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## Microsoft Dynamics Gets Renewed Focus

New Management Team Moves On From Project Green

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### EXECUTIVE SUMMARY

A combination of high-profile departures and slowing growth at the Microsoft Business Solutions (MBS) division over the past two years brought into question whether the Redmond, Wash., giant was serious about the business applications market. With a new management team in place and continued progress in harmonizing and strengthening its existing Microsoft Dynamics product lines, the unit appears to be reinvigorated. Despite the discontinuation of its next-generation “Project Green,” Microsoft remains committed to its four enterprise resource planning (ERP) product lines and customer relationship management (CRM), currently primarily for small and medium-sized businesses (SMBs) but soon for enterprise-class companies, as well.

### NEW MANAGEMENT TEAM SHOWS LONG-TERM COMMITMENT TO BUSINESS SOLUTIONS

Concerns over declining growth and marginal profitability during the past few years raised doubts about Microsoft’s commitment and strategy for its \$1 billion-plus Microsoft Business Solutions unit, which produces the Microsoft Dynamics lines of ERP and CRM applications.<sup>1</sup> In 2006, Microsoft pulled back from its ambitious next-generation applications effort known as “Project Green.” In addition, the division experienced a string of high-level departures, including Doug Burgum, Satya Nadella, Tami Reller, and James Utzschneider, as well as the recent departure of Jeff Raikes, overall chief of the Microsoft Business Division.<sup>2</sup>

All of these events led to significant partner and customer concerns about the MBS division’s lack of focus.<sup>3</sup> However, recent management additions include a new president of MBS, Stephen Elop, and the appointment of inside veterans such as Kirill Tatarinov as corporate vice president of the Dynamics unit and Chris Caren as general manager of Dynamics product management and product marketing. This has led to increased collaboration across the division, renewed focus on the Dynamics product lines, partner innovations around the edges, and a new management team here for the long haul, showing signs of both a realistic strategy and longer-term commitment.

### The Dynamics Product Line Moves Upmarket With Caution

Based on multiple discussions with Microsoft Business Solutions management, including last fall’s analyst meeting and the March 2008 Microsoft Convergence customer conference, we offer several observations regarding the strategy and execution of the business applications unit:

- **ERP products remain focused on the SMB market for now.** With four product lines in the ERP family, Microsoft Dynamics ERP products currently target entities that range from 25 employees

