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# Microsoft Moves Dynamics Forward With New Releases And Simplified Pricing Strategies

by R "Ray" Wang

for Business Process & Applications Professionals



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## Microsoft Moves Dynamics Forward With New Releases And Simplified Pricing Strategies

Client Satisfaction Is High, But Future Challenges Still Remain

by R "Ray" Wang

with Paul D. Hamerman, William Band, and Meghan Donnelly

### EXECUTIVE SUMMARY

At both the November 2008 Microsoft Dynamics analyst event and at Convergence 2009 in March, Microsoft reaffirmed its commitment to innovation and investment in its product road map for all five product families. Microsoft Dynamics enterprise resource planning (ERP) and customer relationship management (CRM) products continue to adopt more Microsoft technology stack components as investments increase in user experience, RoleTailored design, and customer model adoption. Based on conversations with more than 71 attendees and 37 partners at Convergence 2009, most users express satisfaction with areas such as Microsoft Office integration, usability, product quality, and implementation time. As organizations plan for upgrades and vendor selection in their long-term apps strategies, Forrester believes that Microsoft Dynamics will continue to serve as an alternative for those seeking on-premise solutions but still faces challenges for those looking for on-demand options.

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Forrester interviewed 71 Microsoft Dynamics ERP users at Microsoft's Convergence 2009 event in New Orleans.

#### **Related Research Documents**

["Microsoft Dynamics Gets Renewed Focus"](#)  
April 1, 2008

["Microsoft Will Make Small Acquisitions"](#)  
January 31, 2008

["Competition Intensifies For The SMB ERP Customer"](#)  
August 13, 2007

## MICROSOFT CONVERGENCE 2009 CHANNELS OPTIMISM DESPITE GLOOMY ECONOMY

About 7,000 customers, partners, Microsoft staff, and industry observers made the pilgrimage to New Orleans to hear the latest and greatest from the Microsoft Dynamics team. Kirill Tatarinov, corporate vice president of Microsoft Business Solutions, gave the keynote outlining how businesses could become more dynamic, why now is the time to seize the moment, and how enterprises could adapt to the change in front of them. Overall, conferencegoers were upbeat, optimistic, and energetic. One explanation for this sense of “can-do” attitude among attendees is based on how Microsoft has made the transformation into a value and innovation alternative to the large ERP vendors moving into the small and medium-sized business (SMB) space. Forrester believes that strong attendance despite the down market indicates a healthy business and one that Microsoft seeks to reinforce its value proposition as it tries to bring more customers into its maintenance offerings

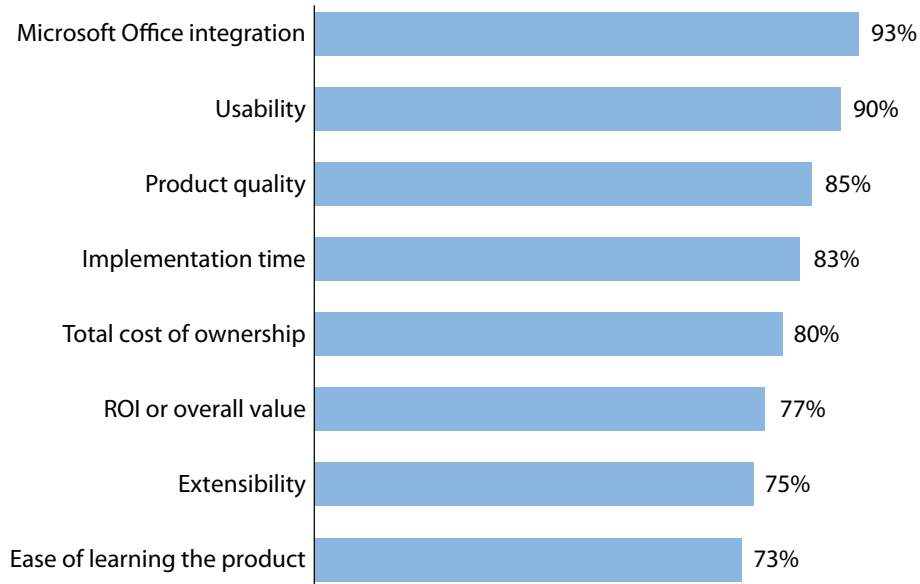
## ERP Users And Partners Express High Levels Of Satisfaction

At Convergence 2009, Forrester conducted a two-question survey of 71 Microsoft Dynamics ERP users. Respondents among the Microsoft Dynamics ERP products came from all company sizes, industries, and geographies. In general, respondents praised Microsoft Dynamics more than they found fault with the product line.

