Microsoft Purchase of Navision Signals Push Into European SME Business Market

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News Item: Microsoft recently announced an agreement to purchase Navision, a Danish ERP vendor focused on the small and medium enterprise (SME) market, for $1.33B. This acquisition builds on Microsoft's acquisition of financial software/ERP vendor Great Plains in 2001.

Situation Analysis: Microsoft's purchase of Navision signals a major expansion of its strategy of moving from horizontal applications (Office) to more specialized business software. "To sustain its growth, Microsoft must move beyond selling word processors and spreadsheets," says META Group analyst Jack Gold. "SME financials and ERP are excellent target markets for Microsoft."

Although both Navision and Great Plains are ERP/financial software vendors focused on SME customers (e.g., $300M-$750M in revenues), they have little geographic overlap. Great Plains is confined almost entirely to North America, while Navision sells primarily to European customers, with a small number of clients in North America and Japan.

This purchase gives Microsoft a strong European indirect distribution channel, a strong set of ERP and financial products designed to meet European needs, and a European development laboratory. Over time, Microsoft can develop European versions of other products for the SME market in Navision's lab and sell them through this channel.

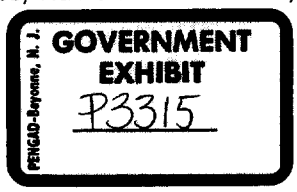
Navision is also a good match for Microsoft because Navision's technical approach of providing a strong base product that can be customized to fit the needs of specific localities, vertical markets, and individual customers parallels Microsoft's approach. Navision's technology is built on a Microsoft base, and it has already adopted many .Net standards into its solutions.

Microsoft has indicated that it will keep Navision's European structure intact, with individual country branches reporting to the Danish headquarters, which will report to Redmond. We believe Microsoft will eventually take control of Navision's North American sales channel and integrate it into the Great Plains channels.

Between them, Navision and Great Plains have five major product lines. Initially, we expect Microsoft to maintain all five. Over time, however, it will move the product sets to a .Net code base and rationalize the product set by combining strengths. For instance, it will augment/replace the weak Great Plains ERP suite and the Great Plains/Logility (logistics) relationship with Navision's stronger ERP technology and its Axapta supply-chain solution, while leveraging the Great Plains financial reporting/planning solution in the Navision products.

This will probably not be the end of Microsoft's purchases; it still lacks a strong process manufacturing ERP solution, and its ERP presence (and sales channel to SMEs) is minimal in Asia Pacific. Microsoft will also want to develop or purchase add-on solutions (e.g., CRM, analysis tools, BI tools) to sell through its Navision and Great Plains channels. Therefore, the acquisition of an Asian SME vendor by Microsoft would not be surprising.

We do not expect Microsoft to compete in the Global 2000 enterprise market (against SAP, PeopleSoft, et al.). But it will become a strong competitor against the major ERP vendors for midrange sales and in instances where a Global 2000 organization requires a solution for a division or unit that will not be part of a global ERP deployment. For instance, Navision has already sold to



remote branches of Global 2000 enterprises in Europe that have SAP installed as their central backbone.

User Action: With the Navision purchase, Microsoft becomes an obvious shortlist ERP candidate for midrange companies where the Microsoft "environment" (e.g., back office, development tools) is strong. Users must judge the ability of individual resellers to deliver a quality experience and solution.

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