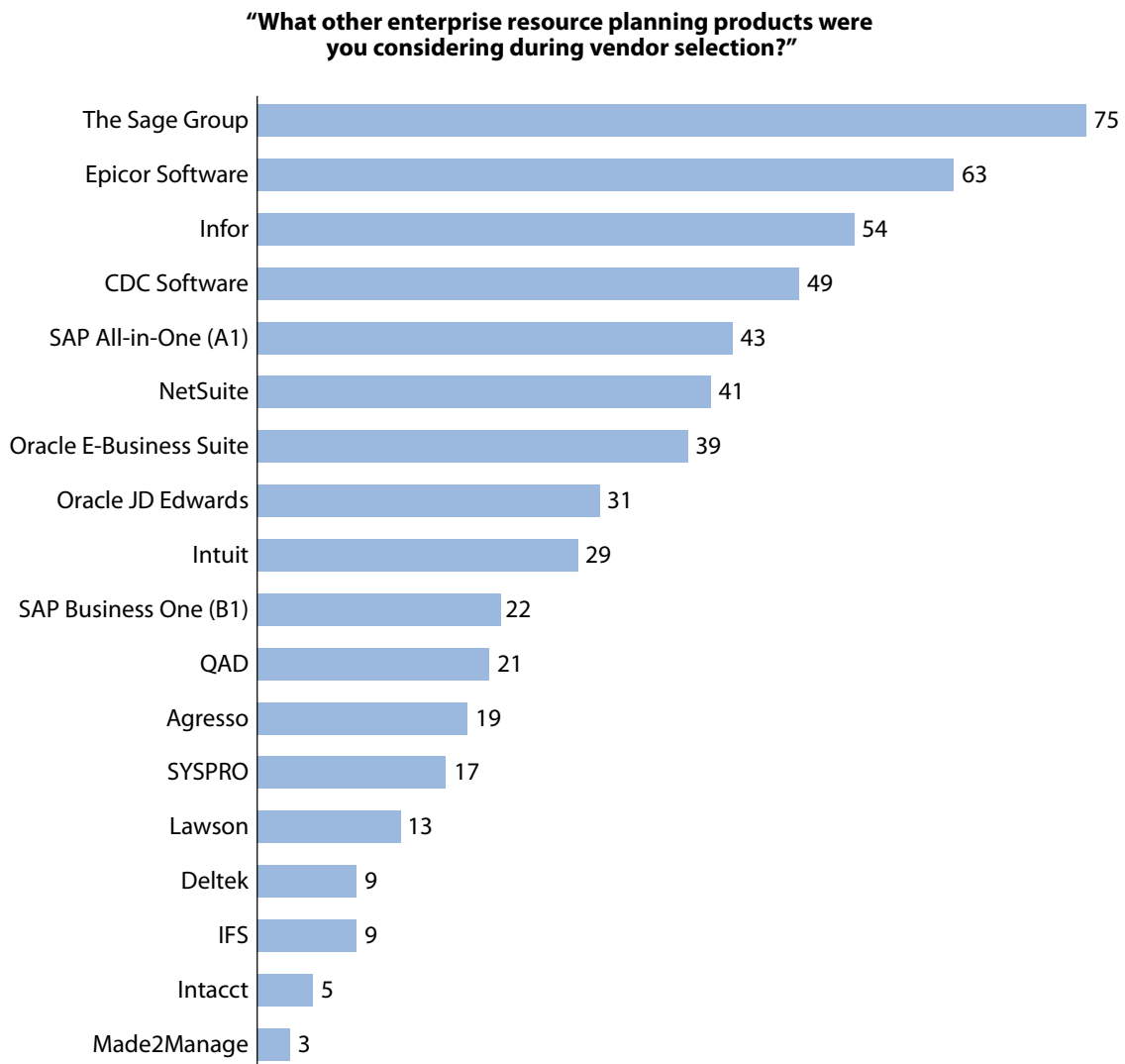


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to multibillion-dollar companies and divisions. At the low end, Microsoft is looking to convert customers outgrowing Intuit's popular QuickBooks accounting system to the entry-level version of Dynamics GP. In a March 2008 Forrester survey of 105 ERP customers at the Microsoft Convergence customer conference, the increased presence of competitors such as Lawson, Oracle, and SAP demonstrated evidence of the move upmarket, while lower-end competitors such as The Sage Group and Intuit are common, as well (see Figure 1).<sup>4</sup>

**Figure 1** Dynamics Competition Ranges From The Sage Group and Intuit To SAP And Oracle



Base: 105 Microsoft Dynamics customers  
(multiple responses accepted)

- **Dynamics AX is Microsoft's enterprise play for the future.** On the upper-midmarket end, the launch of Microsoft Dynamics AX 2009 (or Axapta 5.0, as all the partners call it), brings together features that larger enterprise seek such as a compliance center, an integrated workflow framework, enhanced global capabilities, and a unified communications platform.

Microsoft CEO Steve Ballmer emphasized the priority for Microsoft to “eat its own dog food” by replacing internal SAP systems with Dynamics AX. With Dynamics AX already in place at Microsoft's Xbox division and its Puerto Rican media manufacturing plant, Microsoft is off to a good start. However, despite scalability improvements for running Dynamics AX with SQL Server 2008, the product is not enterprise-ready for global companies like Microsoft. In addition, more investment will be required in human capital management, master data management, canonical data models, and business intelligence (BI) before the product can move to larger enterprises with full-suite requirements. These types of enterprise-oriented enhancements appear to be on the Dynamics AX road map, perhaps by the next major release in 2010.

- **Dynamics CRM makes a move for the large enterprises.** Whereas Dynamics AX is gradually moving toward the large enterprise market, Microsoft Dynamics CRM is moving there aggressively now, with the help of global systems integrator (SI) partners. Steve Ballmer and Electronic Data Systems' (EDS) CEO Ronald A. Rittenmeyer announced a partnership to target EDS's 450 call center clients in the enterprise space with Microsoft Dynamics CRM and Microsoft Dynamics CRM Live. EDS intends to build a global practice using Microsoft Dynamics CRM as the foundation for outsourced call center operations and expects to train 300 new consultants by the end of 2008.<sup>5</sup> Forrester believes the EDS announcement to be the first in a string of targeted partnership programs with global SIs using Microsoft Dynamics CRM. Expect existing Microsoft Partner Program members such as Accenture, Infosys Technologies, Satyam Computer Services, and Wipro to roll out subsequent announcements prior to or at the June 2008 Worldwide Partner Conference in Houston. In addition, Microsoft Dynamics CRM Live with 100 customers in preview mode may pave the way for direct competition with software-as-a-service (SaaS) offerings from salesforce.com and NetSuite.

