

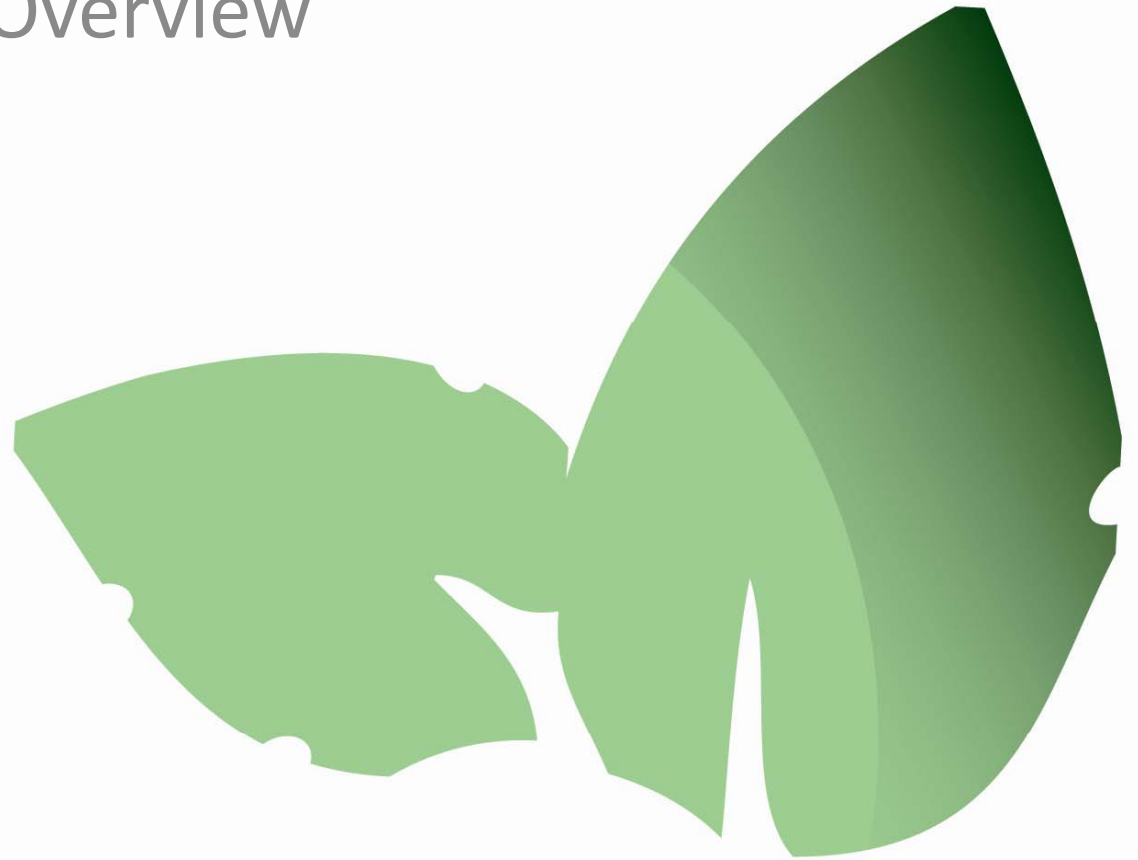
IFS ERP Survey: How M&A Activity Affects ERP Users

Overview



Mint Jutras

Making Enterprise Business Systems Pay Dividends



Background

In the fall of 2011, a study was conducted among manufacturing executives and professionals of middle market to large manufacturers to better understand the impact on customers when solution providers are acquired.

This study illuminates:

- Concerns of customers
- How they respond



This study was conducted by IFS North America and Mint Jutras, an independent research-based consulting firm that specializes in analyzing the business impact of enterprise applications



Major Areas Explored



- What percentage of companies are impacted by acquisitions?
- How are these acquisitions perceived?
- What actions are taken by customers post-acquisition?
- What concerns to customers have when their enterprise software they use is acquired?

