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VENAY(ph): Good morning, afternoon or evening, wherever you are, and thank you for taking the time to listen to this webinar brought to you by IBM Cognos and Forrester Research.

Today we've invited Forrester in to discuss the very important topic of the growing case for best-of-breed, purpose-built solutions as a part of your application strategy.

Ray Wang is the Vice President and Principal Analyst at Forrester Research. He analyzes trends in enterprise resource planning for the enterprise market and the mid market. He also delivers strategic guidance in software licensing and pricing and researches business processes.

With his understanding of the overall ecosystem of solutions, technology and system integrators, Ray provides for strategy and guidance for many clients navigating through the vendor selection process.

In 2008, Ray was recognized by the Institute of Industry Analyst Relations as the Analyst of the Year. Ray brings enterprise software experience honed from more than a decade of product management, management consulting and marketing roles. Ray graduated from Johns Hopkins University with a BA in Natural Sciences and Public Health and

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Master's Degree in Health Policy and Management and Health Finance and Management.

Without any further ado, I'd like to hand it over to Ray for today's presentation. Ray?

RAY WANG (Vice President and Principal Analyst, Forrester Research): Hey, Venay, thanks a lot.

As you can tell from the agenda, we'll be spending this podcast talking about how changes increase our urgency for business agility, learn how to better align our ap strategies with business drivers, understand why ERP standardization does not drive innovation and gain perspective on why purpose-built, best-of-breed solutions accelerate time to market, and then of course, leave you with a few recommendations and then take any questions and answers that you might have.

So as you notice from our theme slide, this is a little bit more on the strategic end and it's important to think about how ap strategies play a role in your best-of-breed solutions, in your opportunities to look for enterprise applications and purpose-built solutions that are going to meet your needs now and into the future.

Now many large vendors continue a myth that vendor consolidations have reduced the risks for enterprises to acquire, deploy and maintain

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software. Yet in many cases these consolidated environments often do not deliver a complete product footprint, leaving many specific capabilities, such as BI, MDM and last mile processes out of reach.

As enterprise professionals seek more rapid delivery of innovation and reductions in time to market, you've got to consider bringing best-of-breed solutions into these entrenched environments.

So as you can tell, we're going to start on this agenda slide looking at the forces of change that you may be facing in this environment. And that first force of change, on the next slide, is happening right now. If there's one thing we've discovered, change is the only constant in this market. And as you'll see the more we face change the more we require greater business agility. Globalization, outsourcing, shared services, mergers and acquisitions create new business models that are more rapidly being blown up and then recreated again.

Think about this: ten years ago who would have thought Google's \$160 billion market cap could acquire GM, which is worth three to four billion just for fun? Because enterprises don't know what's happening in this market because the models keep changing and especially when we don't know what applications will be part of this mix overall, it becomes critical as to how we address this nature of change.

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Now if you think about this, in mergers and acquisitions, we also never know what applications will be part of this mix and how critical these applications are going to be to the productivity and effectiveness of acquired organizations. And this is why the changing nature of business plays a big role in terms of concerns that we have to address going forward.

On the other hand, as you can tell, there's the changing workforce. And as you look at this next slide we've got new ways to work as job conditions change. We've got an aging workforce, we've got millennials coming to the marketplace. We are a free agent nation. We are a nation on the move. And one great example of telecommunication is in telecommunication in terms of how we work in contact centres.

Take an example, when you call JetBlue you never really call a contact centre, you never really call a telecommunications centre. In fact, what you are doing is really calling to someone's home. And when you call someone's home what you end up with is a scenario where people can work anytime they like. They are sitting at their desks, they're deciding that they're going to work from 3:00 a.m. to 7:00 p.m. on Tuesdays, but not Fridays, and maybe Saturdays. And that's the level of flexibility that's happening in the workforce.

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And so as we cater to these new types of users, people can be looking at applications in different ways. People need a certain level of information to be able to make decisions and be able to push that information down to the lowest level so people can actually be effective in their roles.

At the same time we're also facing geopolitical and economic issues. We're facing commodity shortages, commodity changes. We're facing economic crises, we're facing terrorism. There are a lot of issues that are happening. And then at the same time we're also facing issues around quality and compliance and really thinking about how government regulations are being put into place to address these issues and address also the changing nature of business at the same time.

