



ERP Market – China

April 2012

Executive Summary

Market

- ERP market in China is the largest segment of the Chinese Enterprise Applications market
- ERP market in China has shown strong growth generating USD -- mn in 2010, and is expected to grow at x% during 20- -20-

Drivers & Challenges

Drivers:

- Wage Inflation
- Increasing Demand from SMBs
- Penetration of New Industries
- Demand of Enterprise Management System
- Rising Auto Sales
- Opportunity from Cloud Computing
- Stricter Regulation of Resource Consumption & Carbon Emissions

Challenges:

- High Cost of ERP Implementation
- Cultural Issues
- Lack of ERP Experience
- Communication Barrier
- Profitability Concerns for ERP Vendors

Trends

- Emergence of Chinese ERP Software Vendors as Dominant Players
- Software Localization
- Shift towards High-end, Large-scale Clients
- Shift in ERP Focus to Business Processes
- Increasing Mergers & Acquisitions

Competition

Major Domestic Players

Company A

Company B

Company C

Major Foreign Players

Company D

Company E

Company F

Company G

•Introduction

- Market Overview
 - Global
 - China
- ERP Selection Criteria
- Benefits of ERP Implementation
- Drivers & Challenges
- Government Initiatives
- Trends
- Mergers & Acquisitions
- Competition
- Key Takeaways

Enterprise Resource Planning (ERP) - Definition

Enterprise Resource Planning (ERP)

ERP is an accounting oriented information system needed to acquire, create, distribute and account for customer orders for classifying and planning the enterprise resources

Key Characteristics of ERP Systems

Standardized Data Definitions

- Same data definition across all ERP application modules is shared by the ERP business processes

Common Access to a Single Set of Data

- Single set of data is to be maintained in a basic design objective across all business processes within an organization

Beyond the Company Scope

- ERP system should support an organization's online services to external units instead of confining to an organization's boundary

System Flexibility

- With the changing needs of an enterprise an ERP system should be flexible which is facilitated by client/server technology to run across different database back-ends through Open Data Base Connectivity (ODBC)

Open System Architecture

- Any ERP module can be interfaced or detached when required without affecting other modules and should support multiple hardware platforms for companies that use heterogeneous systems, including some third-party add-ons

Evolution of ERP

Since, 1960 Information Technology has offered solutions which are intended for facilitating smoother and faster business operations within an organization, some of which can be illustrated as below:

Inventory
Management &
Control

1960

- Development 1
- Development 2

Material Requirement
Planning (MRP)

1970

- Development 1
- Development 2

Manufacturing
Requirements
Planning (MRP II)