Applications included:

- ✓ Enterprise Resource Planning (ERP)
- ✓ Customer Relationship Mgt (CRM)
- ✓ Enterprise Asset Management (EAM)
- ✓ Project/Portfolio Mgt (PPM)
- ✓ Supply Chain Mgt (SCM)



Key Findings



- Over half (54%) of survey respondents have “experienced” an acquisition of their software vendor.
- Acquisitions that result in broad portfolios of products are not necessarily viewed negatively but this will depend on the nature of the portfolio.
- Concerns primarily arise over the continued support and innovation of products that are implemented at the time of the acquisition.



Impact of M&A

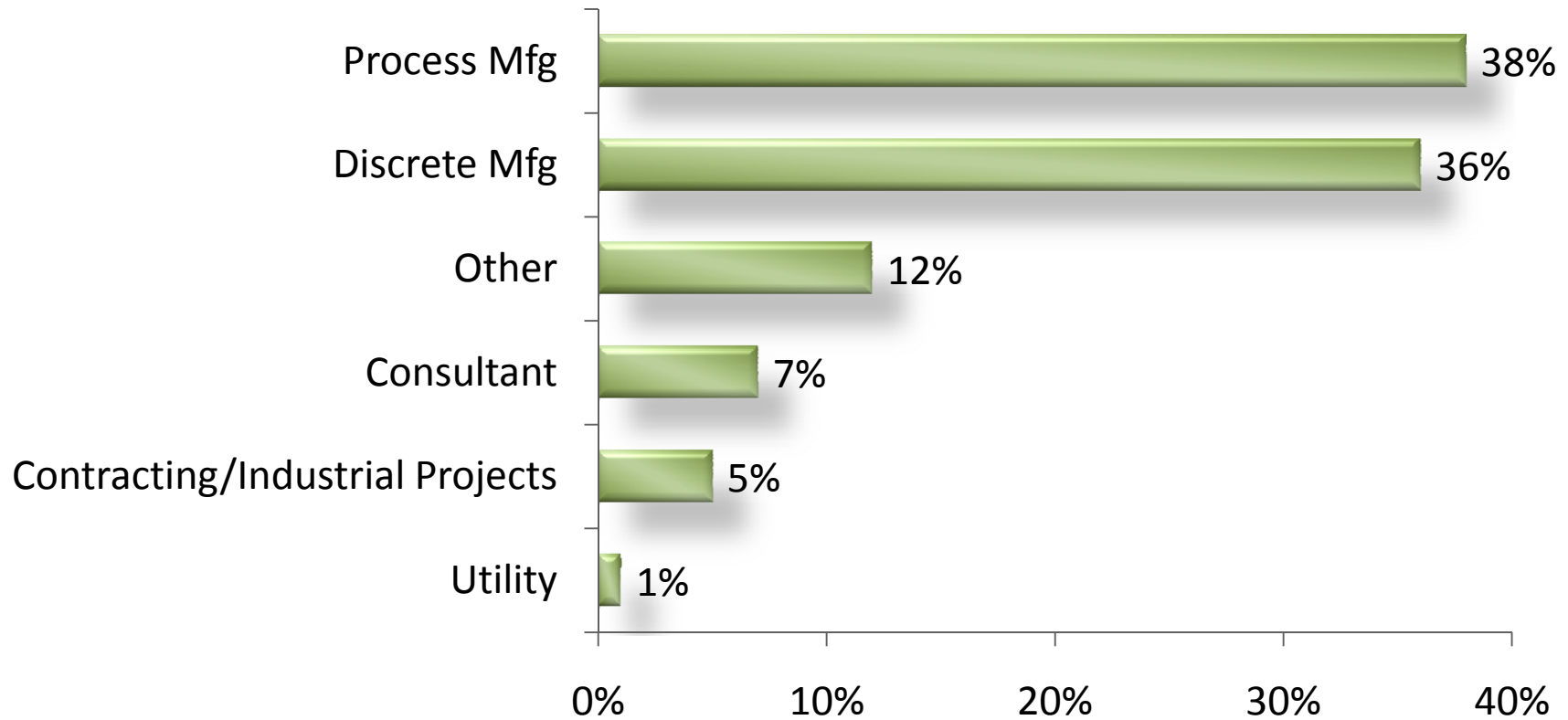


The majority of respondents are running enterprise software from a vendor that was recently acquired – either before they selected and implemented