Critical Analysis of Expansion Strategies of SAP, IBM, Oracle and Microsoft in the Area of Business Intelligence

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ABSTRACT

Business Intelligence (BI) industry has emerged as a high growth area. Recognizing this fact, both pure play vendors as well as big application and infrastructure vendors are trying different strategies to increase their market shares. The paper starts with a discussion of BI industry since 2002 to understand the underlying dynamics of the BI industry. It is followed by analysis of BI growth strategies of big four application and infrastructure vendors—SAP, IBM, Oracle, and Microsoft—to get a bigger pie of the market. The paper also analyzes the customer reactions to the new BI paradigm, impact of the acquisition on BI market and concluding remarks on the acquisition of pure play vendors by big four.

Keywords: Application & Infrastructure Vendors, Business Intelligence, Consolidation, IBM, Microsoft, Oracle, Pure Play Vendors, SAP

INTRODUCTION

The matured state of an industry is characterized by its five characters. First, the industry consists of large number of players in the market - some of them being small but niche (pure play vendors) whereas others big who derive the market. Second, the industry is experiencing proclivity of consolidation within and outside its domain. Third, the industry has passed through emerging and growth phase. Fourth, industry has low price to earnings ratios (P/E) and high dividend yields. Fifth, the key strategy of industry is based on cost-cutting to stay ahead of margin erosion (Stone, 1992; Grant, 2005). Further, mature industries have less scope for product and process innovation but have considerable opportunities for strategic innovation and differentiate through complementary services such as strategic co-innovation by WIPRO, Satyam Mahindra, Infosys (Indian IT Company) with IBM/Cognos, Microsoft, Oracle/Hyperion, SAP/BO, SAS, Informatica((www.wipro.com/resource-center/wipro.../business_intelligence.pdf) (Sahni & Carter, 2008)). The BI industry falls in the category of mature industry because

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it has almost witnessed these five characters and also strategic innovation during the last two decades.

Since the 80’s when the term “Business Intelligence (BI)” was coined for a category of software tools developed to help business decision making, the market as well as sophistication in the features of BI software tools has grown tremendously. Vesset et al. (2005) put the revenues of BI industry at $5.7 billion for the year 2005. Swoyer (2008) reported that growth rate for 2006 and 2007 was in double digit and the market size easily topped $7 billion figure at the end of 2007. Weier (2009) reported a growth rate of 22 percent in 2008 for a market of size $8.8 billion at the end of that year. According to Forrester Research the BI market will touch the figure of $12 billion by 2014. However, Business insights (2010) predicted that by 2013 BI market will be $13 billion. Whatever may be size of the market, it will certainly be dominated by SAP, IBM, Microsoft, Oracle and SAS. The share of different vendors is presented in Table 2. The amount of BI buyouts is given in Table 3. Based on this data it can be inferred that BI industry will grow better than overall growth of IT spending.

Nagel (2010), Whitney (2010), and many others have analyzed the data of surveys conducted by Gartner of Chief Information Officers (CIOs) of corporate. These surveys identified 10 top business priorities and 10 top technology priorities. The finding of these surveys mentioned that CIOs will focus on technologies that are quick to set up and do not demand upfront capital expenditure. BI is ranked at 5th place followed by virtualization, cloud-computing, web 2.0 and networking among such technologies. It also mentioned in these reports that at least six to seven information system solution priorities of businesses have roots in BI technologies. To mention, use of analytics in attracting and retaining new customers, managing change initiatives, targeting customers and markets, and expanding current customer relationships will need implementation of BI technologies. These factors will augment growth of BI more than the growth of IT as a whole. In India it is ranked as number one technology for the year 2010 by CIOs. BI growth in India is attributed to the need of consolidating reporting systems according to Nallayam (2010).

These facts prove that many companies (both supply and demand side) see BI as a good investment even during tough economic times. Companies are investing in BI to pinpoint new revenue-generating opportunities; improve operational efficiencies and visibility of the processes across the organization, and Optimizing the return on overall information technology (IT) investments in customer relationship management and enterprise resource planning segments.

Agostino (2004), Chou and Tripuramallu (2005), and many other researchers have emphasized the need of integration of BI with ERP. The justification given by them was obvious. ERP systems are implemented with an objective to integrate corporate data from various sources so that employees, external partners, suppliers, and distributors can make better use of the integrated data. But ERP systems lack analytical capabilities. The gap is filled by BI systems.

In the context of present day needs, the corporate have two additional objectives. The first one is to distribute data within and outside the boundaries of the business organizations. The second one is the usage of analytical functions at all level in the organization. Organizations need to distribute the real time analytic capability to all operational levels, targeted at specific business needs via key performance indicators (KPIs), and dynamic reporting functionalities. ERP systems are not designed to provide all such functionalities. Therefore, there seems to be two objectives of the big application vendors in acquiring BI companies, the first one to provide analytical capabilities at operational level with other additional capabilities and second to expand in fast growing BI segment of application software industry.

By adding BI systems, an infrastructure software vendor provides tools to integrate data from various sources, provides analyti-
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