1980

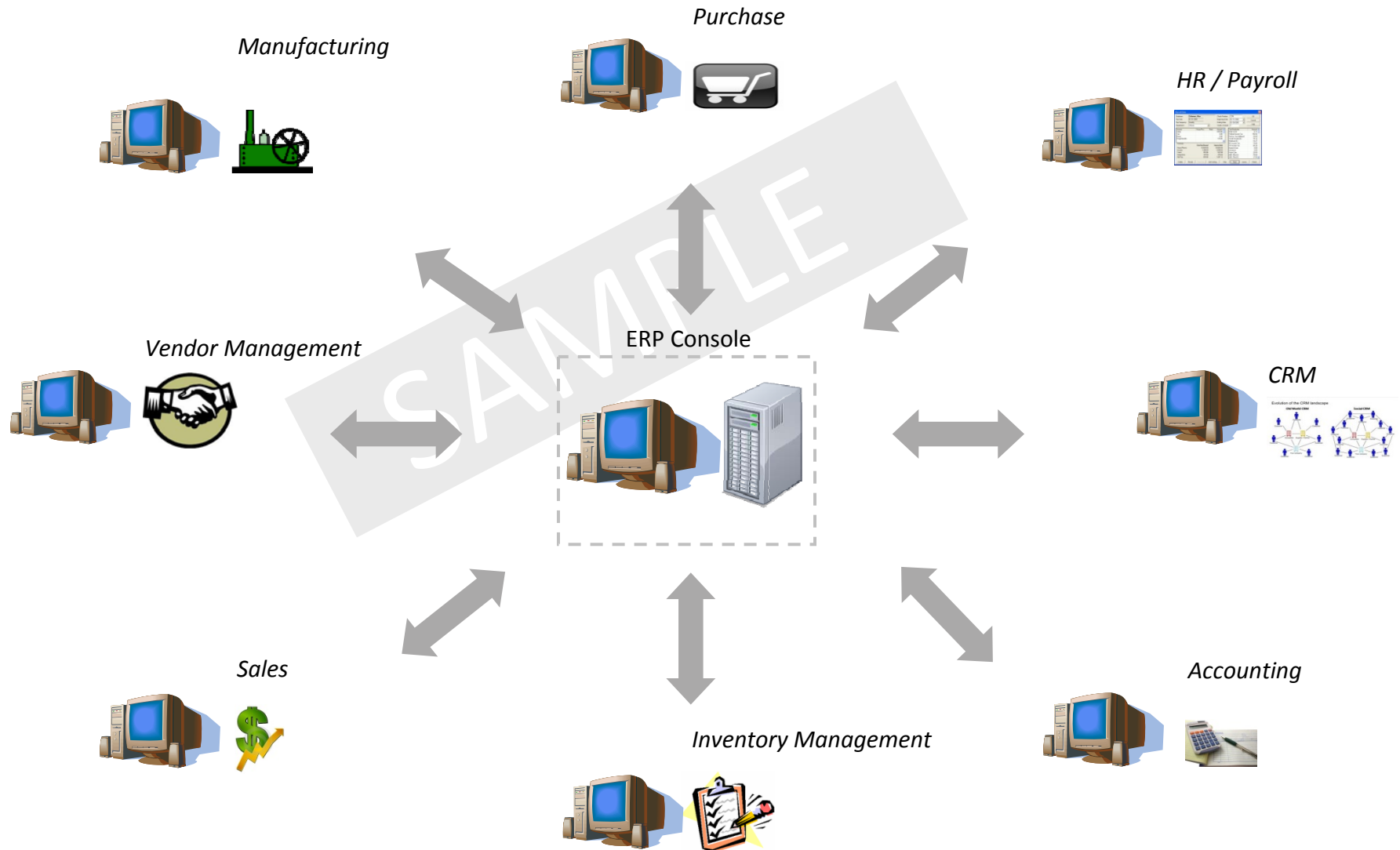
- Development 1
- Development 2

Enterprise Resource
Planning (ERP)

1990

- Development 1
- Development 2

Framework of ERP System

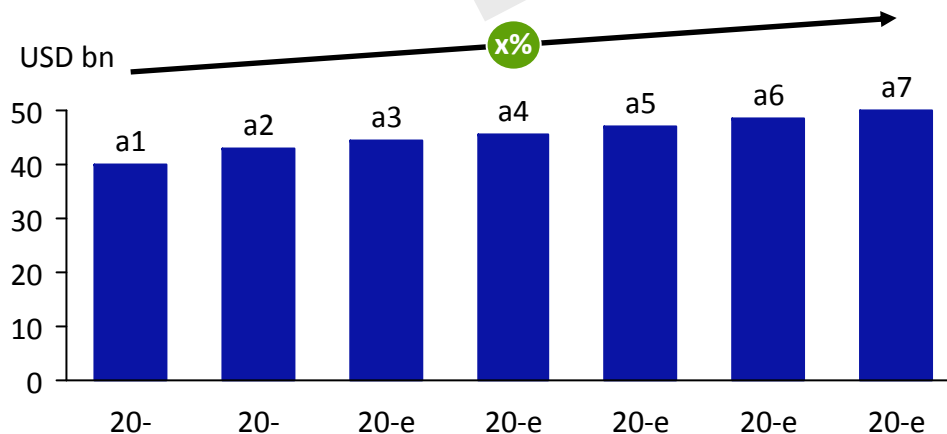


Global ERP Market is expected to grow at 3.8% during 2009-13, reaping significant benefits from various factors

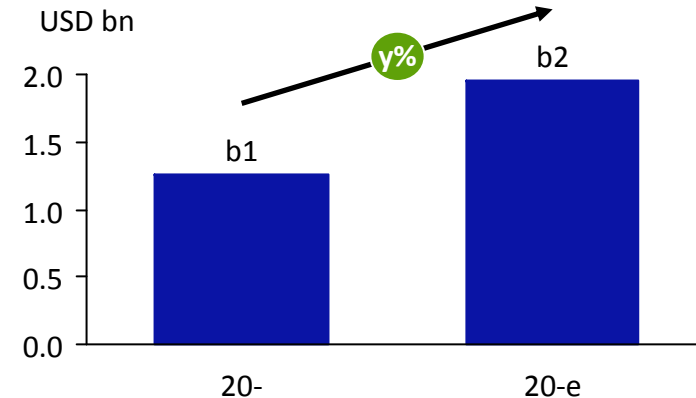
Global ERP Market – Overview

- Global ERP Market in terms of *sales is expected to reach USD -- bn by 20-* with a compound annual growth rate (CAGR) of x% during 20- -20-
- Global ERP market *in SaaS is expected to reach -- bn USD in 20-* from -- bn USD in 20- with a CAGR of y%
- Rising revenues for maintenance fees, new acquisitions, penetration of new industries, and emerging markets such as China, will extend development and new growth over the coming years