And so as these forces come to work they create a certain level of uncertainty, and this uncertainty requires companies and enterprises to think about what information is at their hands so that they can make effective decisions as these changes are occurring.

And then last of all, but not least important, technology continues to progress at a rapid pace from the progression of Web Clients to Web 2.0, EDI to SOA, mobility to unified communications. There is a rapid pace of innovation unlike any era before us.

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And as these technologies advance, time to market for innovation becomes a critical competitive differentiator. Ap strategies have to focus on reducing the cost of commoditized processes while investing a greater portion of the budget towards innovation and competitive differentiation.

And this is where we see a role for best-of-breed solutions as they bring these technology advances to market much more quickly into the hands of enterprises looking for that competitive differentiation.

So on this next slide, we're going to start the discussion on why the strategy needs to be aligned with business drivers. And as we face these tectonic forces of change, we need to find ways to line our business drivers with ap strategies.

And so let's take a look at three key success factors in terms of driving ap strategies. And these success factors are foundations of really building the right team of IT and business leaders. You've got to get the right level of buy-ins. You've got to make sure that there's a right balance of people that understand where the business is going and what the constraints are within IT, or what the possibilities are, or maybe the vice versa, the constraints in business and the possibilities of IT in terms of changing the game, changing the business models.

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At the same time economic state is important. You're thinking about where we are in terms of the weaker economy or better economy or different situations. A lot of this depends on your industry, your geographies.

And then of course the last piece is your appetite for managing and accommodating project risk.

Putting all that together and what you see here on the next slide is these business drivers; and these business drivers fall into four key categories. You can put any IT project into these four key categories and really thinking about how different solutions can address this.

The first one, really if you think about it, and the easiest one, is efficiencies. Low project risk during a weak economic climate. The goal here is really to reduce costs, really trying to figure out what you can do to improve efficiencies and really to drive areas of opportunities that can kind of create system-wide efficiencies. These include improving supply and procurement leverage, mitigating having a credit risk, reducing days sales outstanding, reducing the cost of sales, reducing, you know, anything you can do to create operational efficiency.

Next in terms of priorities, of course, would then be compliance. And these are things, anything you can do to avoid being sued, being liable,

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being non-compliant with a government regulation. These things come up. And these can include things that are positive in terms of environmental compliance and green initiatives, but also things that may be punitive or designed to protect the public safety.

And then of course there's strategic and growth areas that are designed for different parts of the economy, especially when you're trying to grow a business, trying to understand your customers, trying to understand your sales, trying to improve cross-sell and up-sell, and of course strategic programs which really drive a lot of differentiation. But much longer run, much higher risk, but definitely things that people invest in to create differentiation.

So as we think about this, we should talk about a little bit on how ERP standardization plays a role here, but more focused on commoditization. And so on this next slide, we begin the discussion really looking at why underlying many of our ap strategies are ERP systems, which play a core role but really were designed to take commoditized back off the processes and enable a level of standardization. And this level of standardization was really the promise of ERP.

However, as we think about this and we look at this next slide, you know, for many of these customers the promises over the past ten years

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still have yet to be achieved, and though innovative a decade ago many of these ERP vendors have failed to deliver not only the promises of ERP but a whole number of other areas.

Think about ten years ago. Remember those great demos full of business intelligence and insight and dashboards and reporting. Well, all those installations pre-Y2K ended up being pretty much slam the ERP system and worry about the reporting and intelligence later. And that's one of those areas where we realize that information out was a significant factor in really making ERP successful. Yet a lot of these projects failed to do that.

And so when we think about some of these promises, the reduction of aps, yes, we've achieved that. Financial stability, yes, these vendors are all doing very well, very profitable. Integrated suite of core functionality, well, this is where we start to see some failures. Multiple product lines, multiple integration points. When we talk about fee-free access to new capabilities and innovation, well, this isn't happening. There are constant pressures from the sales teams to up-sell you on new products and services and many times products and services you should have paid for already with your maintenance fees.

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And then, of course, reasonable support fees. We've seen increases in this area. We've seen collaborative relationships fail. Things have become more transactional after implementation. And then of course, just a lot of bad sales tactics as these centres focus on up-sell as opposed to looking at your level of innovation and trying to address your business and business-specific requirements.

