And Then There Were None:

As Business Intelligence Suppliers Consolidate, Associated Risk with Supplier "Lock In" Increases

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There is a movement underway in the technology industry which is making its mark in the Business Intelligence markets. The pure play suppliers of Business Intelligence (BI) solutions are rapidly being consolidated to the brink of extinction through the high profile acquisitions of major technology suppliers such as Oracle, SAP and IBM. The resulting thinning of the pure play BI supplier herd coupled with the expansion of the proprietary technology empires of the acquirers increases the risks associated with a phenomenon called Supplier "Lock In" for customers of BI technology providers. Lock In occurs when the balance of power in a supplier relationship is diminished to the point where suppliers can dramatically lessen the levels of value of their solutions and the alternative options for the customer may neither be strategically nor economically viable. Lock In risks subjecting an existing customer to monopolistic pricing practices by the incumbent supplier due to the perceived inability for the client to consider other competing alternatives to those offered by the incumbent without a high cost of change. These monopolistic practices are evident in the escalating costs of incremental license purchases and even more so in the ever increasing price of annual maintenance service and support contracts.

Lock In within the solution sourcing for BI has frequently been cautioned against (Gartner BI Summit 2007). This counsel takes on heightened urgency in the consolidated BI supplier landscape. Through acquisition, the likes of IBM, Oracle and SAP have spent billions of dollars to do what the customers' of the acquired BI suppliers' have spent similar amounts trying to do with varying degrees of success, that is integrating the BI solution to the underlying business or technology infrastructure. Of course, for the moment, most of the integration done by the acquiring suppliers is merely done at the "brochure level" with very little real and substantive supportive action. In an environment of reduced competition, the risk of and potential cost associated with Lock In increases considerably. The following context of the current BI market will help you, as either an existing or prospective buyer of BI technologies, to reap the benefits of the industry consolidation while avoiding the downside and risks that it presents.

Current State of the Market

While it may be a bit premature to declare the end of independent BI solution providers, the movement in that direction is seemingly undeniable. In February of 2008, Gartner included a hand full of independent BI suppliers in the Leaders quartile (upper right) of their Business Intelligence Magic Quadrant. With BusinessObjects having been acquired by SAP and Cognos by IBM, only a few independent BI suppliers remain in the Leaders quartile. Following the series of acquisitions noted above, the Business Intelligence solution space is dominated by the same group of mega-suppliers which also dominate the rest of the enterprise technology market. Oracle, SAP, IBM and Microsoft now control more than 70% of the Business Intelligence market, measured by revenue.

The remaining independent BI suppliers in the Leaders quartile are MicroStrategy, SAS and Information Builders. While each of these remaining independent BI suppliers has served a niche in the BI marketplace, their importance within the BI market space is rapidly diminishing. The consolidation of the BI market into the hands of the players that dominate the technology industry at large will likely see the continuation, if not the expansion, of those supplier's monopolistic pricing practices which each employs in its native market space. To provide additional context, we will briefly explore each supplier's path and strategy for its BI acquisition below. This is followed by a discussion of what customers should look out for and what they can do to insulate themselves from predatory practices.

Dominant Players

Understanding the risks presented by this consolidation of BI suppliers, it is first important to understand each supplier's path to the BI space and their stated intentions about what they plan to do with their corner of it.

Oracle

Oracle has been on an acquisition binge for the last several years, having spent more than $35 billion on more than 50 transactions. After first acquiring several of its competitors in the ERP space and other application providers to fill in functional gaps in specific industry verticals, Oracle set its sights on technology and tool set providers. Oracle's current Business Intelligence offering largely stems from two acquisitions.

The 2006 acquisition of Siebel brought Siebel Analytics which would eventually be renamed Oracle Business Intelligence – Enterprise Edition (OBIEE). In 2007, Oracle acquired Hyperion, already noted for its analytics solutions. Oracle has just begun to integrate Hyperion into its mainstream support organization starting in June 2008.

The future of Oracle's applications including its business intelligence solutions appears to be tied to Oracle's service oriented architecture (SOA) vision which is presently branded as Fusion. Under its Fusion model, Oracle plans to write the adapters which would enable its BI platforms to be "plug and play" with the rest of its application suite while also theoretically enabling users of non-Oracle ERP/Application suites to continue to use them. This is mostly relevant to Hyperion which holds a dominant position in the budgeting and planning space. The effectiveness of the Fusion game plan or whether the vision ever truly materializes remains to be seen. With the successive departures of two SVPs of Application Development for Fusion within a twelve month period (John Wookey and Jesper Andersen), the prospect of Fusion's already questionable success has dimmed considerably.