Global ERP Sales and Growth



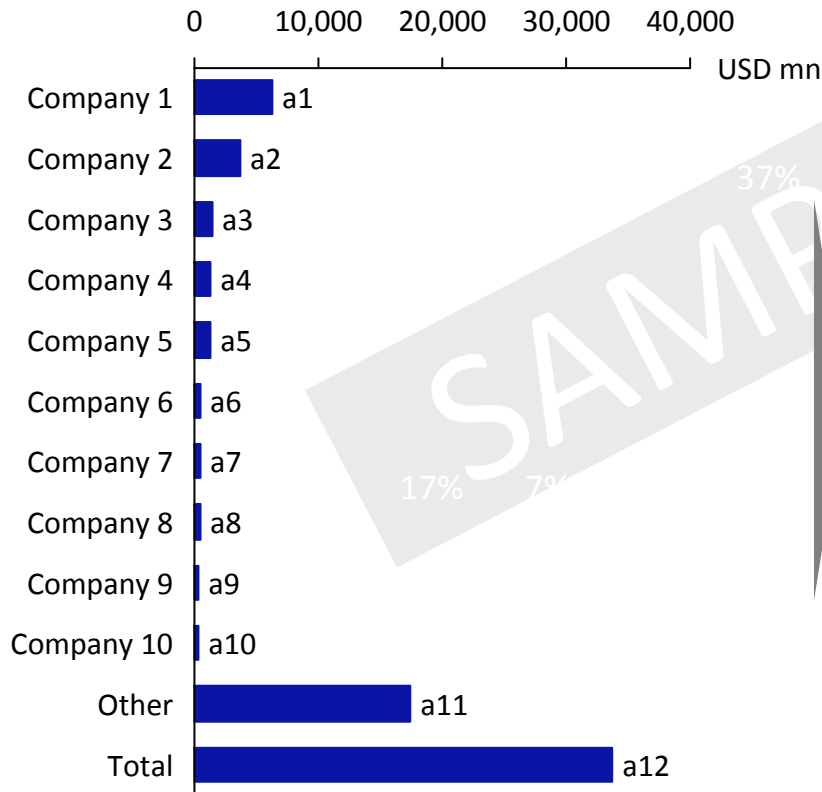
Global ERP Market (SaaS)



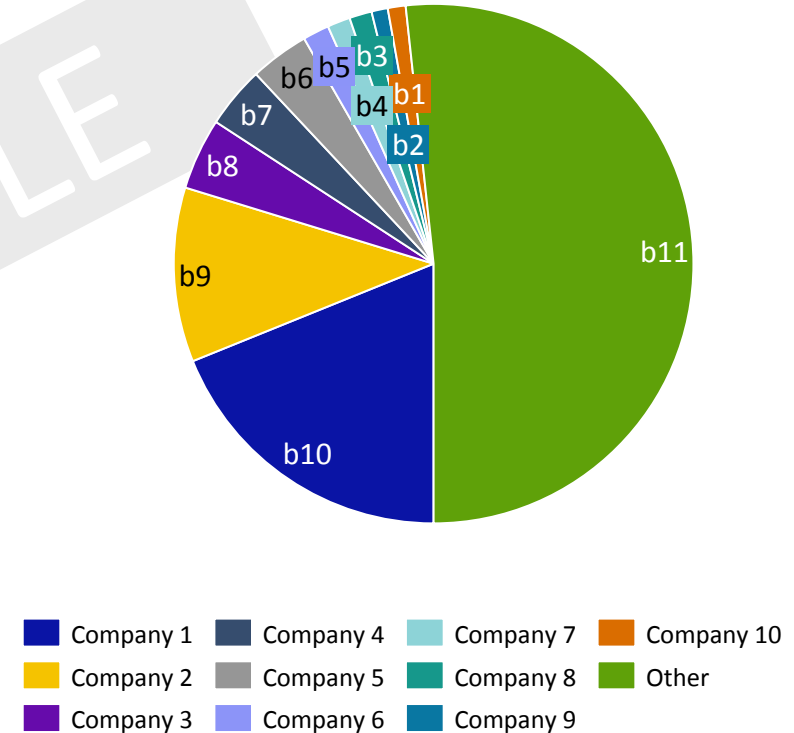
Note: SaaS refers to Software as a Service which is a sub-segment in ERP

The top 10 global ERP vendors generated almost half of the total revenues from ERP software

Global ERP Software Revenues (20-)



Software Revenue Share (20-)



By 20-, the global ERP software revenues accounted about -- bn with the top five global ERP vendors having x% share of the market

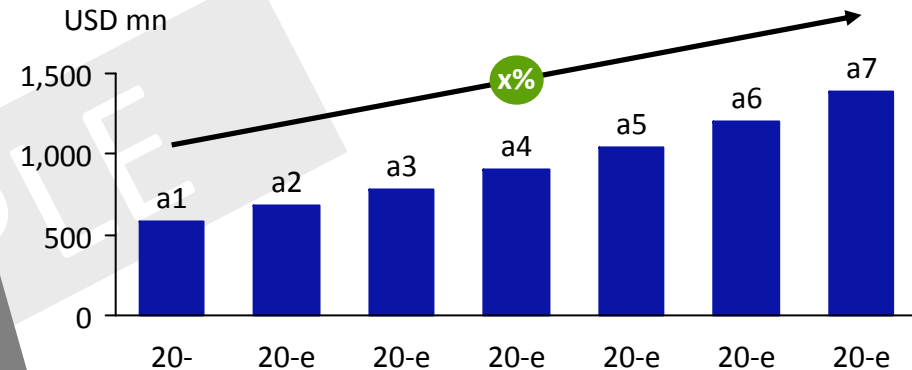
Note: ERP vendors considered are not exhaustive

ERP market in China is expected to be the fastest growing market in the world with x% CAGR during 20- -20-