it or after they selected and implemented their software. Respondents across the board did not necessarily view acquired products more negatively than products from vendors that had not been involved with M&A activity. However, among companies running software from vendors affected by M&A, only 10 percent had no concerns.

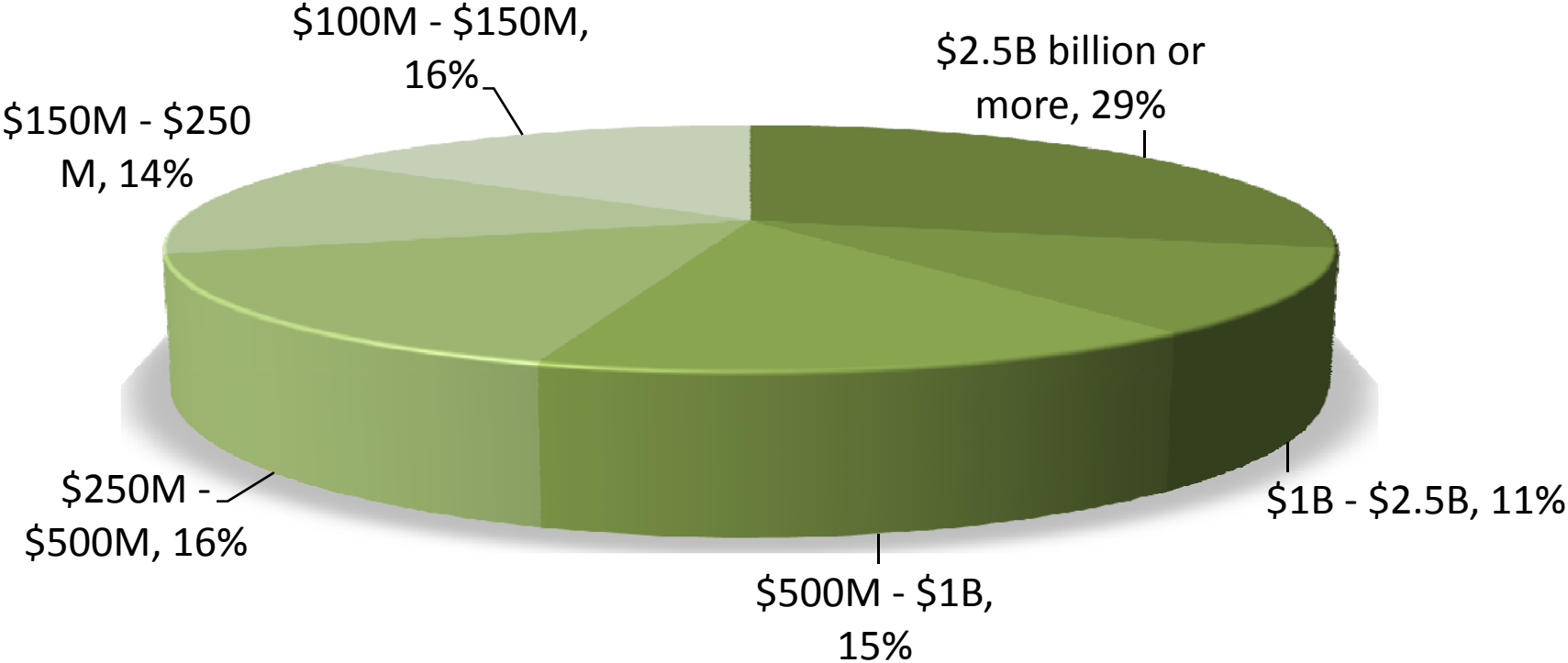
The majority of respondents running enterprise software that has been subject to M&A activity report that they plan to continue to run the software. Among those who plan to replace it, the incumbent vendor does not seem to have an advantage, as most of these respondents say they will seek competitive proposals rather than simply considering other software products the vendor that acquired their current product is offering.