SAP

Like Oracle, SAP tackled the limitations of its business intelligence offering with the combination of two M&A transactions by acquiring Outlooksoft in May 2007 and BusinessObjects in October 2007. This represented a departure from its usual modus operendi for SAP. Unlike Oracle's chronic penchant for acquisition, SAP has favored organic growth of its functionality rather than acquiring it. SAP has yet to integrate either of the tools with its flagship ERP package. However, during its annual customer conference in May 2008, SAP announced that it will be retiring its legacy Corporate Performance Management (CPM) suite and replacing it with the acquired tools. Similar to statements made by Oracle for Hyperion users, for the foreseeable future, SAP intends to continue to support the stand-alone BusinessObjects or Outlooksoft platforms for customers who are not also SAP ERP customers.

IBM

IBM's acquisition of Cognos in November 2007 completed the consolidation of the major pure play BI solution providers. Unlike Oracle and SAP, IBM's stated intention was to expand its data management toolkit and provide a venue for additional consumption of its flagship database product, DB2. Together with its MQ Series and Data Mirror products, IBM is seeking to create a complete data management technology offering.

Of the acquisitions of the major BI players, this is the one that does not seem to align with the overall direction for BI, which is moving from a tools focus to an integrated business process focus. Business Intelligence started as a reporting tools solution and worked its way up the analytical process chain through integration with ERP solutions to provide business performance management. Cognos had a nascent presence in performance management prior to the acquisition by IBM. With the absence of a captive application platform, it is unclear how IBM intends to deliver this business context as a tools provider. This could signal that there will be further acquisitions in the BI space by IBM. In the absence of a robust end to end solution inclusive of performance management, it is unclear how IBM will be able to defend Cognos' existing install base from aggressive competitors much less grow it sufficiently to at least justify its acquisition.

Microsoft

Unlike the other major players in today's BI market, Microsoft's current position (4th) is not completely tied to acquisitions in the space. However, in April 2006, Microsoft did acquire Proclarity, whose functionality provides the basis for Microsoft's PerformancePoint product. Prior to its Proclarity acquisition, Microsoft was experiencing double the growth rate of the traditional BI players through its bundling of reporting services with its SQL Server 2005 release. Through its current Business Intelligence offering, Microsoft appears to be delivering on its stated strategy which was outlined by Jeff Raikes, then president of Microsoft's Business Division, in 2005. The strategy promised to deliver a "complete, flexible and cost-effective BI solution, one that enables truly pervasive BI across the enterprise". Microsoft's ability to seamlessly integrate its BI solutions with its Sharepoint and Office tools delivers a potent functional combination. The pricing and purchase options offered by Microsoft also enhance the competitiveness of its platform versus the traditional BI players. At NET(net), we are seeing increasing interest in exploration of Microsoft based BI solutions.

Lock In: The Downside of Standardization

As noted above, Supplier Lock-In is not specific to the BI industry. It is a relatively pervasive phenomenon in IT. However, for BI its occurrence tends to be more pronounced. This is a dual cause which is tied to the traditional approach to the adoption of BI technologies and the level of effort involved with deploying a BI solution.

Historically, Business Intelligence deployments rarely started at the enterprise level. More often than not, an enterprise BI solution owed its roots to one or more departmental or individual business unit solutions. As the move towards the enterprise solution led to consolidation of tools deployed, organizations began to weigh the many benefits of standardization against the undesirable aspects relative to best of breed solutions. The depth and breadth of the standardization assessment tended to vary according to when the assessment was performed, meaning where the organization was in its adoption cycle. When evaluating new technologies, organizations often assess the pros and cons of standardization. Standardization at the start of a relationship can often yield better initial pricing through consolidation of purchases. Standardized environments also tend to require less hardware and staff to operate. Negotiating favorable pricing is more difficult after the initial purchase because the suppliers use the customer's early investments in licenses with them as a loss leader and then have a tendency to exact higher pricing for incremental purchases as the adoption of the tool spreads. This is one of the most obvious manifestations of supplier Lock In.

In cases where the enterprise deployment is deliberate from the onset, price protections can and should be negotiated into the initial purchase to protect against predatory pricing on future purchases. However, when the enterprise adoption is, or was not part of the initial adoption, customers find themselves exposed to the vagaries of supplier “Lock In”.

