

IDC MarketScape: Worldwide SaaS and Cloud-Enabled Small Business ERP Applications 2024 Vendor Assessment

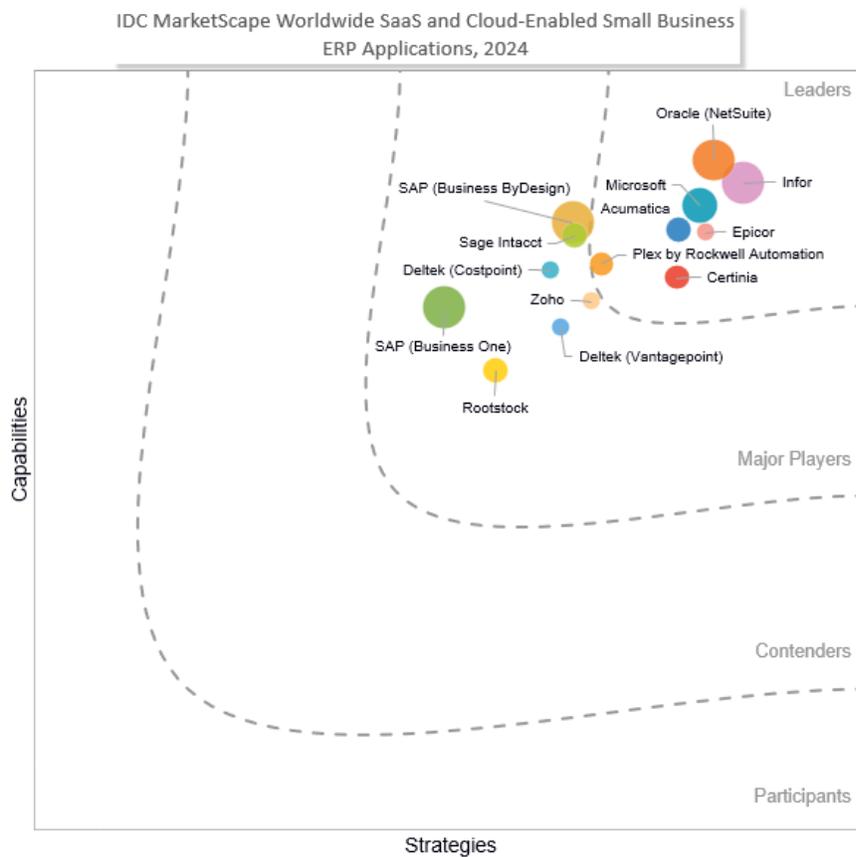
Mickey North Rizza Katie Evans

THIS IDC MARKETSCAPE EXCERPT FEATURES MICROSOFT

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape Worldwide SaaS and Cloud-Enabled Small Business ERP Applications Vendor Assessment



Source: IDC, 2024

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: Worldwide SaaS and Cloud-Enabled Small Business ERP Applications 2024 Vendor Assessment (Doc # US50655023). All or parts of the following sections are included in this excerpt: IDC Opinion, IDC MarketScape Vendor Inclusion Criteria, Essential Guidance, Vendor Summary Profile, Appendix and Learn More. Also included is Figure 1.

IDC OPINION

Small businesses are navigating a chaotic environment on both the business landscape and the IT sides. As 2023 drew to a close, small businesses were far from drawing the curtain on economic instability and questions surrounding new advancements in AI and automation. Small businesses today are facing the challenge of running growing entities with slim staffs while also battling inflation, interest rate hikes, and labor shortages – in addition to getting their heads around how, exactly, they can capitalize on the roller coaster that is GenAI technology.

But rapid change can also be good. Swift and dramatic changes in automation capabilities have the potential to transform the often-manual working processes of small businesses that have lean staffs and less capital, enabling them to automate time-intensive, paper-based processes and therefore boost efficiency and reduce human error. Automation also enables employees at small businesses to focus on more captivating and strategic work, which can increase employee happiness and retention. Employee retention is crucial at small businesses as they lack the bandwidth of their enterprise counterparts for recruiting, onboarding, and training.

Savvy small businesses see technologies such as robust ERP systems, complete with automation and AI capabilities, as tools to not only weather growing pains and economic storms but help them come out more resilient once those storms pass. In fact, 78% of small businesses – those with 1-99 employees – plan to increase their technology spending in the next 12 months according to IDC's February 2023 *Small and Medium Business Survey* – that's a higher percentage than medium-sized businesses (100-999 employees) where 60% planned to increase tech spending. Smart small businesses are taking a measured, methodical approach to solving today's challenges using technology.