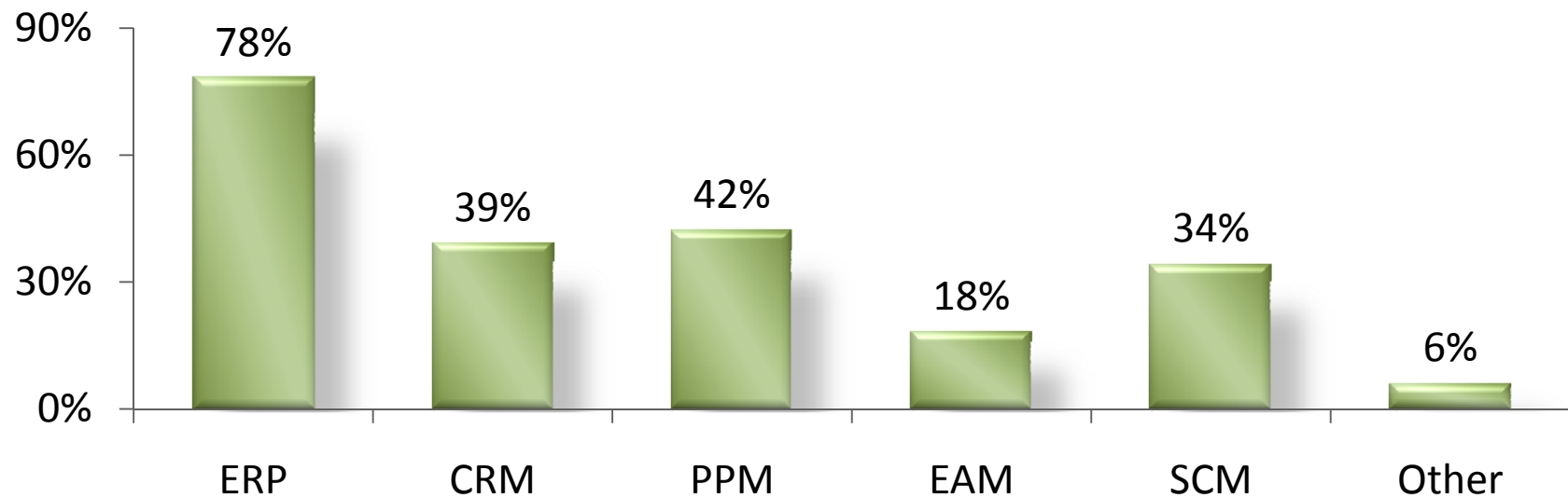
Type of Business



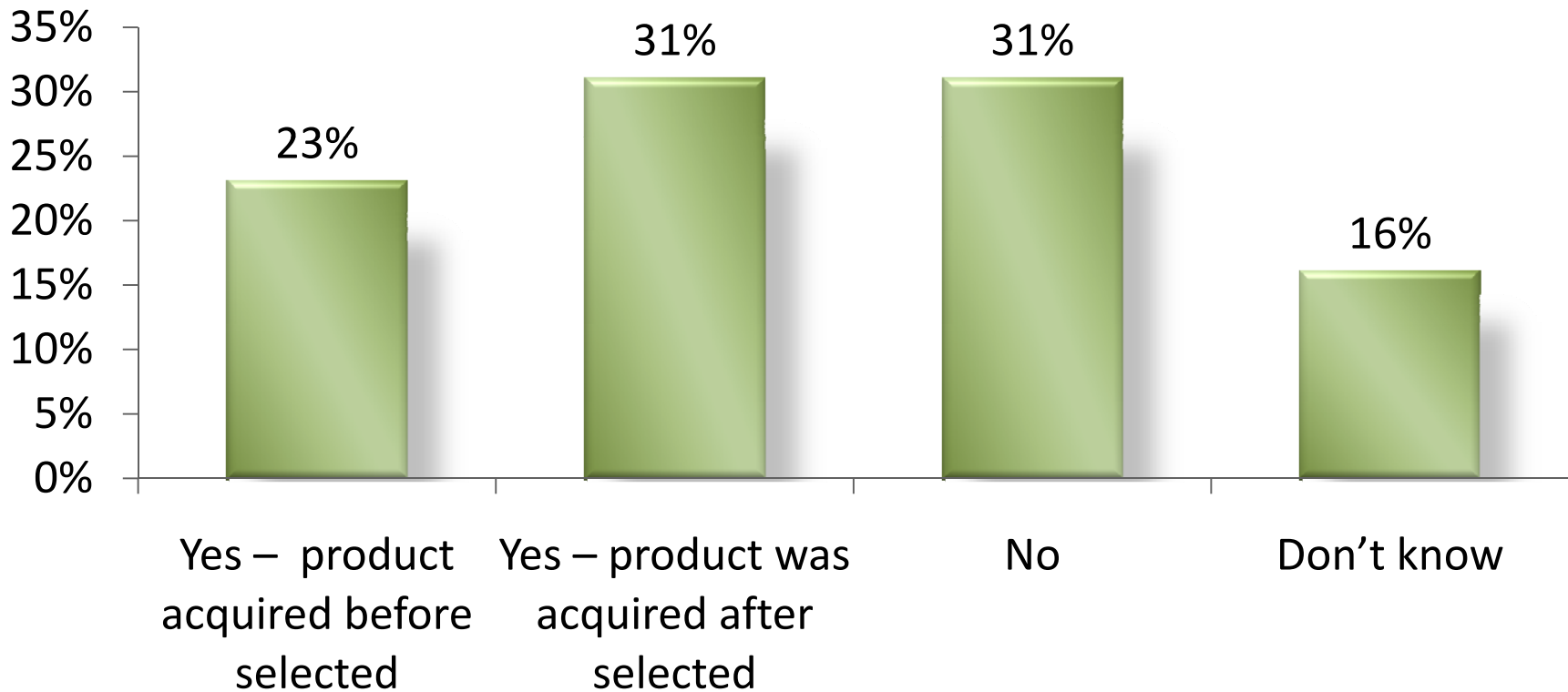
Size of Company by Revenue



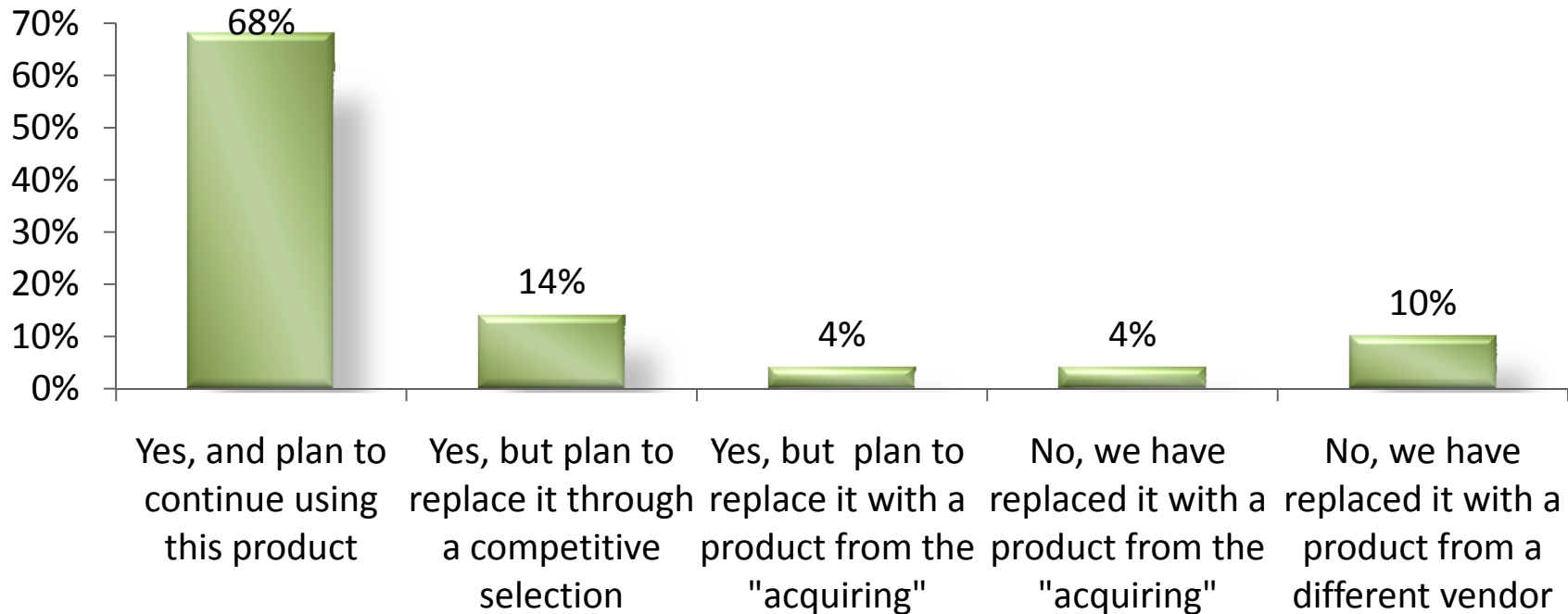
Applications Currently Implemented



Have you used a product from a vendor that was acquired?



Post Acquisition: Still running it?



Most continue to run software post-acquisition. But when replaced, the incumbent vendor does not necessarily have the advantage. A search for replacement is > 3X as likely to be put out to bid.



Typical Goals of Acquisitions



- Vendors have multiple goals when they engage in acquisitions, and these goals often do not have to do with better serving the customer.
 - Grow market share:
 - Growth of customer base is quick and in “steps” rather than gradual
 - Can be cheaper to acquire large blocks of customers than selling them one at a time
 - Recurring revenue stream benefits from larger base
 - Grow share of customer wallet:
 - Cross sell and up sell opportunity
 - Quicker to acquire a solution than to develop it internally
 - Strengthen internal expertise immediately
 - Enter new markets