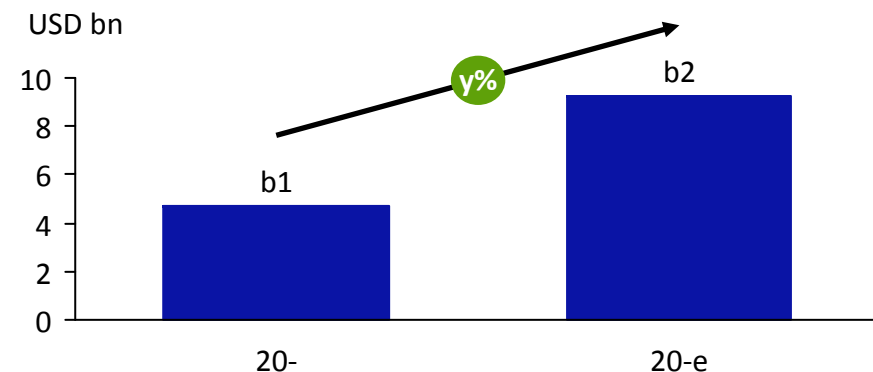
China ERP Market – Overview

- ERP market is expected to grow with a CAGR of ~x% during 20- -20- reaching USD -- bn by 20-
- ERP market in China is the largest segment of the Chinese Enterprise Applications market, commanding ~y% market share in 20-
- Enterprise software market in China is expected to grow to USD -- bn by 20- with a CAGR of z% during 20- -20-
- Foreign ERP vendors like SAP, Oracle and others entered China attracted by significant business opportunities and taking control in the Chinese ERP market

ERP Market Size and Growth

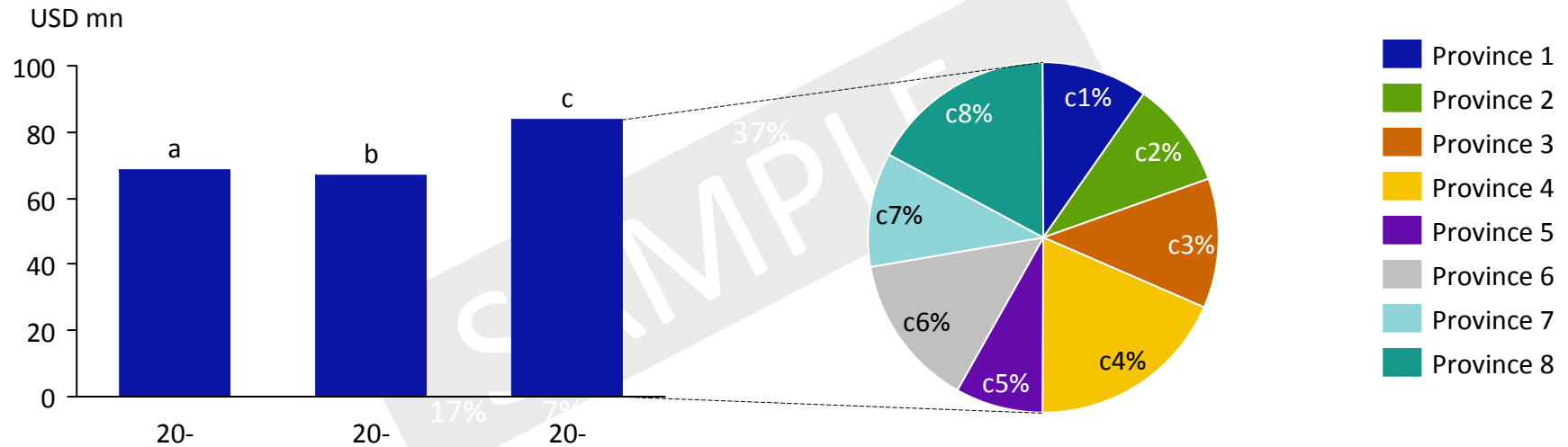


Enterprise Software Market Growth



ERP vendors are seeking growth opportunities from the growing enterprise sales revenue

