UNIT4: Continuing to Grow in the ERP Software Market

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UNIT4's User Conference in Manchester, England, was attended by more than 500 customers, with more than 700 delegates in total. Although there were no major strategic announcements, UNIT4 delivered evidence that it is making progress across its product portfolio.

Key Findings

- UNIT4 is the sixth-largest vendor (by software revenue) of ERP software in Europe. It posted a solid performance for 2010, with a consistently healthy revenue mix of license versus maintenance versus professional services.

- Clients were generally positive about UNIT4's products and strategy, showing it is doing a good job balancing the needs of customers across its product portfolio and winning new customers. It has made further product acquisitions, increased its partner presence and now has operations in 24 countries worldwide.

- UNIT4 is investing in cloud-based delivery of its applications through a subsidiary that will own and manage the infrastructure. It is also a joint venture partner in FinancialForce.com. UNIT4 hopes that these initiatives will enable it to balance traditional revenue streams with increasing subscription revenue.

Recommendations

- Users of UNIT4 products can continue to invest, but should monitor product road maps to ensure that their products have an appropriate R&D focus to support future needs.

- Evaluate complementary products from UNIT4 (such as Topaz and OCRA) to see if they will add value to your implementation.

- Agresso users considering an upgrade to the latest Agresso Business World release (called "Route 66") should decide whether they will be early adopters or more-mainstream adopters. There have been some significant technical changes, and, although there are some new functional enhancements in the release, the major enhancements won't be made available until later in 2011 and into 2012.

- Coda users that have licensed Control Manager should seek some form of credit, because this will be included as standard functionality in the upcoming Coda Financials release (called "Destination Control").

WHAT YOU NEED TO KNOW

This event showcased UNIT4's progress and future strategy. The company had a better year in 2010 than it did in 2009, and has balanced growth through acquisition with continued development of its products. Users are generally positive, and UNIT4 is increasing its international presence. Although continued growth may present future challenges, the company has, thus far, executed a successful software portfolio of applications serving specific countries and international markets. Users can continue to invest in UNIT4 products, while organizations in the target sectors and geographies for Agresso and Coda can consider them as potential alternatives to Tier-1 solutions, such as SAP and Oracle.

EVENT

Event Facts

On 16 and 17 March, UNIT4 held its annual user conference in Manchester, England. The event had more than 700 attendees (with more than 500 customer attendees) and four product session tracks representing Agresso Business World, Coda Financials, Dream and UNIT4's Education software business unit.

Analysis

UNIT4 is a Netherlands-based enterprise software provider that has grown mainly through acquisitions during the past few years. By the close of 2010, it had reached annual revenue of €422 million, versus €379 million in 2009, which was nearly double the revenue seen in 2003 (€220 million). Without the inclusion of professional services revenue, the company attained €276 million from software (license, maintenance and subscription revenue), which places UNIT4 among the top 20 vendors by overall size of software revenue in Europe (see "Market Share: All Software Markets, Worldwide 2010") and makes it the sixth largest for ERP software revenue only. Although UNIT4 experienced a 3.6% decline in revenue in 2009, due to the global economy, the results from the past year suggest the company is now back on track, with a healthy revenue mix (see Note 1).

It was clear from the keynote presentations that UNIT4 now positions itself as a portfolio vendor of business applications. It has had an interesting history, emerging from the acquisition of Agresso by UNIT4 in 2000. It focused its business primarily on reinvigorating the Agresso Business World (Agresso) product line (in which it was successful), but then started to acquire a wider portfolio of business applications. Agresso is still the largest revenue generator in the UNIT4 portfolio, but, last year, UNIT4 unveiled a new corporate branding that removed the primary focus on Agresso (see "UNIT4 2010 User Conference: A New Name, but Business as Usual"), and this year's executive keynotes showed that UNIT4 has matured in its approach as a portfolio vendor.