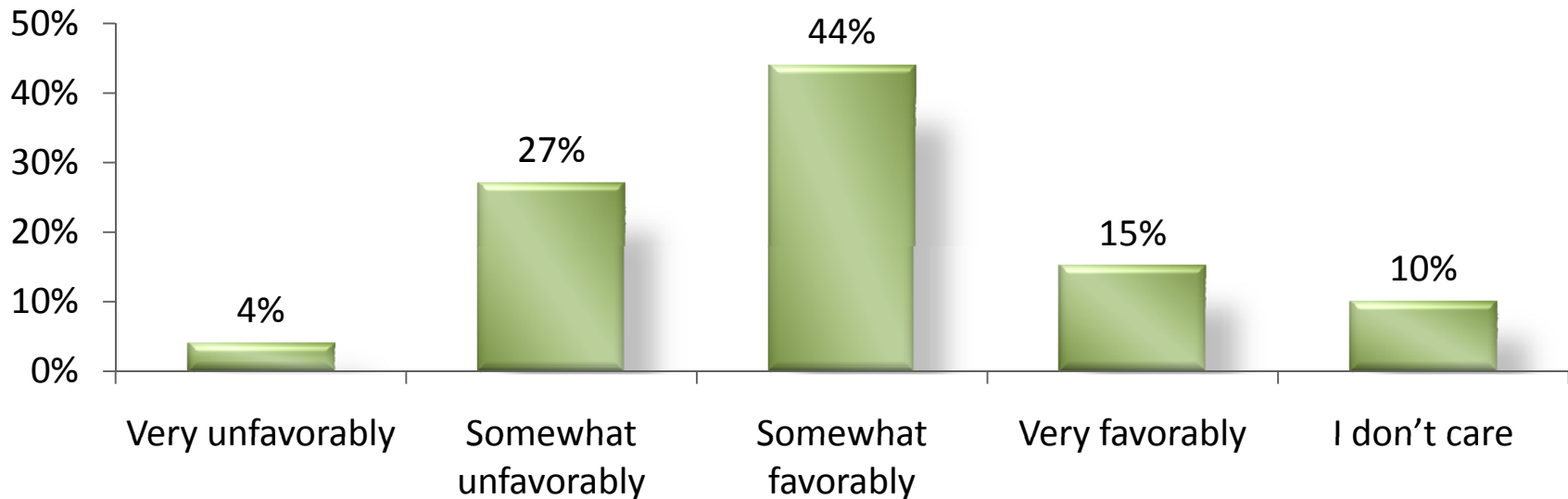
How does the customer benefit?



- In some cases, acquisitions benefit the customer if they:
 - Place an acquired vendor or the acquiring vendor in a stronger financial position
 - M&A activity can “bail out” struggling companies, preserving legacy solutions companies that may otherwise simply vanish.
- When vendors use M&A activity to grow their share of the customer wallet:
 - Customers may access a broader solution from a single vendor.
 - There may be synergies between merged companies/solutions
 - There could be an accelerated (or slowed) innovation process
- Enter new markets
 - There is little to no customer benefit when vendors enter new markets unless the customer is in (or entering) a market that is underserved by the original vendor, which means their original selection of that product was questionable.



How do you view vendors with a broad portfolio of products?



NOTE: Did not distinguish between a broad portfolio with the intent to buy market share (e.g. a large number of ERP solutions) versus those with the intent to broaden the solution footprint (surround ERP with complementary products).



How do you view vendors with a broad portfolio of products?