So this changing shift has really caused some issues, significant issues, especially as we look at this next set of data, which is really about where IT budgets are going.

And if you look at these numbers, and the 2009 numbers have just come in as well, they are surprising. We are spending over 60 per cent of our budgets, almost close to 70 per cent in some areas, on ongoing maintenance and operations. Is that innovative? No. In fact, the amount of spending on new IT initiatives and projects is at a dismal rate of 37 per cent and really should be at 50 per cent if you're trying to keep up and if you're trying to definitely innovate in that marketplace.

And where is that money going? On these large ERP systems, it's really in upgrades, maintenance fees, staffing and price(?). And as you look at the timetable on this slide, we're really looking at this range from a ten-year period where people are just constantly starting a project,

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upgrading, redefining, upgrading, redefining, and hopefully adding some level of new functionality, but not often does it occur as companies are focused on upgrades as being on the next and greatest technical release.

So as you look on the slide, then this next slide, 16, what we're seeing here is common issues that are being expressed by ERP clients, and it's really about value. Customers are wondering what value they're getting from their maintenance fees, what value they're getting from a vendor, their existing vendor in terms of delivering innovation. And then customers are really suffering from what we call ERP upgrade fatigue. And this occurs when you constantly go through these upgrade cycles and really have no room or time to pipe in innovation at a reasonable rate, or at a market pace.

Of course, on the next slide what we're seeing is also a lot of times there's a lack of transparency on what's being provided in the next release. Credits aren't granted for new products, and this is one of those situations where sales people are being very aggressive and trying to push products you don't need.

One vendor that we know has been heavily pushing two sets of products and really driving our customers to make a decision as to which ones they continue to invest for, and what credit will they be having with

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their existing set of applications. And this isn't anything new. This happens in acquisitions, but this is leaving customers wondering is there value and what value are we getting in this marketplace?

So where do we go from here, and what can we do to create innovation? Well, you know, as we begin the discussion on purpose-built solutions that are addressing innovation, let's start with this process issue slide that you see here. And the question we asked 75 business and IT decision-makers is really how important are the following business problems when considering existing enterprise application implementations?

And surprise, surprise, the key thing here is processes. Business processes is one area that continue to challenge where apps are able to innovate. Can I see the result of an end-to-end process? Can I make a change to that process without incurring expensive configuration and customization? Do I have the ability to support and understanding cross-functional processes? How can you get to useful information if you can't get the process portion addressed, or adapt to new business models and those processes?

And so lack of visibility and analytical insight really is driving this inability to get end-to-end or understanding of end-to-end intelligence and

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analytics; and so if you can't account for heterogeneous sources of information, you're really not going to get good visibility to analytical insight at all.

So one of the things that we've been telling customers, and as we go to this next slide, one of the things that we've been telling customers is that it is important to avoid vendor lock-in. And so as you're making your decisions around aps, you need to think about your business purpose, the business drivers, the business processes you're trying to support, the technology strategy you're going to get there, and then last of all, think about the vendor.

And so if you've got an existing ERP system, we see that as a separate decision than what you do with purpose-built aps. What you do with BI or vertical or specialized applications should be something that you think about in terms of innovation.

So what do you do with ERP? Well, you've got stable cores with external innovation layers that come at a slow and steady pace, and then we have ERP as dynamic business applications, there are opportunities as people try newer versions and newer upgrades. And then of course, people are considering best-of-breed versus suites from these large vendors as well. And so in some cases people are putting one core ERP in

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the corporate environment and bunch of subsidiaries are running something else as time to market becomes important.

But then when you start thinking about the critical applications, how are you getting information out? How are you managing data? What's going on in the information supply chain? Or what's happening for your vertical industry requirements? Then you have options.

The first one, you can buy from your ERP vendor. In many cases, if it's been through organic growth there's been a slowdown in innovation.

You can buy from specialist vendors. In many cases, this provides you with extra time to market and allows you to get up and running. Or you can build on your own, on existing platforms, and this is what we're telling our clients to think about and consider as they move forward.

But let's look at why in this next slide. Why purpose-built solutions are important. And as you've heard and as we've alluded to, a lot of this is really about delivering innovation. How quickly do you need that level of innovation? It's happening at not only the role level, the process level and the data level, but these are coming from vendors that are focused on specific problems; and this is what makes them purpose-built and this is really what makes these best-of-breed purpose-built solutions very important in the marketplace.