Average Sales Revenue Per Enterprise

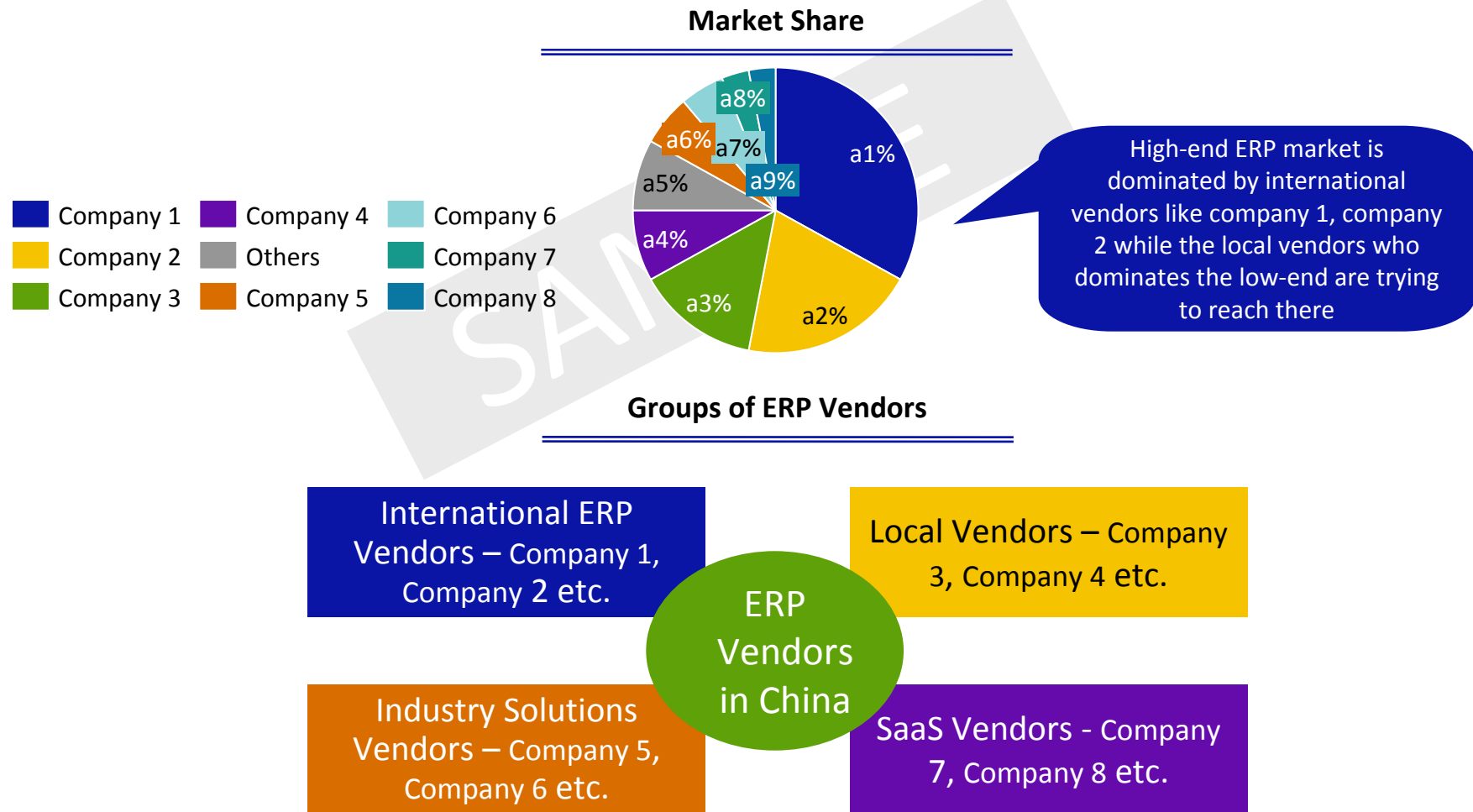


Top eight provinces of China having x enterprises accrued USD -- mn average sales revenue per enterprise in 20- demonstrates huge opportunities for both domestic and international vendors in ERP market

Note: Eight provinces and cities with the largest number of enterprises have been studied

Company 1 and Company 2, the top two foreign ERP vendors accounted for more than x% market share in the high-end ERP market

Market Share of Major ERP Vendors in the High-End ERP Segment (2009)



Note: High-end ERP segment caters to vast and complex operations

ERP Selection Criteria (1/4)

Selection Criteria – Major Aspects (1/2)

Finding 1

- Sub-finding 1
- Sub-finding 2

Finding 2

- Sub-finding 3
- Sub-finding 4

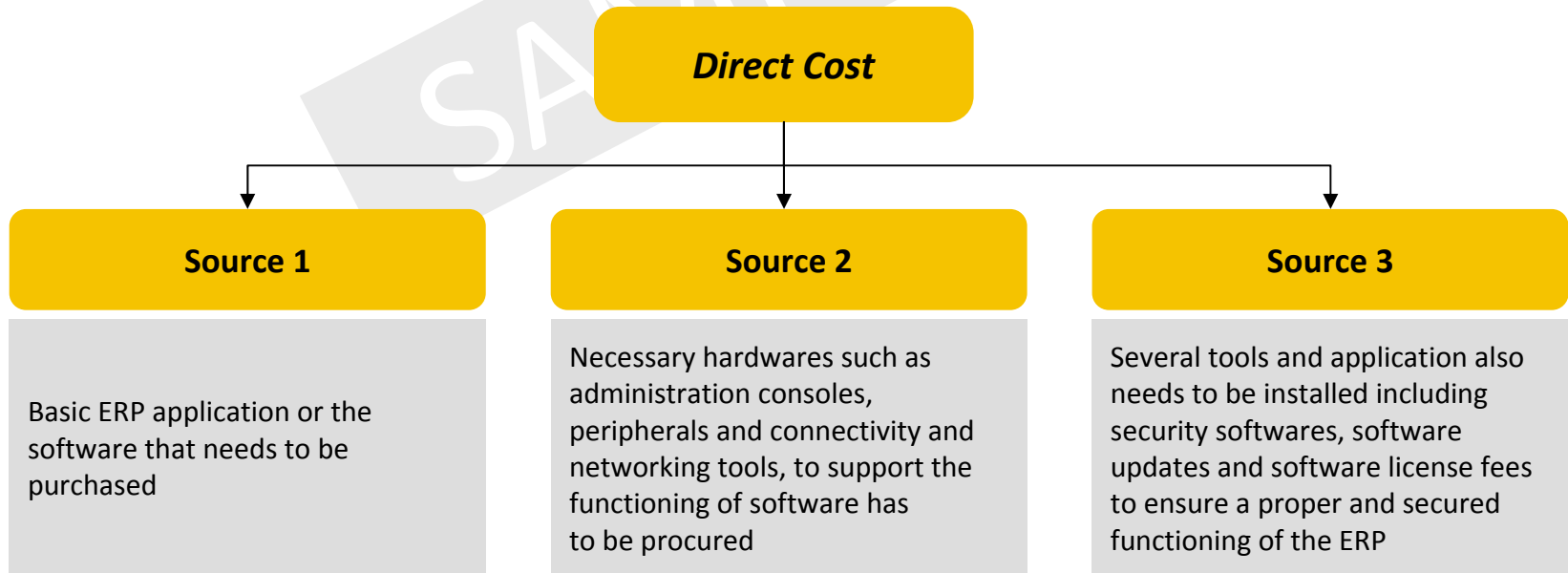
Finding 3

- Sub-finding 5
- Sub-finding 6

ERP Selection Criteria (3/4)

