If Software Is A Commodity - Can You Still Win Some Competitive Advantage?

By Olin Thompson

The Question

If most application software is a commodity (see If Software Is A Commodity...Then What?), why do some companies gain more benefit and competitive advantage than others (see Commodity Software, Best Practice and Competitive Advantage)? Why do two companies in the same industry, using the same application product see two very different results? One gains competitive advantage and the other sees no change or even a loss of competitive position. Maybe it is not just the software.

The How Of Implementation

The software is a tool; the implementation team is the craftsman. The right craftsman can do miracles with an average tool while a poor craftsman cannot produce even average quality with a great tool. Executive involvement, team leadership and the right team members are critical to success — the difference between a miracle for the business and a less than average implementation. Much has been written on this subject and we urge any company implementing software to research the subject and heed the advice.

An outside consultant can be a key craftsman on the implementation team. If a company decides to bring in outside consultants to assist with the implementation, which consultants are chosen can have a major impact on how the system is implemented. Look for consultants who understand your industry, understand how the selected software best serves, and have experience in your situation (same industry, product, and objectives). A consultant needs to bring quality and experience to the team

A major impact on how the software is implemented is an (often unstated) objective; does the company want to adopt new business processes (best practice) or automate existing business processes? With the second objective, the result is the old ways with no gains for the business. The effort has resulted in the new legacy system.

Executive management must clearly state the objective is to adopt new business practices that fit the needs of the business.

The "How Much" of Implementation

Although many companies may buy the same application product, how much of the product they buy and, even more importantly, how much is implemented varies greatly. For comparing how much of a product is implemented, we can define three categories of applications, core processes, planning, and analysis.

Core processes	A company's core processes are the transaction or business process driven applications. These do the basic execution task and housekeeping, for example, order processing, inventory, shipping, accounts payable, etc. A business cannot survive without doing these functions. When a company replaces a system or implements its first system, these applications are typically the first to be implemented.
Planning	The planning applications improve forward visibility and assist in addressing the near or long term future, for example, Supply Chain Planning, Budgeting, etc. The objective for these applications is improving the business. Typically, the planning applications are in the second wave of implementation.
Analysis	The analysis applications include costing and sales analysis, as well as newer applications like business intelligence. Relative to the core processes and planning applications, the analysis applications are typically an easier and less expensive implementation. The data has already been captured and these applications use this data to bring insight into the business, delivering additional value at a relatively low cost, meaning a very good return. These applications are typically the last to be implemented.

While the master plan may include all three types of applications, reality says that a company often runs out of energy somewhere during the implementation process. Other objectives, a lack of funds, or just a lack of interest often leads to the later phases being abandoned.

If two companies implement the same product, the company with the greater energy and therefore the greater amount of applications implemented will typically be more competitive. This company is gaining insight into the business and reaping the value of the high ROI applications. For example, many companies buy a product but relatively few take full advantage of business intelligence applications, a source of great competitive advantage.

The Company's "Personality" Has An Impact

Companies do have a personality. The personality of the company impacts (potentially conflicting) business practices, culture, information systems, management structures, cash position, prejudices, etc. Some companies are risk takers while some are conservative. Some are product oriented while some are service oriented. Some companies are managed "by the numbers" while some are managed subjectively through management knowledge of the marketplace. The personality of the company comes from a combination of history and current management. The personality starts at the top, but influences every thing the company does from top to bottom.

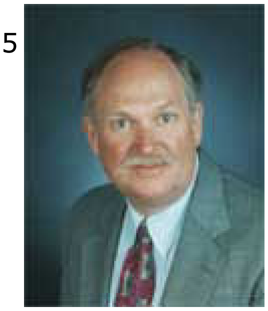
The personality of a company should impact product selection, consultant selection, implementation team selection, project objects, funding, training, and many more attributes of the project. An implementation effort cannot change a company's personality but it must be considered as a given in the effort.

Due to personality differences, not all companies can adopt a particular business practice. Thus, the same application product could represent a competitive advantage for one company, while it could be a boat anchor around the neck of a second company. A good example of this is sales force automation software — for some companies a godsend, for others, it proves to be a disruption and becomes shelfware.

Summary

If Software Is A Commodity — Can You Still Win Some Competitive Advantage? The answer is yes. It can get a company to be better than its competition in some areas but only if the product is implemented better than it is implemented at the competition. An application product can never provide competitive advantage by itself, it is a function of how and how much is implemented. A good implementation of a commodity software product can give you a short-term advantage until the competition catches up. But then, that short-term advantage may last for years.

About the Author



Olin Thompson is a principal of Process ERP Partners. He has over 25 years experience as an executive in the software industry. **Olin** has been called "the Father of Process ERP." He is a frequent author and an award-winning speaker on topics of gaining value from ERP, SCP, e-commerce and the impact of technology on industry. He can be reached at Olin@ProcessERP.com.