And many are starting with a robust ERP system that can meet their needs as they grow. In fact, 50% of small businesses listed financial management and business operations tools such as ERP solutions as a top technology priority for their company in the next 12 months, according to IDC's February 2023 *Small and Medium Business Survey*. These businesses are seeking to move away from entrenched, error-prone manual processes such as operating in excel spreadsheets. They are turning to ERP systems to boost speed and efficiency, gain actionable insights and, perhaps most importantly, unlock access to a single source of data truth.

Current Considerations in Small Enterprise ERP Systems

As small businesses embrace what digital advancements, including ERP systems, can do for them, they should consider the following:

- **Employee and management buy-in is key:** While small businesses benefit in that they are more agile with fewer massive legacy systems and red tape to deal with, many small

businesses are older. In fact, over half, 51%, have been in business 10 years or longer, according to IDC's February 2023 *Small and Medium Business Survey*. Many small businesses have an ample amount of nontechnically-savvy employees. While nearly 40% of small businesses list moving key data such as spreadsheets and/or document repositories into an ERP system as a top technology priority in the next 12 months (see IDC's February 2023 *Small and Medium Business Survey*), changing set ways isn't easy. Learning new or seemingly advanced technologies that will dramatically change an employee's day-to-day work may be overwhelming and intimidating. Adopting new methods of business requires top leadership buy-in and staff education on why and how these business process changes will pay off over time.

- **It's better to conform your business processes to the vendor's system:** In general, ERP systems perform better without significant customizations. Customization typically requires a small business to pay for outside help from a developer or coder, which can create a snowball effect that can add up over time as one change can create complexities that can impact other areas of a system. In addition, too much customization can make a system prone to more bugs and more fragile and complicated over time. When implementing a new technology, take the time to change your business process when needed to better fit with the system. This will pay off in the long term with fewer strains on your limited IT resources to find workarounds. It will also enable a small business to more easily take advantage of new features and functionality from the vendor's system – which is exactly what a small business needs from its vendor as it doesn't have the resources to build these internally.
- **Set aside ample time for training:** Start training key employees on the system before the implementation process even begins. A month-long crash course isn't the way to go – especially for a small business with a lean staff. One small business ERP customer likened implementing a new ERP system to having spinal surgery while still having to walk. Employees will likely be using a combo of old systems or processes while learning a completely new ERP system, so be cognizant of this and allow ample time for employees, especially power users, to get up to speed. Backfill by hiring temporary employees or contractors at your small business to handle essential tasks, such as payroll, so that permanent employees focus on learning the next system. On that note, remember when selecting a new system that employee's processes are critical; when evaluating a new ERP system, remember that the more the employees' user experience (UX) conforms to their daily workflow, the better the user experience.
- **Focus on modular systems:** Modules are the building blocks of configurable applications and are composed for maximum functionality and accelerated time to value. A product with modular design is decoupled and componentized, meaning it is broken down into smaller composable independent components with singular tasks. Composable modular applications are an attractive alternative to custom-developed software products due to their minimal dependence on full-stack development talent, which many small businesses do not have. With composable applications, the SaaS vendor selling the product typically handles the maintenance and upgrades to the apps. Modular applications provide a component library and offer the ability to create new components in the application, which typically implies the API is part of the architecture composition. Modules are independent and self-contained and allow the assembly of an app with prebuilt, legacy, and/or custom modules. With modularity, a complex product, such as a physical car or sophisticated piece of software, can be divided into simpler components that are independently created and integrated (or assembled) to create the desired end product. Modular systems also enable small businesses to start with the basics and easily add on functionality (modules) as they grow.