The nature of BI deployments also presents a sizable barrier to change. This is due to the extensive development efforts required to deploy a BI solution after the initial software investment. The building of reports, cubes, metadata, data libraries, etc. is a costly undertaking the result of which is typically not portable to alternative supplier toolsets. This results in high switching costs and leaves the captive customer susceptible to predatory pricing (lock-in).

Perhaps the most common use of monopolistic pricing power over captive customers is the compounding effect of increases in the cost of annual support. Annual support payments typically enable a customer to obtain both telephone support and application upgrades during the period. It is not uncommon for customers to approach their annual support for mission critical technology solutions as non-discretionary. Suppliers know this and take advantage of that fact. The most publicized recent example of this is the notice from SAP to its customers indicating SAP’s intent to raise its support cost by 29.4% unilaterally over the next few years to 22% of the underlying net license value. That brings SAP on par with Oracle’s standard support level. At that price level, customers of the two ERP superpowers are effectively repurchasing their licenses every 4.6 years. Customers of SAP and Oracle by virtue of prior investments in BusinessObject/Outlooksoft (SAP) or Siebel Analytics/Hyperion (Oracle) can expect similar treatment at the hands of these same suppliers.

Cost of “Lock In” Is Increasing

Unfortunately, the most shocking part of the SAP increase is not its size of the increase but the fact that they sent a letter notifying their customers of their plans to increase. Most software suppliers assess annual increases as a normal course of business. This practice is especially prevalent in the aforementioned ERP space. The ERP space is also notably controlled globally by SAP, Oracle and Microsoft. Since these suppliers now control the lion’s share of the BI market, it is likely that they will look to bring their tried and true pricing practices to bear on their newly acquired BI customers.

All too often these suppliers wield a transactional view to pricing, which looks only at the value of the present purchase. A more holistic customer centric view would acknowledge the full value of the customer relationship, including past and contemplated licensing and support investments. With the right relationship management, this customer centric view is attainable. NET(net) has successfully worked with its clients to foster sustainable relationships with their strategic suppliers.

Don't Just Grin and Bear it

The balance of power is tilted towards the prospective customer that is considering an initial purchase. Therefore, it is optimal to include contractual terms that eliminate or mitigate the risks of Lock In prior to entering into the relationship with a supplier; including specific terms in the master agreements which explicitly limit the negative impact of Lock In are very effective. NET(net) has found that terms that account for the value of investment with the supplier as input to future pricing, provide for ongoing price holds and freezes on annual support increases are a few of the effective provisions to avoid the negative effects of Lock In.

The old adage of an ounce of prevention being worth a pound of cure applies to addressing the impacts of Lock In. It is always best to anticipate the potential risks at the start of a supplier relationship, however, all is not lost if you find yourself in an existing supplier relationship at risk of facing Lock In. If you have an existing relationship which is currently subjecting your company to monopolistic pricing or if you are anticipating being subjected to it, NET(net) has had great success with restructuring existing relationships and even getting money back from suppliers for past purchases. It is easier to obtain a balance of power in the context of starting a new relationship with a supplier or when a new license event is planned. That said, NET(net)'s results suggest that balancing of relationships can be accomplished at any time by proactively managing the supplier relationship and highlighting the gaps in value to the supplier's senior management.

These sorts of discussions can often be uncomfortable for client management in dealing with suppliers. Suppliers typically resist any concessions by alluding to a diminishing of the relationship and seek to instill fear, uncertainty and doubt (FUD) to avoid being responsive. NET(net) specializes in supplier management and has professionally managed thousands of supplier negotiations.

Help is Just a Phone Call Away

With the consolidation of solution providers into the hands of a select few suppliers, the risks of monopolistic and predatory pricing practices in the BI space have increased. This is especially troublesome since the suppliers who now own the Business Intelligence market are traditionally among the most difficult suppliers from which to exact substantial pricing concessions. Customers of the acquired business intelligence providers should expect the new owners of their BI technology supplier to bring their onerous pricing policies to bear at their new acquisitions, sooner rather than later.

NET(net) has a long track record of helping its clients level the playing field with their technology providers. This includes all of the suppliers in the Business Intelligence marketplace and is especially the case with the big 4 providers. Through our proven optimization process and a patented negotiations methodology, NET(net) helps its clients achieve optimized supplier investments, agreements and relationships regardless of whether it is at the start of a new relationship or the evaluation of an existing relationship.

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