Market Outlook: Microsoft's Looming Impact on the Business Intelligence and Performance Management Market

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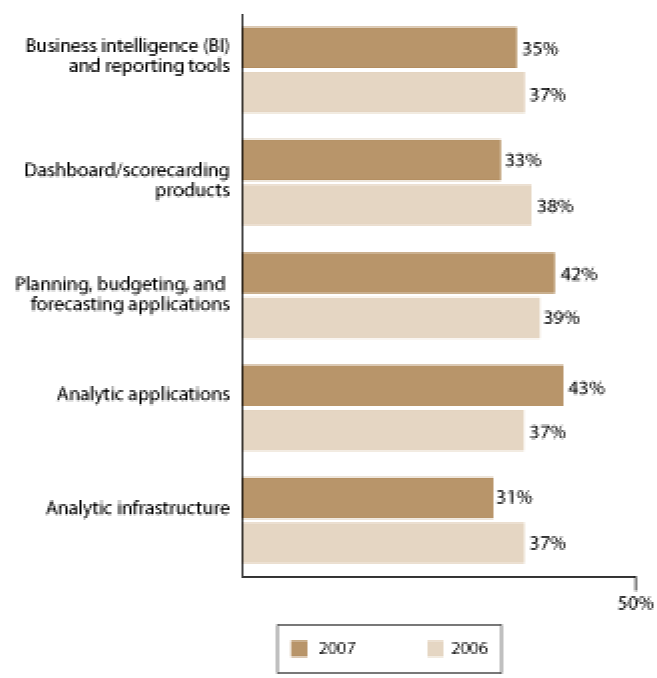
In May 2007, **Microsoft** hosted over 2,500 partners, customers, prospects, analysts and competitors at its first-ever business intelligence (BI) conference in Seattle, WA. The event—a formal launch of its broad BI and performance management (PM) suite—was the culmination of many years of effort that included lots of core development, specific acquisitions to fill gaps, and integration of distinct product lines. The result is a compelling strategy: Deliver pervasive BI/PM to the masses at a fraction of the cost of competitive products.

Because of Microsoft's ubiquitous presence within enterprises of all sizes, its BI/PM products will certainly have long-term impact on how buyers perceive and purchase information-based products across all areas of their companies. While all questions don't yet have clear answers, the main one has been answered: Microsoft already has had impact on the form and structure of the existing BI/PM market, and that influence will accelerate dramatically over the next 24 to 36 months.

Buyers say Microsoft will have significant impact on their BI/PM strategy

Earlier this year, we issued our annual spending report where we predicted that total spending for BI/PM will hit $23.8B in 2007, up 3.6%. Software spend will be up over 8% while companies offset scarce consulting resources with internal head count (see "Market Demand for Business Intelligence and Performance Management (BI/PM), 2007" for a complete review of market spending patterns and influencing factors.) We asked over 200 IT and business users what influence Microsoft products would have on their firm's BI/PM strategies in 2007 and beyond. On average, roughly 4 out of 10 companies indicate that it will have significant impact (scores of 8 to 10 on a 10-point scale), depending on category of spending (see Figure 1.)

Figure 1: Impact of Microsoft products on BI/PM strategy



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We defined each category as follows:

- **BI tools**—Tools that provide information gathering and analysis capabilities to end users and IT staff
- **Dashboard and scorecard capabilities**—Tools and/or applications that enable businesses to track key performance indicators (KPIs) by providing a unified view of organizational performance data on a timed or near real-time and integrated basis
- **Planning, budgeting, and forecasting (PBF) products**—Applications that provide a business with a high degree of flexibility to align financial and/or operational plans to its specific enterprise or departmental planning processes

- **Analytic applications**—Delivered applications that accurately gather, unify, coordinate, and analyze company-wide or content-specific data (e.g., financial consolidation and reporting)
- **Analytic infrastructure**—Infrastructure to store, organize, and prepare the system of record for enterprise reporting and analysis. This includes data warehouse/datamarts, data integration capabilities (including data cleansing), and multidimensional data stores that the company custom built or purchased as a packaged application

Based on survey respondents, Microsoft's impact has accelerated in PBF and analytic applications—a direct influence of Microsoft's year-long build-up for its soon-to-be-released PerformancePoint Server 2007 (PPS) product line. It has also fallen back in other areas, especially in analytic infrastructure, but still is in the 30% to 40% significant range of influence.

