The Czech ERP Market under the Influence of the Economic Slump and Grant Programmes

Petr Sodomka
Center for investigations into Information Systems (CVIS)
Faculty of Management and Economics
Tomas Bata University in Zlín
Czech Republic
petr.sodomka@cvis.cz

Abstract:
We shall start our annual revision and stocktaking of this market and the most significant events that have taken place in the field of Business Applications based upon the latest statistics gathered by the Center for investigations into Information Systems. Over the past five years, we have worked with a sample group of respondents and the reference companies they represent, which we estimate, represent more than 95 % of the Czech market with standard ERP applications delivered in the form of classical implementation projects or in the form of rental services provided over the Internet. And it is precisely because our research efforts are based upon such an extensive representative sample that we can demonstrate that this year, for the first time ever, these providers are slowly starting to run out of steam.

Key words: Enterprise Resource Planning (ERP), All-in-One ERP Systems, Best-of-Breed ERP Systems, ICT in Enterprises, small and medium-sized enterprises, branch specific solution

1. Market growth has slowed down

According to research conducted by CVIS (1-3), up until the end of 2008 a total of 20,715 ERP projects had been realised based upon over 80 various standard ERP solutions in the Czech Republic. In the preceding years, these figures were 19,492 (2007), 17,357 (2006) and 15,426 (2005) projects. The given sample group does not include so-called “roll-outs”, i.e. implementations of foreign solutions in the subsidiary companies of supranational concerns and corporations, nor does it include all those projects, in the course of which the ERP system is developed and specially adapted to order.

While it is true that until the present day, inter-annual growth was comparable to a cca 10 % level (with deviations acceptable within the context of statistical error); however, last year saw an increase of but half as many such implementations. It has proved very difficult to calculate the overall or average values of the projects we tracked and followed - just as it is impossible to perform a more detailed analysis of the inter-annual growth rate for individual provider/suppliers. Apart from the increase due to new projects, these solutions providers are also losing stable existing customers - for whom the ERP system they had implemented has ceased to be sufficient for some reason or other. Certain of the providers have continued in the process of replacing obsolete or no longer fully sufficiently functional economic (financial) management systems for their own clients with newly developed ERP solutions. In the last few years, this held true for the majority of the most significant “players” in the market - like ABRA Software or J.K.R, with new entrants like Cígler Software for instance joining them - who are gradually acquiring customers and market share in both the commercial and industrial sectors for their Money S5 solution.
2. **For the time being, the influence of grants is still minimal**

Without doubt, a surprising discovery was that small businesses with up to 50 employees had the least significant share in this die-away of orders. ERP systems providers are continuing to be successful in penetrating into ever-smaller companies. It is clear that investments into ERP solutions are helped by grant programmes from the Structural Funds of the EU, and especially from the "ICT in Enterprises" programme, which is intended especially for small and medium-sized manufacturing enterprises located outside the Prague area. For this reason, we decide to investigate whether such resources acquired through the above-mentioned programmes have made their appearance and impact on this market in some way or other. In the course of our investigations, we took as our starting point the latest list of recipients of such grants and other available statistics published by the Czech national CzechInvest Agency. According to this data, in the 1st Call (launched 1.6.2007, Acceptance of Applications Registration) – a total of 244 grant applications were registered for an overall sum of 577,236 billion CZK. By the end of July, 2009 however, a mere 45.6 million crowns had been paid out in the form of grants – and this was for 24 completed implementation projects (4). It is also necessary to add at this point that the great majority of these applications were for the acquisition of an ERP system, or for its innovation.