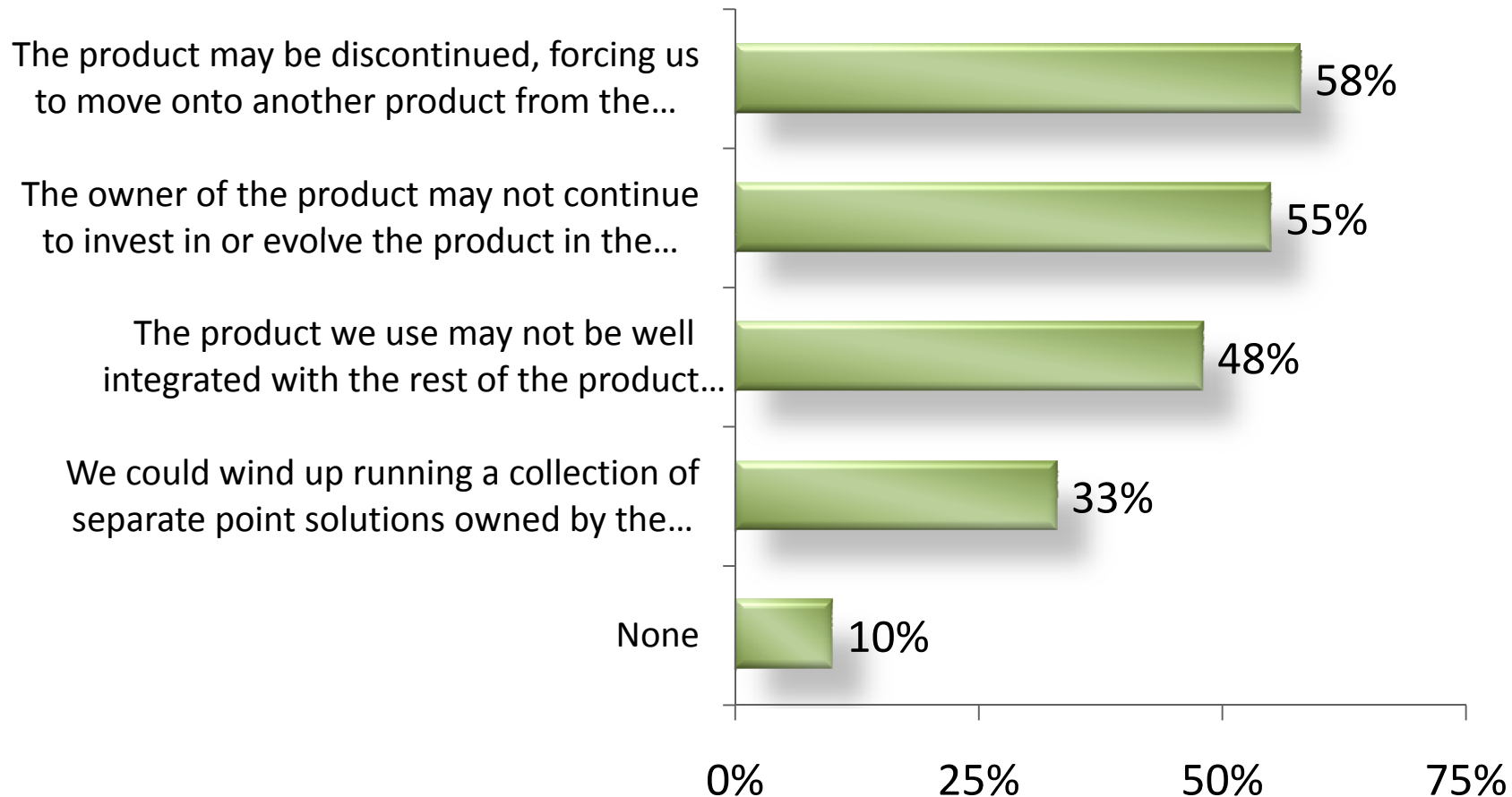
When software vendors acquire a large number of different solutions, 90 percent of respondents are concerned with the future roadmap for the product they may be running. They are concerned that their enterprise software product may not have a secure future, and may be discontinued in favor of other products in the portfolio. They would be forced to move to a different product.

They also fear their product may simply languish due to minimal investment. It would not be evolved with new functionality, features and technology in the future, and they ultimately would need to move to a different product.

Less frequently reported concerns include a fear of poor integration between acquired products, that would result in running a collection of point solutions rather than an agile, integrated ERP suite.



What concerns do you have with acquired products?



Comments from respondents ...



- “We do not see the same level of support as from the original vendor.”
- “Caused us to reassess strategic direction with the package. Doesn't necessarily mean we will move away, but we might.”
- Looked good at first but discovered later many gaps.
- “We buy the software assuming great integration, that wasn't true.”
- “Had to learn new, some times inadequate software for the function needed.”
- “Slight inconvenience.”
- “No real impacts other than just name changes and notification letters/e-mails.”
- “Positive impact as functionality included in purchaser software was added to our software product.”



About IFS



IFS is a public company (OMX STO: IFS) founded in 1983 that develops, supplies, and implements IFS Applications™, a component-based extended ERP suite built on SOA technology. IFS focuses on agile businesses where any of four core processes are strategic: Service & asset management, manufacturing, supply chain and projects. The company has 2,000 customers and is present in more than 50 countries with 2,700 employees in total.



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