Agresso and Coda are still the primary ERP solutions, but UNIT4 made it clear that local market products, such as Dream and QL in the U.K., still form an important part of its strategy. Certainly, discussions with users of these products revealed they were more confident this year than last that their products would continue to be enhanced, supported and have a future. UNIT4's COO, Ab Van Marion, also made it clear that following its acquisition of Teta in Poland in 2010, it would continue to develop this solution for the small or midsize business ERP market in Poland and Eastern Europe, rather than try to migrate its customers to another product (such as Agresso). UNIT4 plans to build new business opportunities in the region for other products in its portfolio, based on the Teta acquisition, leveraging its local market presence.

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The business strategy is based on acquisitions, with minimum disruption to acquired lines, bolstered by some cross-selling and consolidation of central functions, such as R&D. UNIT4 has also increased its partner presence in Africa and says that it now has operations (direct and indirect) in 24 countries around the world (although the bulk of its revenue is generated from Europe).

UNIT4 does not plan to create a common technology base across its portfolio of applications, but it is developing products that complement multiple products or can be sold to any organization. Examples include:

- The Topaz eLearning solution — specifically for Agresso and Coda applications

- OCRA — for financial consolidation and cash management

- Sustain4 — a software as a service (SaaS)-based environmental reporting and tracking solution

OCRA and Sustain4 are applicable to any organization.

The U.K. managing director, Anwen Robinson, showcased two initiatives that demonstrated UNIT4's local focus. It has partnered with CoreFiling to provide support for iXBRL, an implementation of XBRL required by the U.K. tax authorities. This has been an issue for some software vendors that have been unable to provide support to some of their products ahead of the April 2011 deadline. UNIT4 has also released Linked4, a tool that generates and publishes data in Linked Open Data format. This is in response to a U.K. government initiative for local government bodies to publish spending data online, but UNIT4 feels this capability will be applicable to commercial organizations (although this remains to be seen).

Overall, this shows that UNIT4 is able to create growth organically, as well as through acquisitions. However, it will have to balance the demands of an ever-expanding product portfolio with the needs of an expanding customer base. If UNIT4 continues to pursue international expansion through acquisition, then it may have to spread its R&D resources more widely and start to incur diseconomies of scale. So far, it is doing a good job of balancing customer requirements against the need for growth; however, users need to ensure that UNIT4's road map for their products includes an appropriate R&D focus to support their future use of the system, especially if there are more acquisitions.

Product Road Map and Strategy

Agresso Business World

The latest version of Agresso Business World (called Route 66) was released toward the end of 2010. This had a significant change in the technology layer that delivers the concept of a stable core to allow user organizations to take on future upgrades in an easier and more componentized fashion, rather than upgrading the whole system in a "big bang." This strategy will enable users to choose the releases (i.e., the milestones) and modules they want to take. The Route 66 release includes several functional enhancements, such as predictive "type ahead" fields for data entry, enhanced business intelligence capabilities and visualizations, as well as more screens moved to self-service (which do not require a desktop client). Collectively, these and other functional enhancements are designed to allow for a better and more-efficient user experience, and reduce the IT overhead in maintaining the system.

This development places Agresso at the leading edge in terms of vendors that have implemented such a technology change. There is a clear upgrade path to this release, and UNIT4 has examples of clients that have upgraded from the v.5.5.x platform without any major issues.

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However, this release is a significant change and is still in the early adoption phase among the user base, so organizations keen to exploit these functional changes sooner, rather than later, need to ensure they invest in training their staffs in the new release and ensure any third-party professional services staff they use have experience of Route 66 upgrades.

There will be further major innovations, including the new user interface (based on the X2 project) and mobile application capabilities. New HR functionalities are planned for delivery in upcoming milestone releases later in 2011 and 2012.

Coda Financials

UNIT4 announced the next major release of Coda Financials at the event. This is Version 12, which has the product name of "Destination: Control," and is planned for release in 4Q11. There are two main elements to this release, which UNIT4 categorizes as power controls and precision controls. The power controls are a range of enhancements to the Coda Browse facility and other usability enhancements, such as easier customization of entry forms and a better visual representation of hierarchies. This release also has the same type-ahead/search facility in entry fields as Agresso Route 66. Although this is not unique (some competitors' products already have this capability), it shows that UNIT4 is starting to share user interface components across the product lines. The precision controls include enhancements to input validation, better reporting, runtime parameter selection capabilities and enhancements to support the Single Euro Payments Area (SEPA).

