

QUICK TAKE

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Microsoft Dynamics Emerges From Wave 1

Convergence Strategy Leverages Microsoft Core Technologies And Usability

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EXECUTIVE SUMMARY

Closer alignment with 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 Wave 1 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 will include enhancements that drive further standardization across the product lines, including data, business processes, and roles. More importantly, Microsoft plans to double its investment in partner ecosystem development and has begun a \$140 million Microsoft Dynamics and a \$500 million Microsoft “people-ready” advertising campaign. However, the dependence of future Microsoft Dynamics applications on underlying Microsoft technology releases will continue to delay the time-to-market of the next-generation, converged product.

RESEARCH CATALYST

The Microsoft Business Solutions (MBS) group held its annual Convergence conference from March 24 to March 28, 2006.

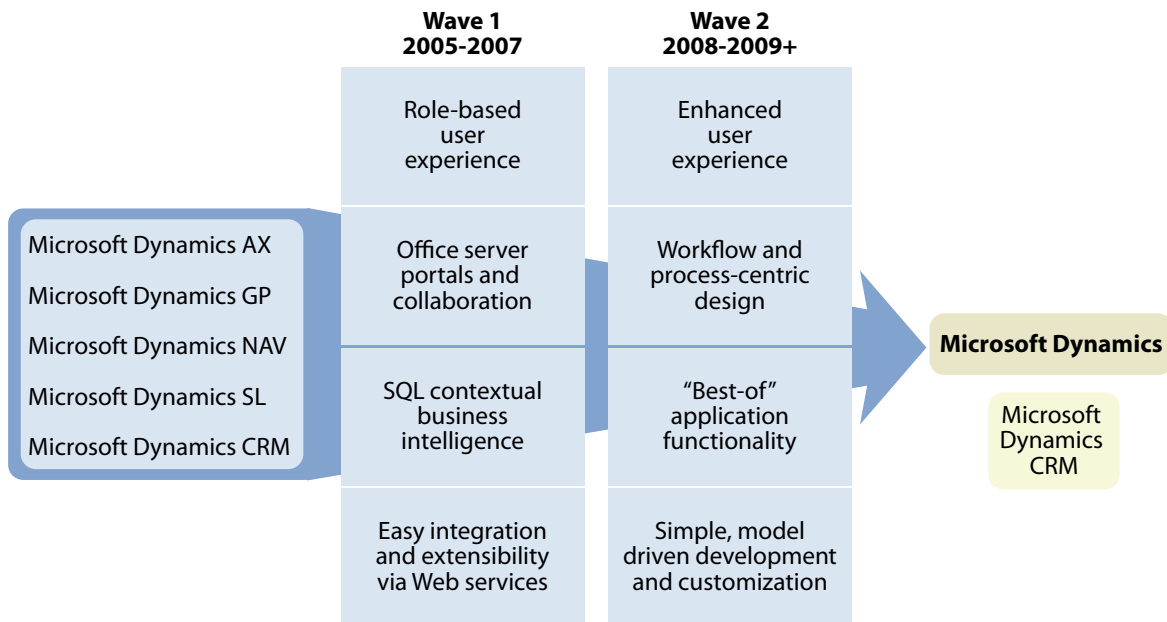
MICROSOFT MOVES TOWARD CONVERGENCE OF DYNAMICS APPLICATIONS

At the Convergence 2005 event, Microsoft announced a two-phased road map for the convergence of its four enterprise resource planning (ERP) product lines and its customer relationship management (CRM) product. Originally known as Project Green, Microsoft promised an initial phase (Wave 1) to achieve a common look and feel, provide better reporting capabilities, and introduce roles into the applications.¹ Wave 2 would focus on the development of a process-centric design and would introduce further use of the Microsoft technology stack. The Microsoft Dynamics branding was subsequently introduced as a unifying theme in late 2005. Despite specific timelines for Wave 1 and Wave 2, Microsoft has still not provided a specific date for the eventual convergence of the MBS family of products into one product line (see Figure 1).

Wave 1 Is Nearing Completion

The rollout of the latest versions of the Microsoft Dynamics products in 2006 will signal a substantial delivery on the Wave 1 commitments. Although many of its improvements are largely focused on user experience, Wave 1 provides the groundwork for a converged product line. Elements common to all of the Microsoft Dynamics product families at the completion of Wave 1 include:

Figure 1 Microsoft Dynamics Road Map



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Source: Forrester Research, Inc.

- Role-based user experience.** Dynamics’ user-experience teams continue to invest in mapping out organizational roles and personas that align with the varying complexities of business entities. To date, Microsoft has identified 61 roles, 15 departments, and 33 related process groups as part of a model that is being used to design the user experience. For Microsoft, the notion of roles extends beyond a portal home page and into the design of the business applications. In addition, design elements in Wave 1 have a similar look and feel to those used in Office 2007 and Windows Vista, such as left-pane navigation bars for easy access, top-page bread-crumbs trails for traversing back to a point of reference, and user ribbons.