ERP – Cost Components (1/2)

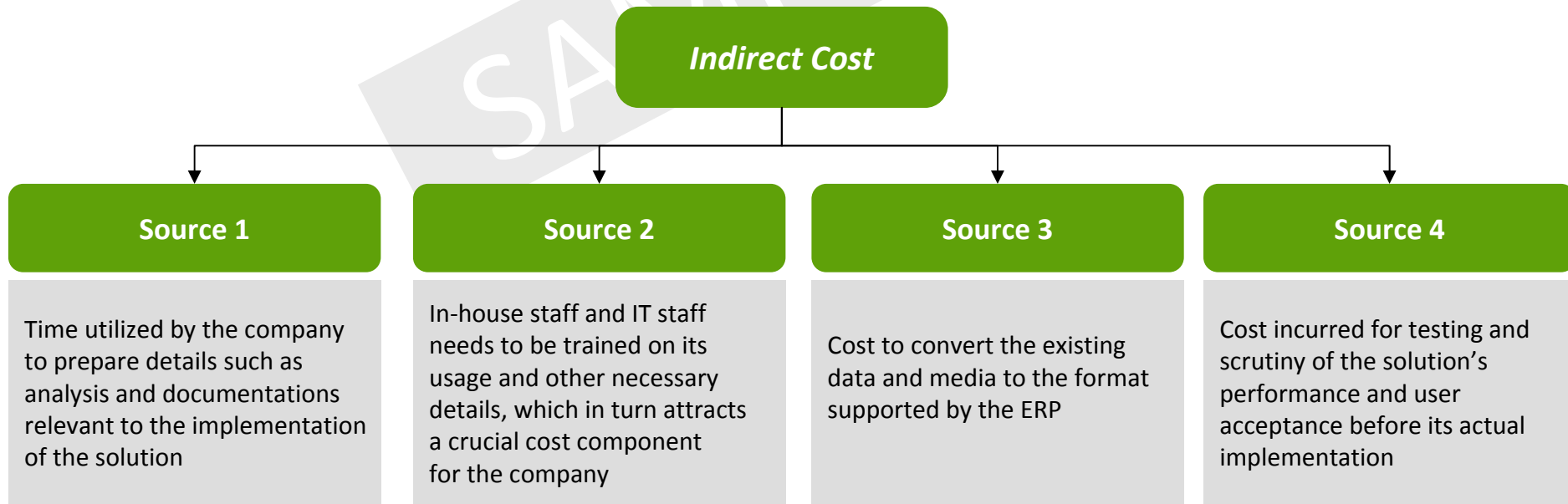
Cost Components – ERP Installation



ERP Selection Criteria (4/4)

ERP – Cost Components (2/2)

Cost Components – ERP Installation



-
- Introduction
 - Market Overview
 - Global
 - China
 - ERP Selection Criteria
 - **Benefits of ERP Implementation**
 - Drivers & Challenges
 - Government Initiatives
 - Trends
 - Mergers & Acquisitions
 - Competition
 - Key Takeaways

Benefits from ERP Implementation (1/6)