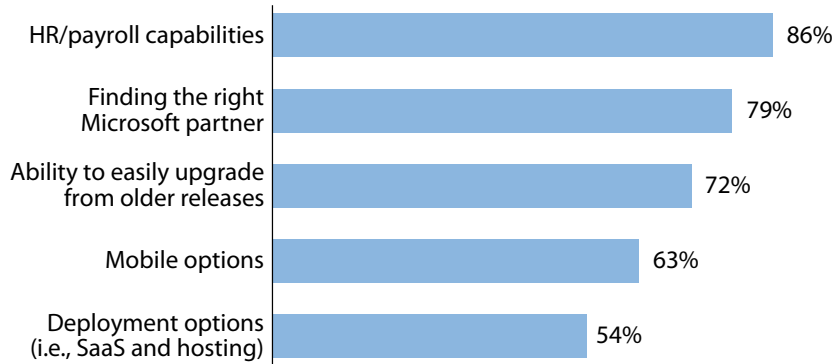
- **Positive qualities include Microsoft Office integration, usability, and ownership value.**  
Respondents were asked, “What features or qualities do you find positive about Microsoft Dynamics ERP?” Microsoft Office integration (93%) ranked first among top features, followed by usability (90%), product quality (85%), implementation time (83%), and total cost of ownership (TCO) (80%) (see Figure 1).
- **Negative perceptions reflect HR/payroll gaps, channel clarity, and upgrade challenges.**  
Respondents were also asked the converse question, “What features or qualities do you find negative about Microsoft Dynamics ERP?” Opportunities for improvement in Microsoft Dynamics focused on human resources (HR)/payroll capabilities (86%), finding the right Microsoft partner (79%), upgrade path or ability to easily upgrade from older releases (72%), mobile options (63%), and availability of deployment options such as software-as-a-service (SaaS) and hosting (54%).

**Figure 1** Positive Qualities Reflect Operational Efficiencies; Negative Ones Reflect Product Gaps

**1-1 “What features or qualities do you find positive about Microsoft Dynamics ERP?”**



**1-2 “What features or qualities do you find negative about Microsoft Dynamics ERP?”**



Base: 71 Microsoft Dynamics ERP users  
(multiple responses accepted)

## CONVERGENCE 2009 HIGHLIGHTS PROGRESS IN DELIVERY OF THE PROMISED ROAD MAP

Microsoft has been hard at work rolling out usability improvements, Microsoft Office integration, Microsoft SharePoint integration, and overall harmonization. Key design elements across all product families include a people-centric approach with a strong foundation on user experience research, the Microsoft Dynamics Customer Model (e.g., 61 user profiles), and a RoleTailored design. The Microsoft Dynamics product strategy continues to focus on investing in its five major business applications product families:<sup>1</sup>

- **Microsoft Dynamics CRM moves forward with improvements for enterprises and SMBs.**

More than 18,000 customers and 900,000 users, from small to enterprise organizations in more than 80 countries, now use the product in more than 40 languages. As the product progresses toward CRM “5”, the March 2009 Microsoft CRM 4.0 includes incremental functionality known as CRM accelerators that include analytics, eService, event management, enterprise search, business productivity, extended sales forecasting, CRM notifications, and sales methodology support. Other capabilities include uptime service-level agreement (SLA), Internet lead capture, cloud integration services, and quick start tools.

Launched in April 2008 in the US and Canada, Microsoft Dynamics CRM Online is Dynamics CRM’s third on-demand release. The solution continues to build closer alignment with Microsoft Online via integrated services, shared billing, and provisioning. New capabilities include uptime SLA; a financially backed, 99.9% uptime SLA; Internet lead capture; cloud integration services; and quick start tools. Previously, the September 2008 service update added Internet marketing and supports thousands of users per organization. Deployment options include on-premise, CRM Online (hosted via Microsoft’s data centers), or partner-hosted (hosted via a Microsoft partner, usually with other value-added services or functionality in addition to the core CRM applications (e.g., industry templates). Since Microsoft Dynamics CRM is the same code base for any deployment model, customers can move their CRM deployment from one model to another with relative ease.