Forrester’s take: While most vendors have focused on improving support for business processes with modest usability enhancements, none has made the same level of commitment around role-based user experience and usability.² With its financial strength, ubiquitous Office environment, and improving analytics capabilities, Microsoft is in a unique position to redefine business application usability and is doing so. The recent reorganization that combined the teams from MBS and Office allows clients to benefit from tighter integration between the Dynamics and Office product lines.

- Portals and collaboration.** Windows SharePoint Portal and SharePoint Services provide the foundation that brings together Office and other Microsoft tools with Microsoft Dynamics applications. Using Web parts, which are akin to portlets, role-based information drives the

user experience. In addition, to facilitate collaboration with partners and suppliers, Microsoft Dynamics' Wave 1 products integrate with Live Communicator for B2B instant messaging and Live Meeting.

Forrester's take: With roles and personalization, SharePoint enhances the overall user experience across the Microsoft Dynamics product lines and moves the applications from a client/server, fat-client paradigm to the Web. As new Office technologies are integrated into the SharePoint portal, Forrester expects that improved collaboration and workflow technologies will surface within the applications.

- **SQL-based contextual business intelligence.** Microsoft Dynamics applications integrate in various forms with SQL Server 2005 (formerly code-named "Yukon"), bringing reporting and analysis services to the application environment. New initiatives feature an integrated business intelligence offering consisting of platform-based reporting, analysis, and data integration services; end-user tools (such as Excel); and an integrated set of analytical applications (such as budgeting and scorecards).

Forrester's take: Existing MBS customers have been clamoring for more useful reporting and analysis capabilities, and significant improvements are forthcoming. Financial reporting capabilities delivered by the previously compartmentalized FRx unit are now available across all of the Microsoft Dynamics ERP product lines and will be integrated into the broader business intelligence initiative.

- **Web services based composition and integration.** With each new product release, Microsoft Dynamics delivers improved support for Web services. There is continued support for Web services-based composition and integration, and software partners (ISVs) develop complementary applications in C# on .NET. As each of the products make the transition from C# to Visual Studio .NET technologies, expect a co-compiled code base at runtime as Microsoft Dynamics makes the slow move from a two-tier architecture to the three-tier model as best represented by Microsoft Dynamics AX.³

Forrester's take: Microsoft Dynamics AX will be a key product and model for MBS as the applications move toward a merged product because it has the broadest functional footprint of the MBS ERP products. Rather than rewrite the applications in a common language, languages (including X++ from AX) will be co-compiled within Visual Studio as a common runtime environment. Though lacking architectural purity, this strategy provides an easier migration path for existing customers.

- **Tighter integration with Microsoft Dynamics CRM.** Releases in Wave 1 from Microsoft Dynamics GP and Microsoft Dynamics SL demonstrate tighter integration with Dynamics CRM. While ERP products (for example, AX and NAV) will continue to develop additional

CRM functionality, the long-term road map envisions one CRM product. CRM functionality delivered in future releases will provide consumable services that other Microsoft Dynamics applications can use. However, Microsoft intends to sell Microsoft Dynamics CRM as a separate product suite for the foreseeable future.

Forrester's take: Microsoft can deliver on a semiconverged data model and business logic tier but not until Wave 2. Converged Dynamics products, including those with CRM functionality, will share the same architectural foundation. Tighter integration with Outlook and Exchange Server, for example, should improve the collaboration frameworks within CRM. At this point, however, one converged data model presents significant technical challenges as Microsoft deals with increasingly complex organizations in the upper midmarket.

People-Ready Approach In Wave 2 Requires Delivery Of SOA And Web Services

Microsoft predicts that it will deliver Wave 2 in 2008 or 2009. The endpoint of Wave 2 should be the starting point for a merged product line, but Microsoft (unlike SAP and Oracle) remains vague on delivery time frames for its next-generation product. This situation creates concern for Microsoft shops making significant investments in applications that may require considerable architectural upgrades at some undetermined point in the future.

Web services and continued service-oriented architecture (SOA) development represent key fundamentals for Wave 2 completion. A preview of Wave 2 deliverables includes:

- **Modular process configuration.** Microsoft Dynamics product families continue to move away from coding and toward model-driven development using enhanced Visual Studio .NET tools and languages. New customization layers account for context (that is, roles, usage, localization, and channel) and provide a broad range of future deployment options. A modular process configuration allows changes to occur at the software level.