Benefit 1

Improved decision making

Improve financial management

Faster and more accurate transactions

Reducing the requirements of manpower

Improved inventory/asset mgt

Benefit 2

Customers can be online communication

Automation of business operations and processes

Improve the labor productivity

Quality of information

Improved delivery times

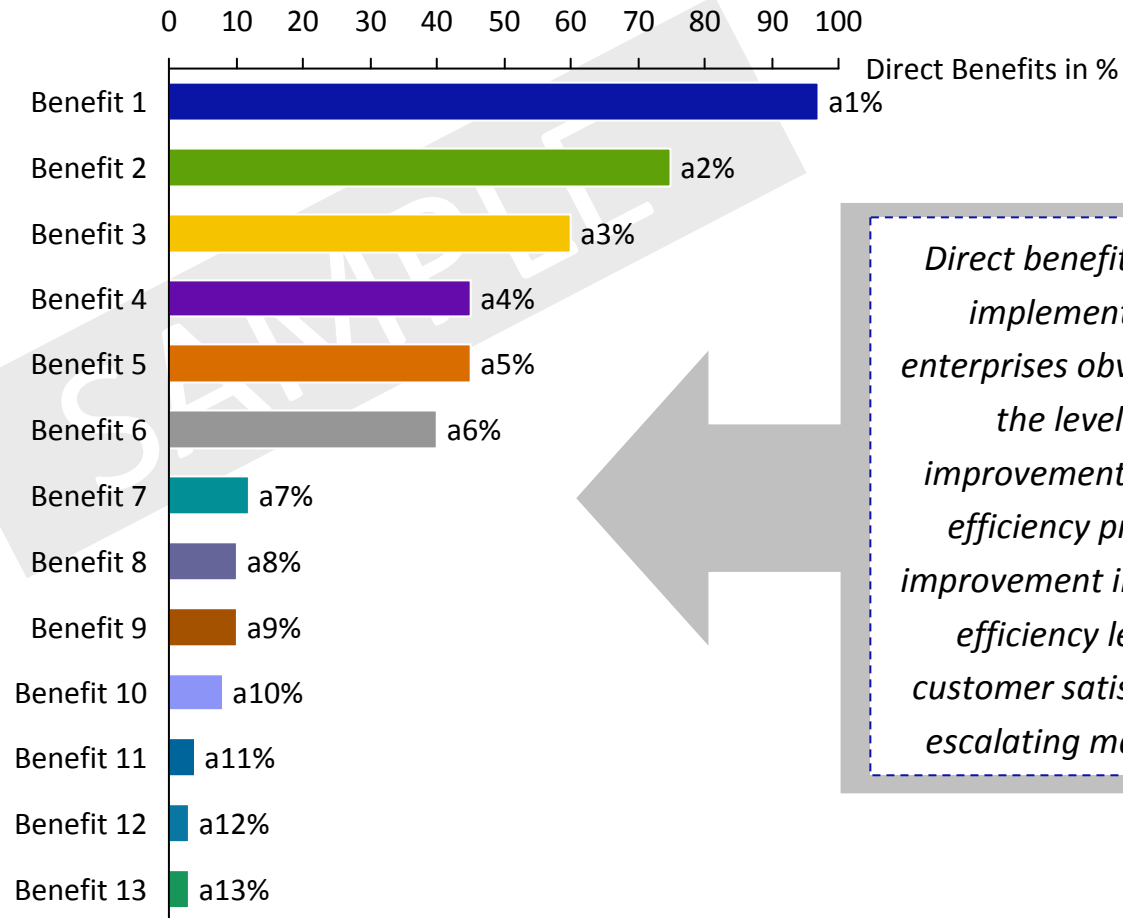
Reduction of total operation and administration costs

Reduction of stock levels

Reduction of real-time information

Benefits from ERP Implementation (3/6)

Direct Benefits from ERP Implementation



Direct benefits from ERP implementation in enterprises obviously act at the level of the improvement of delivery efficiency prior to the improvement in purchasing efficiency leading to customer satisfaction and escalating market share

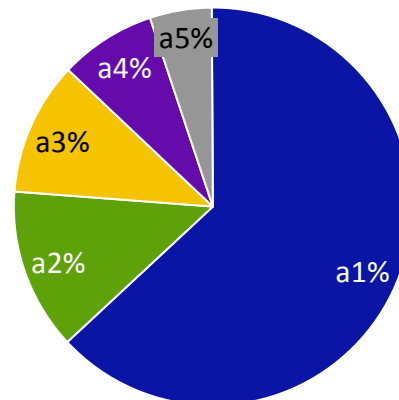
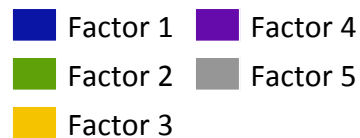
Note: % share are approximation

Benefits from ERP Implementation (4/6)

Factors influencing Chinese Companies to Implement an ERP System

- Finding 1
- Finding 2
- Finding 3

Factors influencing Chinese Companies in ERP Implementation



Findings

Benefits from ERP Implementation (5/6)

Critical Success Factors (CSF) in ERP Implementation in China (1/2)