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The other piece is it aligns really closely with business user requirements. In fact, a lot of these purpose-built solutions are designed to work within some of the existing ERP systems, existing legacy applications, and really to augment those processes and to create some clarity.

And then, of course, because these are purpose-built, you get a greater level of adoption by business users. This can come from the usability. This can come from the usefulness of that information. This can come from just the nature of how those applications were designed to support business functions.

And as you think about the accelerated go-to-market functionality, you get better time to implementation and time to market and you don't spend all your time trying to pump your requirements into someone else's product road map because these have already been built and been tested in a lot of different environments.

Which leads to the discussion around homogeneity, which is really that these solutions have been designed to play well with others, which is really important, especially as we look at more hybrid deployment options and people look at software or service, piping in functionality, as people look at best-of-breed applications running on top of these environments, as

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we look at keeping some of the legacy applications so that we don't... or so that we do maximize our existing investments and don't waste existing capital.

So as you can see, these purpose-built solutions do play a big role. We're going to leave you with some quick recommendations before the Q&A.

The first set of recommendations really focuses on thinking about technology decisions using an aps strategy framework. And it's really important to think about these four areas. But the normal gut reaction by most people is to start with my vendor problem. I've got a problem with vendor X and we're going to build a strategy around that.

Well, I'd like to propose that you take some time and start from item number one, which is really thinking about do we have the right framework to even have this discussion? Are the right people in the room? Do we have the right change management capabilities? Are we looking at training? Do we have a good level of business IT collaboration?

Once you've got that in place aligned with the business driver, then you can start looking at processes, and that's where the fun begins because when you're looking at process definition, you are looking to see what are the commoditized processes here? What are things that are back

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office? If they're back office, that means they are standardized. That means I can do business process outsourcing. That means I can do shared services. That means I can do something to reduce the costs and make this a repeatable automation, leaving me some money to think about the innovative processes, and really about what I can do to create some value and competitive differentiation.

With that in mind then you think about, hey, what technologies do we deploy? What upgrades are we doing? You know, what do we do about deployment options? And then think about the vendor. Think about when do I go back to (inaudible), when do I go purpose-built, and you know, you take into consideration things such as how quickly do I need innovation? How quickly do I need to address user requirements? Can I consolidate with some of the vendors I'm working with? Or do I want to introduce another vendor to avoid vendor lock-in? And these all become part of your ap strategy framework, which is part of the things that's important.

So what are some of the key lessons that we've learned? Well, I mean, the best thing is to think about avoiding sole-sourcing and really the reason you want to avoid sole-sourcing is because while good client-vendor partnerships are typically the goal, you could get into a situation where you're completely locked in to one vendor and the core slow-

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changing pieces of their applications are not progressing at a rate for specialized products and best-of-breed vendors are able to deliver; and leaving you waiting for the next release, constantly waiting for the next release and requirement to make it there.

And so you want to avoid sole-sourcing, and especially the vendor lock-in that comes with it, and the comfort level that the vendor has in terms of believing you're never going to leave them.

And then, of course, this is why you want to be open to best-of-breed applications outside the core. And the reason this is important is, you know, you want to subject all the offerings to the same level of scrutiny because you've got business requirements(?) to meet and you're spending money on software and especially for front office and vertical applications and BI, you've got a lot of great choices from software vendors and system integrated, and these options will often be better than some of the products that these core ERP vendors are providing.

In some cases, you want to maintain a good mix of application suppliers to give you some freedom of choice as you evolve your applications portfolio. So all these things become important. But keep in mind that you should consider best-of-breed applications and here's some reason and rationale why.

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When you go sole-source you've got commoditized processes. You're really trying to drive economies of scale. You've got immature technologies that aren't able to support heterogeneous integration and it's better to choose one vendor and get integration all from one area.

You have sole-sourced. If there's no innovation requirements that require you to get rapidly into the market or adjust to quick regulation, and maybe you're getting better licensing and pricing terms. I can see that. And there are options to do that. And of course, if you've got trusted supplier status in those relationships, and of course the checks and balances to keep you from being locked in to one vendor.