- **Be an AI and automation skeptic:** Time to insight is critical in the digital world. Automation should be utilized everywhere, coupled with the data to make the right decisions and analytics to make data easier to comprehend. In addition, predictive capabilities can benefit an organization overall. However, small businesses should work to separate AI buzz from reality. The last thing a small business has time for is to beta test a new automation or AI capability by finding and reporting bugs in a glitchy system. AI and automation should be baked into the vendor's offering and ready to go. Ask for demos of such advanced technology as well as references of clients that have used a vendor's touted AI or automation capabilities and ensure your nontechnically-savvy staff can use and understand the capabilities as well.
- **Be clear on help:** As a small business, you likely don't have ample in-house technical resources to quickly address issues and deal with implementation, integration, or maintenance issues. What are the precise SLAs for customer service at the ERP vendors you are evaluating? Is it worth it to pay more for faster or more robust service? And make sure you use an implementation partner not only recommended by your ERP vendor but one that has completed several implementations with businesses of the same size and in the same industry as yours.
- **Think (very) long term:** Small businesses grow and change rapidly. Therefore, small businesses should not buy systems that simply meet their needs this year or even next. Instead, they should try and envision where their business will be (and where they want to be) three, five, or even more years down the line and seek ERP systems that will work with that future iteration of their business. On that note, it is critical to examine how often the ERP technology vendor updates its product. If infrequently, what does that mean to the pace of innovation your organization needs to take on to move successfully in the digital world? This is a crucial area to understand in both the short term and the long term.

Current Trends in Small Enterprise ERP Systems

Current small ERP system trends include:

- **Flexible licensing:** Small businesses are growing quickly and have smaller budgets than enterprises. A fee structure that works for them now may not be as effective by just a year down the line if their employee count, revenue, sales, and more change dramatically. Many small businesses are attracted to ERP systems that offer various levels of licenses from light up to advanced or power users, with several levels in between. Some ERP systems will work with small businesses on fee structures that fit their needs as their businesses change – as they tend to change much more quickly than enterprise organizations.
- **AI/Automation:** When IDC asked small and medium-sized business (SMB) technology decision-makers earlier this year which forward-looking technology areas will be priorities for SMBs in the next 12 months, ChatGPT was gaining press (and worldwide usage) and it showed in the results. Process automation, which can be fueled by AI programs by removing human tasks to save money, increase speed and reduce error, ranked as the number 1 forward-looking technology priority across all SMBs (global and the United States), as well as both small and medium-sized businesses. In addition, 28% of all SMBs are already using AI within their technology departments to manage technology. The pace of innovation is increasing, and small businesses are realizing this. ERP vendors focused on AI, ML, NLP, chatbots, RPA, and GenAI are critical partners to consider for the digital future.
- **A multifaceted ERP:** Many small businesses that are implementing ERP systems are doing so for the first time and are in the beginning of their DX journey. That means they may also need other technologies such as CRM, HCM, and mobile capabilities. Small businesses are receptive to vendors that offer many capabilities in one package as it can help them avoid

integration headaches from point solutions that they don't have the IT manpower to handle. It can also save them time researching other point solution providers and dealing with multiple contracts and bills. Bundled offerings also typically provide cost savings. To that point, small businesses also want systems that can grow with them as they grow and that can offer additional or more robust capabilities as their needs change so that they do not need to rip and replace a system a few years down the line.

- **Industry expertise:** As small businesses don't have the internal time, money, or resources for heavy customizations, many veer toward ERPs that specialize in their specific industry – particularly if their industry is complex or highly regulated such as government contractors, healthcare, or discreet manufacturing.

IDC MARKETSCOPE VENDOR INCLUSION CRITERIA

- Vendors will be included based on them meeting IDC's functionality requirements for enterprise resource planning.
- The vendor must have a modern cloud offering, such as SaaS or similar.
- Vendor inclusion will also be based on market presence, small organization customers (with at least 30-50% of their revenue from small business organization of 10-99 employees) based on the information vendors provide us with, and our market share and forecast efforts in assessing the enterprise resource planning applications market.

ADVICE FOR TECHNOLOGY BUYERS

The ERP market is shifting quickly to technology that enables an organization to compete and succeed in the digital world. These areas are focal points of consideration as your organization moves forward.

- **Look internally and think about your current processes.** Ask yourselves these questions:
 - What are some issues we must resolve with a new system? Are they technology related?
 - What are the current internal resources and capabilities? How might this change in the future with our investment plans?
 - How do we define a successful implementation?
 - What internal stakeholders should we include in the process?
 - How will the new system change my organization?
 - Are there industry aspects we could tie in better from the front end to the fulfillment of our products and services?
- **Select the right partners.** The first step to implementing an ERP system is to develop the right strategy and plan for implementation. Second, select the right services partners if you need them to assist you and tie your choice to the technology partner's ecosystem. Also ask yourself these questions:
 - Does the vendor have the type of product, service, and company size we need?
 - Can the vendor show me a hands-on experience demo with my organization's live and real data to show the benefits to the business?
 - Does the vendor understand the regulations that will impact my business? How are these regulations reflected in my current product, and how will they change in the future?