**Forrester’s analysis:** Microsoft continues to demonstrate its commitment to the CRM applications market through announcing a variety of incremental improvements to bolster weak areas in product functionality. No breakthrough improvements were announced as the company focuses on its next major CRM product release slated for sometime in 2010. Enterprise buyers will be attracted to Microsoft Dynamics CRM if they have made a commitment to a Microsoft infrastructure in order to lower their TCO in buying and managing business technologies. Buyers in both the enterprise and midmarket sectors like Microsoft Dynamics CRM’s usability, lower price, and its quick time-to-value compared with traditional CRM applications such as Oracle Siebel, SAP, and salesforce.com.

- **Microsoft Dynamics AX 2009 delivers key industry and globalization enhancements.**

Released in June 2008, Microsoft Dynamics AX 2009 represents the latest release built on top of two important .NET libraries: Windows Communication Foundation (WCF) and Windows Workflow Foundation (WF). A key feature is how the product represents logical organizational models through improved data structure modeling, which was developed to appeal to multinational companies. Some examples include multisites that model advanced internal supply chains, trading partners that model stakeholders such as customers and suppliers, and shared services that model intercompany relationships. New features include project time management, intelligent data management, Microsoft Dynamics Mobile, lean manufacturing, and the Environmental Sustainability Dashboard. Microsoft Dynamics AX also continues an industry strategy focused on discrete manufacturing, process manufacturing, wholesale/distribution, retail, and professional services. Public sector will be revealed in Dynamics AX “6”.<sup>2</sup>

**Forrester’s analysis:** Microsoft Dynamics AX represents the most advanced Dynamics ERP product in its portfolio and is receiving the highest level of investment. The latest service pack, Service Pack 1 (SP1), provides more than 330 fixes, five-design change requests (DCRs) and supports more than 42 languages and language variants.<sup>3</sup> Considerable amounts of investments by both partners and Microsoft continue to flow into the Certified for Microsoft Dynamics program. These advancements move Microsoft Dynamics AX closer toward multinational capabilities that will eventually compete with Oracle and SAP beyond the midmarket. However, the lack of HR and payroll capabilities leaves gaps for a full-fledged ERP solution.

- **Microsoft Dynamics NAV 2009 adopts key enabling technologies.** Launched in November 2008, Microsoft Dynamics NAV 2009 advanced from a two-tier to a three-tier architecture, allowing for greater scalability and an independent client front end. As part of the new release, the product adopts the RoleTailored client, new reporting capabilities, and more Web services enablement. Prior to release in November 2008, the product was running an independent software vendor (ISV) beta access program with more than 70 ISVs and 15 Technology Adoption Program (TAP) participants representing seven countries and eight verticals. Initial usability results cite 22% more success in performing tasks and 23 points higher satisfaction rate with the new product when compared to the Microsoft Dynamics NAV 5.0. Over time, users can expect mobility updates and support for additional countries.

**Forrester’s analysis:** Uptake in Microsoft Dynamics NAV 2009 by North American customers continues to grow. One reason for this success is that the partner channel delivers solutions that are tailored to many types of businesses. Another important strength is the RoleTailored design, which provides role-based analytics delivered more than 20 personalized role centers. Forrester finds Microsoft Dynamics NAV to be a competitive solution to Exact Software, CDC Software, and SYSPRO for single-site manufacturers and distributors in numerous geographies.

- **Microsoft Dynamics GP 10.0 expands access and reach.** Major themes include usability and productivity, access to information, and communication and collaboration. Microsoft Dynamics GP 10.0 delivered user interface improvements including action panes and lists. Other enhancements included Microsoft Excel and Site Replication Service (SRS) reports and workflow and search. Microsoft Dynamics GP 10.0 FP adds rapid install, configuration, migration, Excel Report Builder, and project and field service. New for 2009 will be Service Pack 4 (SP4) which adds Microsoft Dynamics CRM integration capabilities as well as enhanced forms and tables and nondeveloper customization capabilities.