Microsoft's BI back-story

First and foremost, Microsoft is no BI/PM novice. It has delivered a relational data store for well over a decade and has fielded its multidimensional online analytic processing (OLAP) engine, Microsoft Analysis Services, since the late 1990s. Over the last few years, we've written a lot about Microsoft's emergence as a credible BI/PM market participant:

- In February 2003, we discussed the company's first foray into reporting with the introduction of Microsoft Reporting Services, setting the foundation for BI (see "Microsoft To Broaden BI Footprint With Reporting Services".)
- Fast forward to March 2005, when Microsoft took its first dip in the PM pool when it announced that it would deliver scorecarding functionality on top of core BI functions (see "Microsoft Set To Enter the Red-Hot Scorecard Market".)
- Six months later, in October 2005, we opined on the software giant's anticipated launch of Microsoft SQL Server 2005 and with it, significantly enhanced BI and data management functionality, including delivered integration, multidimensional analysis, better scalability, and updated report authoring (see "Microsoft Plants the Seeds for BI Everywhere: Competitors Beware!.) At that time, Office 2007 was still a year away from general availability, but the BI capabilities demonstrated in Excel, Outlook, and SharePoint Server foretold a strategy for pervasive BI.
- The Office of the CFO moved front and center in June 2006 when the company unveiled its long talked-about PM product for planning, budgeting, forecasting, and financial consolidations product, PerformancePoint Server 2007 (PPS) and announced its intent to deliver it to market in 2007 (see "Microsoft Sharpens Its Performance Management Plans".) Earlier that year, the company had also acquired ProClarity, an analytic application platform and rolled it into the PPS platform. At the Seattle event in May 2007, Microsoft announced that PPS general availability would hit in early 4Q07.

Microsoft's specific market impact

In our opinion, there are five impact areas that competitors must prepare for… whether they feel threatened today or not.

Impact #1: BI is for everyone…literally

Pervasive BI/PM is on the buyer's agenda. The aforementioned BI/PM study indicated that 63% of companies surveyed planned to expand use in 2007, many significantly. While some expect to accomplish this push out to new users through more aggressive use of dashboards and/or scorecards, others want BI/PM delivered in the context of their business role and areas of interest, such as supplier metrics for a procurement specialist. Still more expect to use collaboration technology—i.e., a portal—to share and collaborate on data. One of the top reasons that blocks pervasive BI use is difficulty in using existing BI products. Interfaces need to be simplified for mass adoption.

Microsoft is not alone in playing the ubiquity card. Leading BI/PM vendors such as **Actuate**, **Business Objects**, **Cognos**, **Information Builders**, **MicroStrategy**, **Oracle**, and **SAS Institute** have all adopted this mantra through a variety of means that also include search, easier interfaces, and integration with Microsoft Office products, most notably Excel. While not every user wants to interact with data in Excel, a high percentage of analysts and decision-makers desire and/or require unfettered access to BI/PM data within a spreadsheet.

Microsoft considers much of its BI/PM strategy as an expansion of its Office applications franchise. Office 2007, which also enables a shared spreadsheet environment through SharePoint Server, has significant BI/PM functionality inherently built in. Even if a user is accessing BI/PM data through an Office add-in provided by another vendor, they might not be able to recognize anything other than Microsoft as the BI/PM interface. Microsoft's BI brand recognition should rise—we already see this happening—while others risk being pushed further into the infrastructure of the business.

Impact #2: Market position allows Microsoft to change the economic equation

As an extension of Office, BI capabilities are delivered inherently. Coupled with the rest of the Microsoft infrastructure (SQL Server, SharePoint Server, etc.), the strategy gains more credibility. When BI/PM is priced like office productivity software, the economic model can radically change.

At its launch event, Microsoft was not coy about the impact its pricing strategy could have on the existing BI/PM market participants. When pricing for similar functionality is quoted at a fraction of the price charged by others (we've heard of situations where it is 20% to 25% of traditional competitors), it won't easily be dismissed. Companies will have to justify why they must pay a premium. Microsoft's reliance on its own data stack for key parts of its BI/PM story will certainly limit penetration in accounts that have chosen other standards. But its pricing strategies will eventually compel companies to more closely evaluate what would otherwise have been rejected as non-standard technology.

Software vendors that want to OEM a BI/PM solution as part of their product are usually very price sensitive. Microsoft's relative low cost of entry will certainly be attractive to many when technical architectures are in sync.