- What is the vendor's strategic investment outlook for the next three to five years? Why and how will it enhance my business?
- Will the services partner help me continue our journey with the technology partner we selected? What other partners might we need on our journey?
- **Consider the foundation.** There are many varieties of software architectural approaches. Ask your software vendors these questions:
 - What is the data flow design in the current solution?
 - What kind of APIs are available from this vendor? RESTful? SOAP? GraphQL?
 - What kind of developer tools does this vendor provide (e.g., sandbox, dedicated portal, low-code/no-code tools, database management tools)?
- **Own the implementation.** The best results require an active role in implementation. The digital world brings greater reliance on technology than ever before, so getting it right the first time is a requirement. Ask yourselves these questions to help you in your decisions:
 - What levels of support are available, and are they geographically available for my business?
 - How should we set up the service-level agreement before signing any of the contracts?
 - Can the system integrate with my company's other IT systems and partners?
 - Which IT system needs to be integrated and to what degree?
 - How are you set up to deal with frequent updates? And how do we consume them faster and let the business learn as it goes?
- **Note that change management is critical.** Ask yourselves these questions as you get into the project so you can run efficiently and smoothly and move into the digital world quickly:
 - Do we have the right strategy to encourage rapid adoption with employees?
 - Do we have the right amount of training for employees to master the new features within the system?
 - Are we communicating the purpose and benefits of the system change to the relevant employees?
 - Have we aligned existing policies and procedures to enable the adoption of new workflows?

This IDC MarketScape assists in answering the aforementioned questions along with many others that may arise.

VENDOR SUMMARY PROFILES

This section briefly explains IDC's key observations resulting in a vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

Microsoft

After a thorough evaluation of Microsoft's strategies and capabilities, IDC has positioned the company in the Leaders category within this 2024 IDC MarketScape for worldwide SaaS and cloud-enabled small business ERP applications.

Dynamics 365 Business Central provides a comprehensive business management cloud ERP solution connecting finance, sales, service, supply chain, projects, operations, reporting, and analytics for small and medium-sized businesses. Business Central provides built-in reports that enable businesses to get real-time cash flow, identify financial patterns, analyze trends, and aid in planning. Customers can connect reports, charts, and Power BI (Microsoft's business intelligence tool) to data from across accounting, sales, purchasing, and inventory teams. Business Central connects with the Microsoft 365 applications that many small businesses already use, such as Outlook, Word, Excel, and Teams.

Microsoft Dynamics 365 AI offering, Copilot, works across both CRM and ERP to generate AI-based product descriptions. AI is also used throughout Business Central to anticipate business needs and improve decision-making. Business Central also includes Microsoft AI Copilot for both CRM and ERP, with time-saving capabilities like AI-generated marketing text suggestions and bank reconciliation. AI is also used throughout Business Central to anticipate business needs and improve decision-making.

Quick facts about Microsoft Business Central include:

- **Microsoft employees:** 221,000
- **Total number of Business Central online clients:** More than 30,000
- **Industry focus:** Small to midmarket organizations (5-300+ users), available in 155 countries (20 more available in June 2024) and regions worldwide (Approximately even split between service-centric and product-centric industries, including professional services, financial services, hospitality, process manufacturing, wholesale/distribution, retail, and nonprofit.)
- **Ideal customer size:** Small to midmarket organizations (10-500 employees)
- **Average implementation time:** 1-4 weeks for smaller organizations and months for larger organizations.
- **Partner ecosystem:** 4,500 transacting partners on Business Central online; 3,100 partners selling Business Central

Strengths

- **Familiarity/ease of use:** Business Central works with the Microsoft 365 applications many small businesses already use every day, such as Outlook, Word, Excel, and Teams, allowing them to collaborate and communicate in the flow of work without duplicate data entry or switching between applications. For example, businesses can process deals from opportunity, to quote, to invoice, to cash within Outlook. This ease of use and familiarity is a major competitive advantage when serving small business employees with limited IT expertise.
- **Embedded AI and ML capabilities:** Microsoft Copilot in Business Central provides AI assistance using natural language technology and to automate repetitive tasks. For example, Copilot enables product managers to create AI-generated marketing text suggestions. Automation is attractive to small businesses with smaller teams and fewer resources, especially amid today's labor shortages. According to the National Federation of Independent Businesses, a U.S. organization representing interests of U.S. SMB owners, 43% (seasonally adjusted) of all small business owners reported job openings they could not fill in 3Q23.
- **Agility in moving from on premises to cloud:** Customers of Business Central can opt to deploy in the cloud or on premises, with a single code base. Business Central customers that initially opt for on-premises deployment can later elect to move to the cloud while preserving all history, extensions, integrations, and other elements without needing an additional license.