## RENEWED ERP PRODUCT STRATEGY ARISES FROM THE ASHES OF PROJECT GREEN

Project Green, Microsoft's attempt to build a next-generation ERP as a pure-breed successor to existing code lines, failed to come to fruition for a number of reasons:

- **The viability of current ERP product lines was questioned.** A next-generation product strategy enabled competitors to cast doubt on the future viability of current product lines.
- **Partners expressed concerns about retooling development skills.** Partners strongly expressed a desire to keep building extensions in the existing code bases. The Project Green initiative would have set back partner efforts to add breadth and depth to the existing ERP solutions, and Microsoft did not want to incur channel disruption across all product lines.

- **Code migration proved daunting.** On a technical level, existing products lacked the architectural foundations for convergence. Microsoft’s original plan was to migrate components of code from the existing solutions to the new SOA-based environment, but it became evident that more and more recoding was necessary.

### Lessons Learned From Project Green Are Evident In Current Releases

With the conclusion of Project Green two years ago, the Dynamics ERP business moved toward a harmonization strategy. Customers now benefit from new role-based personas and a harmonized user experience across the four product lines, which is based on Microsoft Office Outlook. Going forward to the next phase, each Microsoft Dynamics product will retain its existing programming language. Increased platform adoption of SQL Server and Visual Studio .NET (VS .NET) technologies will potentially allow each product line to adopt SOA, process-centric, and model-driven design in an evolutionary approach. Teams will increase sharing of design specifics, though not code, within the product families (see Figure 2).

**Figure 2** Microsoft Retains Four Different Code Lines But Adopts More VS .NET Components

Product line	Dynamics GP	Dynamics SL	Dynamics NAV	Dynamics AX
Programming language(s)	Dexterity	Visual Basic .NET	C-Side	X++, MorphX
Visual Studio .NET	MOSS* WCF† WF‡ WSS§ SSRS/AS**	WSS§ Visual Basic .NET	WSS§	CSF†† WCF† WSS§ SSRS/AS**
Database	SQL Server	SQL Server	SQL Server	SQL Server
Operating system	Windows	Windows	Windows	Windows

\*Microsoft Office SharePoint Server (MOSS) Windows Workflow Foundation (WF)

†Windows Communication Framework (WCF)

‡Windows Workflow Foundation (WF)

§Windows SharePoint Server (WSS)

\*\*SQL Server Reporting Services (SSRS), Application Server (AS)

††Microsoft Connected Services Framework (CSF)

During the next few years, we expect to see the following strategies play out within the Dynamics products:

- **Shared investment will drive evolutionary convergence.** Today all product lines share one user experience design team that implements user interface with shared controls from one set of code that fits to each product's architecture. Over time users can expect more Dynamics attached services, SQL Server Reporting Services (SSRS) report design/execution, unified communications (UC) integration components, and a common analyst designer for Windows Workflow Foundation (WF).
- **SQL Server will play a critical role in future product direction.** Cooperative development between the Dynamics and SQL teams enabled optimized features for SQL Server 2008 such as data compression and proprietary reporting to SQL SSRS. Preliminary performance benchmarks show significant improvements for Dynamics running on SQL Server 2008, though Dynamics AX still supports Oracle databases. In addition, BI will be delivered out of the box for Dynamics AX via SQL Analysis Services as it has been for the last two releases of Dynamics GP and Dynamics SL.
- **Future road map will optimize on Microsoft VS .NET middleware.** Existing ERP applications all now use SharePoint as the portal and will leverage the capabilities of UC over the next two releases. Microsoft Dynamics SL has already been rewritten in Visual Basic .NET. Microsoft Dynamics AX, Dynamics GP, and Dynamics NAV incorporate WF. Microsoft Dynamics GP has supported Visual Studio developers with its Visual Studio tool kit that exposes Dynamics GP objects, classes, events, and forms to the VS .NET developer. Recent releases of Microsoft Dynamics NAV now incorporate more VS .NET features at runtime. Microsoft Dynamics AX 2009 and Dynamics GP already leverage Web services from Windows Communication Foundation. Complex road map dependencies on underlying Microsoft platform and Office releases, however, affect the extent to which Microsoft can update its Dynamics products, potentially resulting in delays of future releases.
- **"Software-plus-services" initiative signals potential SaaS-like solutions.** Future road maps indicate a movement toward new deployment options that include hosting, attached services, and finished services. With the changes in the 2006 Services Provider Licensing Agreement, partners can deploy hosted solutions that will reduce total cost of ownership and improve deployment options. Attached services like payment services and fraud prevention technology for credit card payment processing from Chase Paymentech Solutions and PayPal will extend functionality with relevant business services and integrate with on-premise ERP applications. Finished services intend to deliver new functional or vertical solutions in the cloud hosted in Microsoft data centers.

Microsoft is moving aggressively to deliver a SaaS option for CRM, but the company faces significant architectural challenges with its ERP products for this deployment option. In

addition, Microsoft remains skeptical about customer demand for a SaaS ERP solution such as SAP's Business ByDesign, preferring to both take a wait-and-see approach and to have partners address current market demand.