**Forrester's analysis:** Microsoft Dynamics GP offers the strongest core financial management capabilities across the Dynamics line. Forrester believes Microsoft Dynamics GP remains best suited for usage in North America among service-based companies and public sector organizations with fewer than 1,000 employees. Larger organizations and those with significant multinational requirements should consider Microsoft Dynamics AX or ERP products from vendors such as Agresso, Epicor Software, and Lawson Software.

- **Microsoft Dynamics SL 7.0 extends collaboration and RoleTailored productivity.** Microsoft Dynamics SL offers a project-based solution in the North American midmarket. Key investments include Microsoft Dynamics SL 7.0 FP and Microsoft Dynamics SL Service Pack 2 (SP2) delivered in Q4 2008, improved project manager productivity, and performance enhancements. Microsoft Dynamics SL 7.0 FP enhances collaboration with access to project, customer, and vendor-related documents. The system adds work spaces and document repositories when new projects are created or when vendors or customers are added.

**Forrester's analysis:** Microsoft Dynamics SL is best suited for businesses in project-oriented fields such as professional services, construction, and media and entertainment. In conversations with project managers, Forrester confirms that Microsoft Dynamics SL users embrace the product's flexible time period reporting and integration with Microsoft Office Project 2007. In addition, usability enhancements reduce the time to create service tasks and financial tasks. Microsoft Dynamics SL competes against project-based solutions from Augeo Software, Deltek, Meridian Systems, Tenrox, and The Sage Group, but it is more limited in terms of scalability. A new partnership with Unanet Technologies provides resource forecasting and opportunity planning capabilities that complements the project and financial accounting solution of Microsoft Dynamics SL.

## A STABLE FUTURE IS AHEAD, DESPITE CURRENT PRODUCT ADOPTION CHALLENGES

Microsoft's commitment to continued investment and customer-friendly software licensing and pricing programs provide customers with choice, flexibility, and predictability in an enterprise apps market undergoing significant market transformation. However, like its competitors, Microsoft still faces typical challenges in addressing product life cycle issues across the Microsoft Dynamics product lines.

## Microsoft Offers Stability And Favorable Licensing Policies In A Challenging Market

Recessionary forces drive customers both to seek value and to raise concerns about the financial stability of their software vendors. Forrester believes that an investment with Microsoft will deliver stability because Microsoft continues to:

- **Invest in research and development (R&D) and innovation.** As other vendors begin to cut R&D in the face of global contraction, expect Microsoft to better weather the trend and be more likely to honor its commitments to deliver on its road map as promised. With more and more consumption of .NET components, Microsoft can take advantage of its technology stack to deliver future innovations in search, data management, content management, and other productivity tools. Key innovations such as Microsoft XRM for property management, complaint management, citizen management, dealer management, and contractor management also highlight the other advancements to come.
- **Prove value to the customer.** Additional programs to help deliver value were announced at Convergence 2009 including new financing options and the “Unleash Your Potential” program. With SMB customers facing liquidity issues, Microsoft Financing delivered a 0% financing offer that ended March 20, 2009, on top of its business-ready licensing simplification programs. The new SmartPay offer allows customers to buy now and pay six months later with 24- or 36-month terms as long as they take action by June 30, 2009. The Unleash Your Potential program provides customers with a best practice business solutions road map to accelerate design time and improve implementation outcomes. These new programs add to existing programs such as the transition investment credit, which allows customers to move among Microsoft Dynamic ERP solutions or upgrade to a higher edition with no repurchase of their investment.

## Product Life Cycle Challenges Are Similar To Competitors'

Despite Microsoft's current success, Microsoft's ongoing evolution in the enterprise software space encounters similar hurdles other vendors have faced, including:

- **Moving customers forward on the new releases.** With good reason, customers typically take their time in upgrading to the latest release. Return on investment models often require a customer to fully utilize software for at least five to seven years to prove value. Add customizations and extensions, and many Microsoft Dynamics customers find themselves at least one to three version releases behind in adoption. New releases that feature RoleTailored user experiences should speed up adoption.
- **Improving uptake of support and maintenance.** Today's business model leans heavy on new license revenues. However, Microsoft will need to reach a comfortable 1:2 license-to-maintenance ratio to achieve industry-standard profit margins and true economies of scale. The current emphasis on building customer-friendly support and maintenance plans provides a

strong first step. Microsoft's inclusion of 84 new training assets in both multiple languages and English-based eLearning courses adds additional value. The team plans to add more courses with each additional release.