3. **ICT in Enterprises can bring about interesting changes in conditions**

As these statistics show, the impacts of the ICT in Enterprises program on developments in market share are – for the time being, minimal. The majority of all such projects are still incomplete and have yet to be paid for; this is especially true for the period covering 2008 - which is directly related to our latest attempts to measure market share. In addition, for the time being, the minority share of the total sum applied for and which has been paid out has been devoted to implementation projects. 1 billion CZK have been set aside for the 2nd Call, which closed on 20.04.2009; and a further cca. 2.6 billion CZK should be allocated for the 3rd Call. It can therefore be anticipated that the positive impact of these grants on growth in the ERP market will be spread across the upcoming four years. All of the monies set aside and allocated for the ICT in Enterprises programme should have been disbursed by 2013. It is of course, impossible to anticipate with greater precision for the time being; just which segments of this market will profit the most. CzechInvest can expand the efficacy and impact of the programme in the future for instance, by including larger-sized enterprises or else enterprises doing business in sectors and fields not yet open to grant support. For instance - for the 3rd Call, planned to be announced by the end of this calendar year, for the first time manufacturing companies in the construction sector will be able to apply for grants for ICT needs.

4. **ERP systems were mainly purchased by small-sized enterprises**

The maintenance of dynamic growth in the small-sized enterprises market segment – even in the initial phase of the current economic recession, can be attributed
above all to their replacement of outmoded economic (financial) systems with full-value ERP solutions. Further positive effects are the decreases in prices - especially for licences, and the ever greater and tougher competition between providers. It is precisely this combination of both of these factors which serves to make ERP systems ever-more affordable and accessible to even those organisations which had previously been unable to afford such costly investments into IT – i.e. small-sized enterprises. This market segment has also been the long-term target of efforts by some providers of economic (financial management) systems. Their chances however will be reduced by the degree to which the knowledge-base and knowledge capital of the owners and managers of such small-sized enterprises will increase - as well as how ERP producer-providers manage to improve their range of technologically and functionally sophisticated, robust solutions. The knowledge barrier is, long-term, the greatest obstacle preventing greater penetration of ERP systems into Czech industrial and commercial organisations. This has unarguably been shown, not only in the implementation projects in which our advisory organisation CVIS Consulting has been involved in over the past few months - but also for instance, in the assessments of grant applications made by the CzechInvest Agency. The latter sets out as one of the main mistakes and reasons for refusing grant applications, the fact that the business plans are often inconcrete or insufficiently well-thought out and well-elaborated.

5. The market is being held back by the lack of preparedness of both customers as well as suppliers

Even if it is absolutely clear that the ICT in Enterprises programme provides an exceptional opportunity for the development of the ERP as well as other ICT markets - the majority of such providers are not well-prepared enough for the demands of this program. Manufacturing companies lack above all a sufficiency of high-quality information and a knowledge of what is on offer on the Czech market, of what possibilities exist for systems integrators and what the key aspects of resolving implementation projects are such that they would be able to better plan their own projects in an optimal manner - as well as knowing how to assure these projects by financial resources from the ICT in Enterprises programme in an appropriate manner. While these enterprises do seek advice and cooperate with agencies which - while themselves being competent (but this does not hold true for all of them), are able to correctly resolve all of the formal requirements and aspects - but often do not manage to provide the best possible advise to their clients with the content-related aspects of the application such that the project would be able to support their business aims and objectives, while also corresponding to the possibilities offered by their organisation. The solutions providers, who should above all have an interest in the optimal exploitation of these grants in the course of implementation projects for their clients, lack any form of unified strategy as to how to help those enterprises which flounder about in the process of planning the content-related aspects of grant-sponsored projects. At the same time, they not only lack a corresponding commercial policy as to how to correctly react to offers for application submission and tender documentation, but also as to how best to proceed in these highly specific commercial cases. These factors have shown themselves for instance in the fact that so far, only 24 out of a total of 244 projects approved in the 1st Call, have been completed and paid for.
6. The market leader continues to be Helios

As can be seen in the graphs presented herein, the share of All-in-One ERP systems on the Czech market and in organisations up to 1,000 employees is, without question, dominated above all by domestic producers of ERP systems. In essence, this state-of-affairs has lasted throughout the time that CVIS has been concerned with measuring market share in the Czech Republic. One can even state that the number of Czech ERP systems has grown proportionally in all market segments over the last 10 years.