Overall, this is not a major release in terms of functionality, and the new user interface (based on the X2 project) will not be available until the next major release after this. However, users will find these enhancements valuable, and they should increase user productivity. Users will be able to migrate from either of the supported versions (v.10.101 or v.11.3), unless they use procurement, in which case v.10.101 users need to upgrade to v.11.3 first. The biggest news was that Coda Control Manager (which supplies a close management and governance, risk and compliance capability) will be bundled with this release at no extra charge. This is good news for users that have not licensed this capability, but any Coda user that has paid for this should approach Coda and attempt to get some form of credit (perhaps against maintenance or as free training). because they have paid license fees for a product that is now available under maintenance.

Cloud and Shared Services

UNIT4 recently announced its cloud strategy. It has had some of the infrastructure capabilities for some time, and it has, for a number of years, been hosting local products for the Dutch market. It claims that approximately 5% of its revenue comes from SaaS, cloud and subscription offerings, and it plans to increase that to 10% of revenue, when its total revenue reaches €500 million. Its cloud strategy has two main aspects: building new SaaS-based applications and delivering both these and existing applications through its own cloud infrastructure capabilities.

UNIT4 is a joint venture partner (with salesforce.com) in FinancialForce.com, a SaaS-based suite of financial applications. Although this is still a new product, and not yet profitable, it enables UNIT4 to at least be a player against such vendors as NetSuite, Intacct and Twinfield. However, it will need to make more-rapid progress in gaining market share if it wants to be credible as a pure-play vendor against these providers (particularly NetSuite). UNIT4 is also delivering some of its new solutions (e.g., Sustain4) as SaaS.

UNIT4 has also set up a subsidiary in the Netherlands, UNIT4 Hybrid Computing (U4HC), to manage the delivery of its applications through the cloud. It owns the hardware (which is physically located at an external data center) to provide the hosting of on-premises applications, private cloud delivery or a hybrid approach. Applications such as Agresso can be deployed to

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support multiple organizations in a single-instance private cloud, which UNIT4 feels will be ideal for shared services, especially where these are multiorganizational joint ventures.

UNIT4 offers a range of cloud deployment options; however, they do not as yet have any major adopters. Executives say they are pursuing a number of local country initiatives. This is a sensible move by UNIT4, so that existing and prospective users can consider cloud deployment options; however, they must assure themselves that U4HC has the capacity and support processes in place to meet their requirements.

Many discussions focused on shared services, which is a hot issue in the U.K. public sector (where Agresso has a strong presence). However, UNIT4 has been successful in supporting shared services in a number of regions for public sector and commercial organizations. This is an increasing focus of marketing and product initiatives. For example, in the U.K., UNIT4 is targeting mainly district-level local government organizations that wish to move to shared services. Although SAP and Oracle tend to dominate the larger regional councils, many districts have Agresso, and there are already some multicouncil alliances (such as Xentral) that provide shared services. UNIT4 has recently signed a memorandum of understanding with a large U.K. county council to provide Agresso as a shared service to other councils through its data center.

Some larger Coda users are also supporting finance shared-service centers. Gartner analysts spoke to an organization that had replaced a Tier-1 ERP system (after an unsuccessful implementation) with Coda, and now uses Coda to support its European shared-service center. Consequently, organizations looking to implement administrative shared services can consider Agresso and Coda as possible alternatives to the obvious choices of SAP and Oracle.

Note 1
Revenue Status

UNIT4's revenue mix has remained fairly consistent (even during the recessionary years). During 2010, licenses contributed 17%; subscription provided 6%, maintenance contributed 42% and professional services revenue amounted to 35%. Overall, this represents a healthy mix, showing a solid recurring maintenance stream, and a business that doesn't overly rely on professional services.

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