002, Navision was acquired for $1.2 billion (DKK 10 billion) by Microsoft; eight years later Maconomy was acquired by Deltek for $73 million (DKK 438 million). How did these valuations come about? From a financial perspective, one might value a company through a market approach, which estimates the earning potential of a company based on the market demand (Zwilling, 2009). From an Information Systems (IS) management perspective, however, it is the researchers’ contention that the different business models employed by the two companies played a substantial part, regardless of the financial perspective used in the transactional calculus.

Using the Resource-Based View (RBV) theory as a framework, this paper analyses the strategies employed by Maconomy and Navision to establish and develop themselves as ERP vendors within the context of the competitive climate in Denmark and the global industry. The paper also discusses how the two firms took advantage of the resources available to them and how these vendors successfully developed their capabilities to achieve a core competency in developing ERP solutions. Furthermore, this paper looks at how various resources can be harnessed and used by organizations to obtain competitive advantage. In particular, it looks at whether or not an ERP vendor should use a partner channel to develop and distribute their ERP solutions.

This paper is organized as follows: Firstly, it contains a literature review of the RBV. Secondly, it details the methodology used to conduct the case study. Thirdly, it describes how the two companies developed their capabilities. Fourthly, it applies the concepts of RBV to the case. Finally, it discusses the limitations and further implications of the case study.

2. LITERATURE REVIEW

The RBV theory argues that a firm which owns rare and valuable resources can use these to achieve temporary competitive advantage (Mata, Fuerst, & Barney, 1995). Moreover, a firm has intrinsic and extrinsic resources at its disposal which, taken singly or in combination with others, can be developed into capabilities. These capabilities, which are repeatable processes that markedly enhance the value of assets, include managerial and technical skills, as well as systems development or integration processes (Teece, Pisano, & Shuen, 1997; Wade & Hulland, 2004). If managed, as well as safeguarded from being copied, substituted or
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