- **Industry Builder has been replaced with two new programs with more rigorous certification.** Microsoft has confirmed that the Industry Builder, an independent software vendor (ISV) and systems integrator initiative designed to deliver core vertical expertise, was replaced with two new solutions, Microsoft Dynamics Industry Solutions and Certified for Microsoft Dynamics.<sup>6</sup> This decision reflects an internal decision to hold off vertical expansion until the horizontal platform has been significantly revamped to support a broader range of vertical requirements. Microsoft Dynamics Industry Solutions requires deeper partner synchronization to product road map, code quality assurance, translation, localization, documentation, and testing processes. Microsoft Dynamics Industry Solutions will offer industry solutions OEM'd by Microsoft, sold on the price list, and synchronized with the Dynamics product development organization. Certified for Microsoft Dynamics provides validation and marketing benefits to existing vertical ISV solutions. Solutions must be tested and provide 10 customer references to qualify.

## RECOMMENDATIONS

### CONSIDER MICROSOFT DYNAMICS IN ERP SELECTIONS

With its innovative role-based user experience, improved reporting and BI capabilities, and improving platform harmonization, Microsoft Dynamics products should be on ERP selection shortlists for a variety of SMBs, particularly those that use Microsoft's server-based products.

- **Multisite companies should consider Dynamics AX.** AX remains the only Dynamics product that has sufficient network scalability to be deployed in companies operating across multiple locations via a single instance. Though not ready for large enterprises, AX can be a cost-effective alternative to big-ticket ERP systems in companies up to \$1 billion and has extensive international language and localizations.
- **Dynamics NAV, Dynamics GP, and Dynamics SL target various SMBs.** While overlaps remain among these three products to the extent that they may compete with one another via Microsoft's vast indirect channel, each has its place. Dynamics NAV is a good solution for single-site manufacturers and distributors in numerous geographies. Dynamics GP offers the strongest core business management capabilities across the Dynamics line, and Dynamics SL is best suited for project-oriented businesses.
- **When deploying new Dynamics releases, favor Microsoft's latest platform technologies.** Although new Dynamics releases are somewhat backwards-compatible with prior versions of SQL Server, SharePoint, and Office, some new features will not be available unless used with the latest releases of these products.

## ENDNOTES

- <sup>1</sup> Forrester estimates that the Microsoft Business Solutions group had revenues of \$989 million in 2006. Microsoft publicly commented about surpassing the \$1 billion mark in revenues sometime in May 2007. Forrester's internal analysis places the Microsoft Business Solutions number at \$1.13 billion for 2007. See the August 13, 2007, "[Competition Intensifies For The SMB ERP Customer](#)" report.
- <sup>2</sup> High-level departures in the past 12 months include Microsoft Business Solutions President Jeff Raikes, former Great Plains CEO and MBS Senior Vice President Doug Burgum, MBS Corporate Vice President Satya Nadella, MBS Corporate Vice President of marketing Tami Reller, and MBS General Manager of product marketing and product management James Utzschneider. Jeff Raikes and Doug Burgum are essentially retired or pursuing other opportunities, while the others have moved onto other roles within Microsoft.
- <sup>3</sup> Closer alignment with Microsoft Office and SharePoint, tighter integration of Microsoft middleware technologies, and a role-based approach to software design bring the Microsoft Dynamics application product lines one step closer to product convergence. As the first wave of enhancements near completion, Microsoft plans to deliver an increasingly role-based user experience, portals and collaboration, contextual business intelligence, and Web-services-based integration. Wave 2 includes enhancements that drive further standardization across the product lines, including data, business processes, and roles. More important, Microsoft plans to double its investment in partner ecosystem development and begin a \$140 million Microsoft Dynamics and a \$500 million Microsoft "people ready" advertising campaign. However, the dependency of future Microsoft Dynamics applications on underlying Microsoft technology releases will continue to delay the time to market of the next-generation, converged product. See the April 10, 2006, "[Microsoft Dynamics Emerges From Wave 1](#)" report.
- <sup>4</sup> This survey was conducted between March 10, 2008 and March 13, 2008.
- <sup>5</sup> Electronic Data Systems has been a Microsoft partner for more than 20 years and already manages more than 3 million desktop and 100,000 servers running applications from Microsoft.
- <sup>6</sup> Industries include apparel and textiles, automotive, construction, consumer-driven planning, consumer packaged goods (CPG) distributors, CPG manufacturers, field services, food and beverage distributors, food and beverage manufacturers, industrial distributors, industrial equipment manufacturing, manufacturing, oil and gas — energy financial management, process manufacturing — process industries, professional services, retail chain management, and supply chain execution.