Forrester's take: This is the first step toward hosted environments, reduced releases, and lower ownership costs because customizations will be configurable and able to be upgraded. Microsoft Dynamics NAV and Microsoft Dynamics SL users create the toughest convergence challenges for the Microsoft Dynamics team because their products have been customized the most.

- **An enhanced user experience.** Microsoft continues development around roles and personas. New paradigms from Vista include a “navigation ribbon” that presents large amounts of data. For example, a production planner can see a schedule across many machines. In addition, status can be communicated by contact channel.

Forrester's take: Applications usability is likely to be a Microsoft hallmark, leveraging advancements in Office, Vista, and SharePoint, as well as role-based paradigms supporting both

casual and intensive users. The tradeoff for this high level of integration will be the long-term road map dependencies on the Office and Vista teams.

- **Workflow and process-centric design.** Web services footprint expansion exposes more of the application design around SOA principles and will depend on integration with Windows Communication Foundation and Windows Workflow Foundation. Today, applications rely on alerts and notifications but not on workflow. These advancements facilitate composite application creation and the move to process-centric applications.

Forrester's take: The lack of a strong workflow engine in the ERP solution is one of the largest deficiencies in today's MBS applications, and the lack of this module will continue to affect deals until it is delivered.⁴ Forrester believes that the introduction of the workflow feature set will significantly enhance the role-based scenarios and interactions with the application.

- **Best-of application functionality.** Convergence to one Dynamics product line will require a best-of process library. For example, the Dynamics SL project accounting functionality would become available as a functional component within the merged suite, supporting a broader set of customers.

Forrester's take: The long-term, global product direction is driving the rationalization of multiple products and development teams. However, geography remains important based on domain expertise from the existing product lines. Redmond retains platforms, SL, and core technology. Fargo, N.D., builds on finance and GP expertise. Copenhagen delivers manufacturing-related capabilities.

RECOMMENDATIONS

A NUMBER OF SCENARIOS CALL FOR MICROSOFT DYNAMICS

Companies of small, medium, and large sizes should consider Microsoft Dynamics when:

- **Adopting Microsoft .NET technologies.** Customers moving to a standardized architecture on Visual Studio .NET middleware platforms and leveraging other Microsoft tools and platforms such as SharePoint or SQL Server 2005 should consider the Microsoft Dynamics product lines in their shortlists. Customers should recognize, however, that the architectural evolution of the Microsoft Dynamics products is a work in progress through the end of the decade. Other products compatible with Microsoft platform strategies, such as Epicor, should also be considered.
- **Operating subsidiaries or hub and spoke environments.** Microsoft Dynamics products work well in small to medium-sized subsidiaries of multinational enterprises. Customers should realize, however, that financial data fragmentation leads to a complex reporting and

consolidations process, so the long-term strategy should be toward the standardization and reduction of application instances.

- **Seeking industry expertise.** Manufacturers, distributors, wholesalers, business services, and retail supply chain customers will benefit from Microsoft Dynamics AX 4.0. AX 4.0 is a significant improvement over the four-year-old Axapta 3.0 product. Meanwhile, GP 9.0 suits North American businesses and local governments requiring solid financial management capabilities. For project- and service-based businesses, organizations should consider Microsoft Dynamics SL 6.5 for its project accounting and project management capabilities. Finally, Microsoft Dynamics NAV addresses the needs of smaller manufacturers and distributors.

WHAT IT MEANS

SLOWLY BUT SURELY, MICROSOFT THREATENS ENTERPRISE ERP VENDORS

Microsoft's strategy to leverage its core technologies within its business applications provides both opportunity and complexity. The company is in a position to set the bar for applications usability by leveraging its people-centric approach along with the relatively ubiquitous Office and SharePoint usability conventions. Platform advances will also eventually free up the applications from their current scalability constraints and support hosted and software-as-a-service delivery models. On the other hand, the complexity of release cycles associated with future releases of SQL Server, Windows, Office, and other technology elements conspire to further delay the completion of the Dynamics road map. Assuming that Microsoft can execute on its Wave 2 strategy fast enough to keep pace with the next-generation strategies of Oracle and SAP, the company has a real chance to step into the top tier of the package applications market.

ENDNOTES

- ¹ The 2005 Project Green strategy was defined as a gradual path toward product convergence, with no specific endpoint. See the March 16, 2005, QuickTake "[Project Green Starting To Fall Into Place](#)."
- ² At this year's user conference, Microsoft devoted 124 employees and 25,000 square feet of floor space toward 70 usability studies. More than 400 attendees were chosen based on their roles to provide feedback on the next generation of Dynamics software. Forrester believes that this design philosophy and commitment provides a distinct differentiation in the market place.
- ³ Pages authored in FrontPage and Outlook will combine with services from CRM and other ERP products delivering content for applications.
- ⁴ Microsoft Dynamics CRM uses a workflow engine.

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