Challenges

- **Strict licensing:** Several customers noted that there was no or very little room for negotiations or flexibility in licensing fees or options. One small business noted that it must negotiate through a third-party implementation provider. Another reported: "The process is quite difficult. You don't have any say in the matter. Your only option is saying Yes or No." Since small businesses are typically more price sensitive than larger organizations, this often is the deciding factor in the ERP selection process.
- **Lack of industry expertise:** Since Business Central serves all industries, some clients note that the core-based system didn't meet their unique industry needs. Customers told us they often need outside apps and customizations to accommodate their work methods and data structures.
- **Performance:** Some small businesses report sluggish performance and load times, particularly in sandbox environments.

Consider Microsoft When

Small businesses that already use the Microsoft 365 Office suite of products or are moving to it as well as ones that place AI/automation capabilities as an immediate priority should consider Microsoft Dynamics 365 Business Central.

APPENDIX

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the company and product today, here and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to

provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

ERP is a packaged integrated suite of technology business applications with common data and process models that digitally support the administrative, financial, and operational business processes across different industries. These processes manage resources including some or all of the following: people, finances, capital, materials, suppliers, manufacturing, supply chains, customers, products, projects, contracts, orders, and facilities.

ERP suites and the associated applications are utilized to run the business and typically start with finance and include procurement and inventory/asset management and may also include HCM, order management, manufacturing, distribution, services, engineering, PLM, and supply chain. The software can be specific to an industry or designed to be more broadly applied to a group of industries.

Typically, ERP solutions are architected with an integrated set of business rules and metadata, accessing a common data set (logical or physical) from a single, consistent user interface. ERP

LEARN MORE

Related Research

- *Market Analysis Perspective: Worldwide Enterprise Resource Planning Software, 2023* (IDC #US48563322, December 2023)
- *Worldwide Enterprise Resource Planning Applications Market Shares, 2022: Cloud Is It!* (IDC #US47984221, December 2023)
- *Worldwide Enterprise Resource Planning Applications Software Forecast, 2023-2027: Digital World Brings Changes* (IDC #US48563722, December 2023)
- *Macroeconomic Turbulence and the SMB: What Today's Tech Vendors Need to Know* (IDC #US51366423, November 2023)
- *IDC FutureScape: Worldwide Intelligent ERP 2024 Predictions* (IDC #US51300923, October 2023)
- *IDC FutureScape: Worldwide Small and Medium-Sized Business 2024 Predictions* (IDC #US51281523, October 2023)
- *2023 Worldwide SMB Market Profile Update* (IDC #US50572423, April 2023)

Synopsis

This IDC study provides a thorough assessment of market-leading SaaS and cloud-enabled small business ERP applications and discusses the criteria that are most important for companies to consider when selecting a solution.

"Organizations of all sizes embracing the digital world are focused on speed, scale, agility, market share, and competitive advantage. This requires adapting new ERP technologies that enable speed and scale by reducing process steps and clicks, automating every workflow possible, embedding finance to collect and make payments, and helping improve overall decision velocity," said Mickey North Rizza, group VP, IDC's Enterprise Software. "The ability to improve the employees' experience,

uncover and utilize insights quickly, and navigate business issues with reliable, modern, and intelligent ERP systems is a foundational layer the organization needs in the digital world."

"Savvy small businesses see technologies such as robust ERP systems, AI and automation, and more as tools to not only weather growing pains and economic storms but to help them come out more resilient once those storms pass," said Katie Evans, research director, IDC's Worldwide Small and Medium Business Research. "But it's imperative that small businesses find the right ERP fit for their industry, size, unique business challenges and strengths, staff makeup, budget, and goals."

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. With more than 1,300 analysts worldwide, IDC offers global, regional, and local expertise on technology, IT benchmarking and sourcing, and industry opportunities and trends in over 110 countries. IDC's analysis and insight helps IT professionals, business executives, and the investment community to make fact-based technology decisions and to achieve their key business objectives. Founded in 1964, IDC is a wholly owned subsidiary of International Data Group (IDG, Inc.).

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