Functionality and scalability aside, price pressure should eventually lead to price erosion for all BI/PM vendors. While this impact will be gradual, it is inevitable. Commoditization may be the eventual outcome.

Impact #3: It's the total Microsoft solution, not just BI/PM products

As an analyst, I look at a proposed architecture by its component pieces. In this case, there are three distinct layers in Microsoft's BI architecture:

- The BI platform—Consisting of integration, data, reporting, and analysis services
- End user tools and performance management applications—Made up of Excel and PPS
- The information delivery layer—Reports, plans, dashboards/scorecards, workbooks, etc., all capabilities of SharePoint Server.

When I first saw Microsoft demonstrate its products for BI/PM, my first reaction was that the use case flipped randomly from Excel to Report Services to PPS to SharePoint Server. The fact that Microsoft called out each change was jarring.

But when I later observed the process flows and listened less to the words being used, I formed a completely different opinion; it was a system that took advantage of all the capabilities of a platform and was not restricted by arbitrary boundaries of existing products. What I originally determined was a limitation is actually a major strength. The unifying piece—SharePoint Server—is the hidden gem in the Microsoft BI/PM strategy.

Again, broad deployment of existing components of Microsoft's BI architecture should alleviate some barriers to adoption of its broader BI stack.

Impact #4: Microsoft will deploy a broader go-to-market strategy

In many people's minds, Microsoft's product distribution strategy equals channel partners. Without question, channel partners will continue to play an important role in the rollout of its BI/PM solutions. But channel partners have agendas and business plans of their own.

In this case, Microsoft has ripped a page out of its competitors' playbooks. In order to penetrate $1B and above target accounts, the company is investing heavily in BI solutions specialists to augment its data platform specialist teams, all to foster the BI/PM strategy in concert with existing account management teams. These specialist teams are populated with sales rep and pre-sales émigrés from BI/PM and enterprise applications vendors who know the nuances of selling to this lucrative market segment. This approach gives Microsoft much-needed feet on the street to sell its BI/PM vision higher and wider in organizations around the globe.

The company has also established relationships with global consultancies including **Accenture**, **CapGemini**, **Cognizant**, **Fujitsu Consulting**, **Hitachi Consulting**, **HP**, **Satyam**, and **Tata Consulting Services (TCS)** to develop industry- and/or content-specific BI/PM applications.

Impact #5: Customer demands should force change in Microsoft's partner model

If a buyer in the public sector, for example, wants a BI/PM solution tailored to its needs, Microsoft would refer them to a channel partner that has already done the work. In fact, there might be more than one partner that sells and services the public sector. It becomes the responsibility of the buyer or their proxy to evaluate the options and coordinate any efforts. And these channel partners want to pursue business opportunities that benefit their own strategy, not just Microsoft's.

While this may work for some market segments, larger accounts will demand that Microsoft take responsibility for delivery and warranty of any configured/customize solution. While we understand the company does not want to corrupt a well-proven sales model, BI/PM dynamics will force this issue sooner rather than later.

Service providers like the ones mentioned above are one approach. But like other BI/PM vendors, Microsoft will have to bite the bullet and take some responsibility to address industry and/or content specific applications to sell further into each target organization.

Conclusion

Microsoft has developed, assembled, and is launching a formidable BI/PM strategy that will change market dynamics during the next 24 to 36 months. Most of the strategies the software giant is pursuing are not new, with many already in place among current market participants. The trump card here is the company's financial strength and market acceptance—they are tough challenges to overcome.

While some competitors will dismiss Microsoft products as not scalable or lacking functionality, that assessment is short-sighted; they are here to stay and are making a major play for the hearts and minds of the same customers. What may be lacking now will certainly be addressed in the long run. One key difference with this competitor: Microsoft is already installed at virtually all these clients.

Microsoft's efforts will exert even more pressure on market competitors already dealing with the realities of today's new BI/PM landscape. Two years ago, we stated that vendors would either aggressively defend their position in this market through diversification or acquiesce to partnership/acquisition to find safe haven in the storm. Microsoft's constant presence should accelerate these changes.

As Microsoft impacts the BI/PM market, it will certainly go through internal changes to adapt its organization and product strategy to new customer demands. While these changes may disrupt some of the plans, we expect the firm to be an intense challenger in the BI/PM marketplace in 2008 and beyond.