The most successful brand on the Czech market is Helios (Orange and Green), which belongs to the Asseco Solutions company. This came into existence earlier this year through the fusion of the LCS International and the Slovakian Datalock companies as a subsidiary of the supranational concern Asseco Group. Asseco Solutions employs 450 people and its annual turnover for 2008 amounted to over 550 million CZK. There can be no doubt that this fusion strengthened the position of the Helios system as No. 1 on the Czech ERP market.

The Helios Orange ERP system represents a significant majority of these implementations - and by the end of 2008, this system had been introduced to 2,508 small, and 1,045 medium-sized enterprises. In the organisations employing 250 to 1,000 employees segment, it is used by 627 enterprises - ranking this product at the absolute peak of the Czech ERP market. Helios benefits not only from its strong customer base and extensive partnership network, but above all from its well-prepared branch or sector specific solutions - of which there are currently 20 variants available for both product types.
7. Followers-up among Czech producers

Another highly successful Czech ERP solutions producer is ABRA Software, whose ERP G2-G4 systems are used by 2,230 small-sized enterprises. In the medium-sized and large-scale enterprises and organisations sector, the numbers of Gx applications are significantly less well represented; the modern G4 system - which exploits the Oracle Database solution, is still in the initial phases of its development cycle. Another company which has strong representation on the Czech ERP market is Altus Software - whose Altus Vario system is used by 1,040 small-sized enterprises. However, this solution is significantly less well-represented and used in larger enterprises and organisations. A further significant player is the J.K.R. Company, whose ERP Byznys solution is equally well represented in small and medium-sized enterprises. This application is used by almost 1,000 companies in both segments taken together (i.e. 442 small and 497 medium-sized enterprises).

Both the Ortex (Orsoft) and the K2 atmitec (K2) companies also have long-term strong positions in the Czech ERP market. However, the latter company - which serves more than 500 organisations, went through a crisis this year caused by internal differences between the solutions producer and its implementation partners. Key customers - with the Linet a.s. company at their head, established a unique citizens’ association that set itself the goal of controlling and influencing the work of development firm in such a way that the interests of their client customers and users of the information systems would be best served and protected. On the other hand, the former main implementation partner - the K2 atmitec syst company, announced the development of a completely new ERP system with the support of the Structural Funds of the EU. It is difficult to predict just what the consequences will be of both of the afore-mentioned activities. One thing is clear and that is that it is impossible to discount the possibility or probability of more significant changes in the extensive customer base of the K2 company.
8. Medium-strong players

Among those companies ranked among the medium-strong domestic ERP producers which also have the requisite commercial and marketing strength to gain greater market share are, without discussion, companies like DC Concept, Karat Software and Cígler Software. The first two companies have been operating in this market for a significant length of time and both are striving to establish their paths through concentration on branch specific solutions - (Karat – in the beverages industry, logistics processes, (customer) service services; and QI – in the water distribution and treatment, mechanical engineering and meat-processing industries). Cígler Software is the leader in the field of economic systems and has entered the ERP market with its Money S5 ERP system - this information system came into existence with the direct participation of experts and professionals working in the Microsoft Development Centre in Copenhagen. It makes use of the latest and most modern technologies developed by the world’s number one software developer and provider. However, in the course of its introduction to the market, it was not provided with such a degree and level of functionality that it could truly be ranked among ERP systems. Over the past year however, Cígler Software and its partner organisations' developers have corrected this deficiency and handicap. This system is now prepared for implementation in commercial organisations as well as, above all, in enterprises with simpler types of production processes - like for instance the production of animal feed. By the end of 2008, the Money S5 ERP system was in use in over 100 organisations.