- **Minimizing contention in the partner channel.** Today's large collection of small channel partners often add unnecessary sales cycle times to deals. In many cases, multiple channel partners will bid on the same deal and confuse the customer. Partner program refinements must strike the right balance between supporting "lifestyle" partners that provide highly skilled expertise and global concerns that seek to build a franchise on top of Microsoft Dynamics.
- **Figuring out a long-term strategy for SaaS.** Software plus services provides a short-term solution that addresses the potential partner conflict issue. However, in the long term, customers may seek a direct solution from Microsoft. At that point, Microsoft will have to provide more than just a hosting option on ERP. Customers will expect a continuum of multiple deployment options that span on-premise, hosted, multi-instance, and multitenant SaaS.

## RECOMMENDATIONS

### CONSIDER MICROSOFT DYNAMICS IN SHORTLISTS FOR MIDMARKET AND ENTERPRISE

Microsoft Dynamics should be considered in shortlists in scenarios where:

- **Large enterprises face costly upgrades of legacy ERP and CRM systems.** Many customers avoiding the upgrade path for divisions and subsidiaries running large SAP and Oracle environments consider the option of Microsoft Dynamics AX and Microsoft Dynamics NAV as an alternative. Microsoft Dynamics AX will support \$1 billion-plus enterprises.<sup>4</sup> Microsoft Office integration and liberal use of Microsoft Share Point make this attractive for enterprises already familiar with Microsoft technologies. Microsoft Dynamics NAV is a potential option for large-scale ERP customers with a second-tier strategy, where a lightweight solution is more appropriate for smaller subsidiaries abroad or amid legacy ERP systems.
- **Small and midmarket customers look to replace obsolete and disparate applications.** Most customers can benefit from Microsoft Office integration and the RoleTailored approach via usability gains and training benefits. Consider the Microsoft Dynamics products to replace older ERP products and those that have been outgrown in terms of technical scalability and functionality.
- **Small and midmarket customers look for their first ERP.** Enterprises favoring Microsoft's latest platform technologies such as Microsoft SQL Server, Microsoft SharePoint, and Windows Presentation Framework should definitely have Microsoft Dynamics on shortlists. Depending on industry-specific and microvertical requirements, first-time ERP users leaning toward products built on Microsoft platform technology should also consider other options such as Agresso, Epicor Software, Exact Software, SYSPRO, and The Sage Group.

## ENDNOTES

- <sup>1</sup> A combination of high-profile departures and slowing growth at the Microsoft Business Solutions division over the past two years brought into question whether the Redmond, Wash., giant was serious about the business applications market. With a new management team in place and continued progress in harmonizing and strengthening its existing Microsoft Dynamics product lines, the unit appears to be reinvigorated. Despite the discontinuation of its next-generation “Project Green,” Microsoft remains committed to its four enterprise resource planning product lines and customer relationship management, currently primarily for small and medium-sized businesses but soon for enterprise-class companies, as well. See the April 1, 2008, “[Microsoft Dynamics Gets Renewed Focus](#)” report.
- <sup>2</sup> Though Microsoft Dynamics ERP products do not provide multitenant SaaS options (Microsoft CRM does provide a multitenant offering), the software-plus-services approach delivers new retail customer deployment options for services such as online payment processing and payment services that work on the Service Provider License Agreement (SPLA) price list (subscription pricing models).
- <sup>3</sup> Key enhancements in SP1 include electronic signatures, left-right date support for Arabic calendars, time zone patching, and enterprise portal deployment. Technology support includes Microsoft Dynamics Mobile, Windows Essential Business Server 2008, and Microsoft SQL Server 2008. In Q2 2009, the product will be available in the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and Russia. Brazil will have availability in Q3 2009.
- <sup>4</sup> Forrester believes that Microsoft Dynamics AX scales past 2,000 concurrent users and even supports transactions on Oracle databases.

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