But often we see best-of-breed winning, especially when you're looking at innovative processes. This is really a testament to the BI vendors. This is a testament to staff where people really want to get functionality right away. This is a testimony to good integration. If you've got mature technologies, that's important. Different types of integration across different types of deployment landscapes, including on-premise staff hosted, they become important. And then of course, you've got to get your innovation out to the market very quickly. Or you've got a compliance issue that you're trying to address that requires you to get information out to people right away.

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And then of course, definitely hedging against vendor lock-in and anti-competitive behaviour in the marketplace. And then, of course, if you are willing to build a portfolio of trusted suppliers instead of one trusted supplier, best-of-breed makes a lot of sense in that market.

Now, of course, it wouldn't be a true Forrester presentation without us really talking about ROI and methodologies such as pro-economic impact. And so as you consider these options make sure you run an analysis to think about what benefits are you getting, and those are the business drivers we've talked about, and address what flexibility are you creating in terms of options and agility in the marketplace.

And then look at the cost structures, you know, identify everything from implementation to maintenance, to utilization, to training, and then of course, to the risks, which can come from implementation risks and impact risks for the project not succeeding and implementation risk for failure in the project, and apply that together and you've got a ROI calculator to help you understand your total economic impact.

So as you can tell, these are very important issues. And what I'm going to do is turn the presentation back over to Venay, who'll talk to you a little bit more and lead the Q&A discussion.

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VENAY: Thank you, Ray, for that wonderful presentation. I'd like to take a few minutes just to do a quick recap of Ray's key recommendations before we go into Q&A.

So one of the key points that he brings out is avoiding vendor lock-in. This is something that he touches upon in many slides within his presentation and something that we should definitely take home.

He talks about avoiding sole-sourcing for a number of reasons. Number one, vendor lock-in stifles innovation within your application environment and best-of-breed offers better products than an ERP provider may be able to provide. So this is something you need to determine.

Evaluate solutions based on their ability to meet business drivers, processes and technology strategy. So whenever you're taking a look at any applications that you want to make an investment in, look at how that application's able to meet the drivers of the organization, the original purpose for investment, and make sure that it aligns with your business processes and technology strategy of your organization.

And last, but not least, you choose best-of-breed solutions because ERP is a very separate decision from BI or specialized applications. End of the day, ERPs are very transactional systems. They're there to collect and

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store information and automate commoditized business processes, whereas BI and other specialized vertical applications, for example – and Ray mentions this in his presentation – is able to deliver innovation faster, able to align with business user requirements and foster better adoption within the organization, so that organizations are able to realize the true impact and the innovation that the application provides and business users are able to see intuitive user interfaces so they'll be able to self-service themselves and not have to burden an already overworked IT organization.

And best-of-breed solutions bring in faster go to market. They're able to get applications up and running for your line of businesses faster than many ERP providers can provide for you.

Last, but not least, support for heterogeneity. This is a very, very key point. And one of the areas where IBM Cognos definitely adds a lot of value to customers because it supports heterogeneous data sources, supports heterogeneous application environments. It encourages you to keep your competitive advantage and embraces, extends and enhances those investments and give you better end-to-end analytical insight.

So how can IBM Cognos's BIs and performance management solutions help you in this regard? IBM Cognos solutions are independent from your ERP provider and is focused solely on business intelligence and

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performance management solutions. We're focused on driving innovation in those applications and in every new release we're driving more and more innovation and more and more best practices. Cognos is focused solely on business intelligence and performance management.

Secondly, IBM Cognos is an application-independent provider, and therefore is experienced in supporting heterogeneous application environments from both SAP and non-SAP or other vendor sources, for example.

This support for heterogeneous application environments allows for end-to-end visibility and analytical insight into your business processes, much better than any ERP provider can provide.

And lastly, IBM Cognos BI and performance management systems are designed for the business user and meets the best practices of IT standards. So we create applications that are easy to use and are easy to use by the business users without any technical knowledge so that they start to self-service themselves and realize the value of this investment.

These three key points really talk to our differentiation and how our solution can help you embrace, enhance and extend your existing ERP investments, at the same time promising and delivering innovation within your application environment.

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Thank you for listening to today's podcast. We appreciate the time you've taken and we hope that it has been very helpful and useful for you.

At this point in time, I'd like to open up the floor for any questions.

Operator?

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