![Fig. 3: ERP systems in enterprises with 250 – 1,000 employees](source)

9. Specialists in fields of expertise and processes

Equally, there are very strong Czech software houses involved with the development and sales of ERP systems oriented on concrete branches, fields,
sectors or business processes (i.e. Best-of-Breed). The products of these producers can only be measured and compared with difficulty, since each of them is so functionally delimited that they cannot be used as substitutes (i.e. replacements for universal systems for the management and control of all of an enterprise’s key processes).

In order to provide a full picture of the position of Czech software producers on this market, allow us to briefly mention a further two short pieces of interesting information. More than 75% of all implemented Best-of-Breed ERP applications in organisations with 10 to 1,000 employees belong to the companies: Vema and Arbes Technologies. More than 56% of the overall number of All-in-One ERP systems implemented in enterprises with 10 to 1,000 employees come out of the workshops of one of the following Czech producers – Asseco Solutions, ABRA Software, J.K.R., K2 atmitec and Ortex.

10. World-class producers, with Microsoft and SAP at their head

When talking about the extensive market segment of enterprises with 10 to 1,000 employees, only the Microsoft Dynamics and SAP ERP systems have a significant market position. Microsoft’s key – or core product is the NAV (formerly Navision) ERP solution, used by 769 Czech organisations in the given segment. Of SAP’s core products, it is mainly its SAP Business One that is used in small and medium-sized enterprises (with more than 230 customers) and the SAP Business All-in-One solution, the standard bearer for sector-specific solutions for its partners in medium-sized and large-scale organisations (with more than 430 customers). Taken together, SAP and Microsoft own every tenth ERP system implemented in enterprises and organisations falling into the above-mentioned category – which is, in comparison to domestic products, a remarkably weak result. Microsoft as well SAP benefit from a long-term tradition based upon their performance on the Czech market and the possibilities and opportunities offered by their respective and extensive partnership networks; price-wise however, they are ever further from their Czech competitors since both of these major producers have to respect the European pricing policy of their “mother” corporations, while our domestic producers can - in this area at least, react very flexibly. This is also the reason why both these giants deliver their ERP systems solutions rather to larger enterprises and organisations (i.e. from 50 employees and more). Long-term, SAP is a well-known phenomenon in large-scale enterprises and in supranational corporations - where it has attained more than a 50% market share.

11. World-class producers, with Microsoft and SAP at their head

World-class ERP software (5) do much better in manufacturing and production companies since the need for sector-specific solutions is markedly greater in such enterprises and organisations due to the fact that their production and manufacturing processes are so complicated that they can only with great difficulty be covered by standard ERP systems but this is at the price of supplementary programming adaptations and further additional expenses. Manufacturing enterprises are very sensitive to cutting-edge know-how, narrowly oriented on
concrete types of products and the specific characteristics and nature of their business activities. This is why this sector is the domain of providers who have built their knowledge-base around cutting-edge world-class ERP systems - and this is especially true within the context of their consultancy teams. Among the most successful companies who have specialised in delivering such systems to manufacturing companies are for instance, Minerva ČR (QAD EA – for the automobile, mechanical engineering, food-processing industries and other such like vertically-integrated industries); Altec (with its IFS Application – for made-to-order, process-oriented as well as design production); Aimtec (SappyCar – for the automobile industry); or partners for deliveries of applications from the Infor Global Solutions portfolio, like for instance - IT euro (Infor ERP SyteLine – for made-to-order production). This sector can also be successfully penetrated by well-known specialists offering and providing specialised ERP systems which have celebrated success in Germany – their country of origin, like for instance: IS Berghof (PSlpenta.com – for made-to-order production, and regulation of processes in ERP systems), or Amotiq (Abas Business Software – profiled for instance in the narrow field of Cost Accounting). A further narrow segment with strong competition is made up of partners for deliveries of Microsoft Dynamics and SAP solutions – like Essence International (NAV – for inventory and stores management, or developers’ solutions); Axiom SW (NAV – solutions for automobile importers and sales outlets); or Sabris (SAP – for the food-processing industry, and logistics and commercial companies), for instance.

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