Critical Success Factors

Teamwork and Composition

Top Management Support

Business Process

Effective Implementation

Effective Implementation

Education and Training

Suitability of Software and Hardware

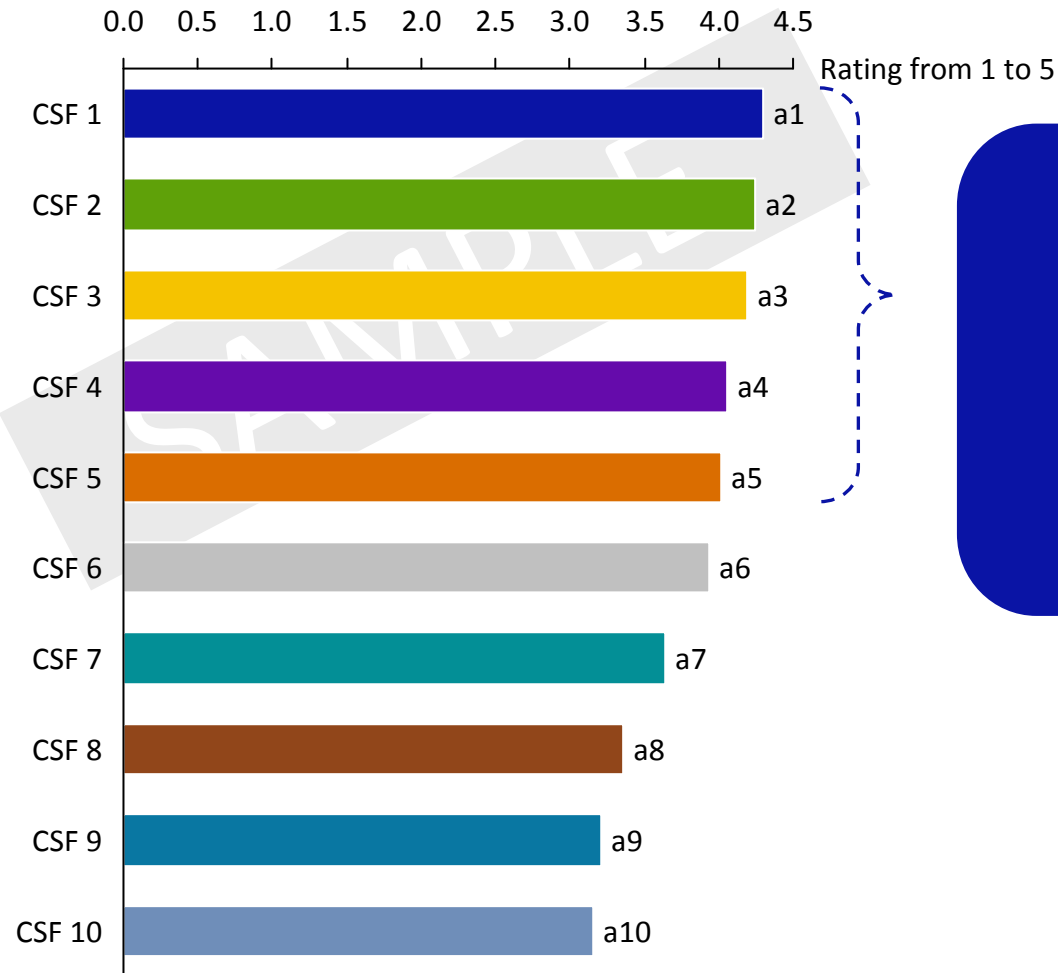
Effective Interdepartmental Communication

Change Management Programme & Culture

Organizational Culture







Benefits from ERP Implementation (6/6)






Critical Success Factors (CSF) in ERP Implementation in China (2/2)



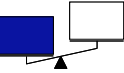
Note: 1 refers to lowest rating and 5 refers to highest rating

Drivers & Challenges – Summary

Drivers	
Wage Inflation	
Increasing Demand from SMBs	
Penetration of New Industries	
Rising Need for Management Effectiveness	
Rising Automobile Production	
Opportunity from Cloud Computing	

Challenges	
High Cost of ERP Implementation	
Cultural Issues	
Lack of ERP Experience	
Communication Barrier	
Profitability Concerns for ERP Vendors	

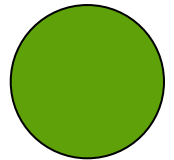
Wage inflation will be a catalyst for expanding ERP usage in China



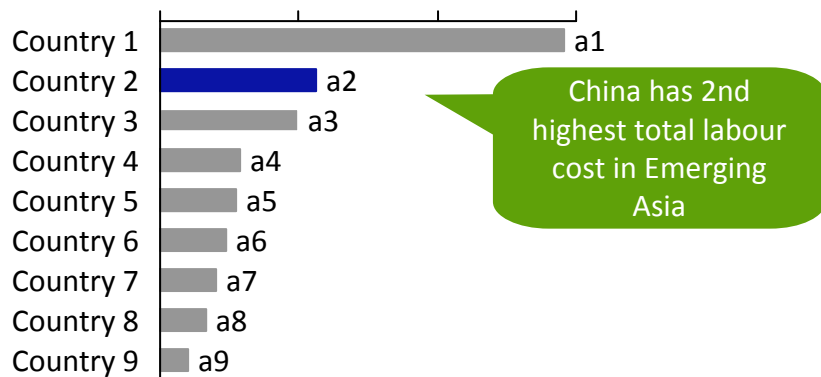
Wage Inflation

- Finding 1
- Finding
 - Sub-finding 1
 - Sub-finding 2
- Finding 3
 - **Sub-finding 3**
 - Sub-finding 4

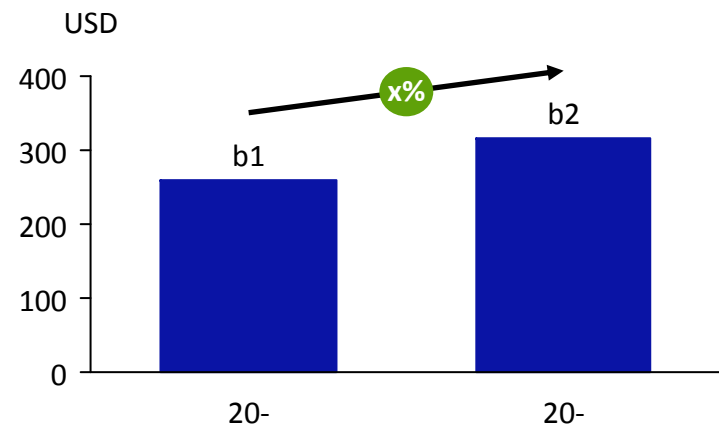
Impact



Labour Costs

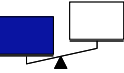


Growth in Average Monthly Wage



Note: :Per capita Average Annual Salary (USD) has been considered as of Oct 2010

ERP is increasingly gaining popularity among the SMBs that account for a1% of the total Chinese enterprises



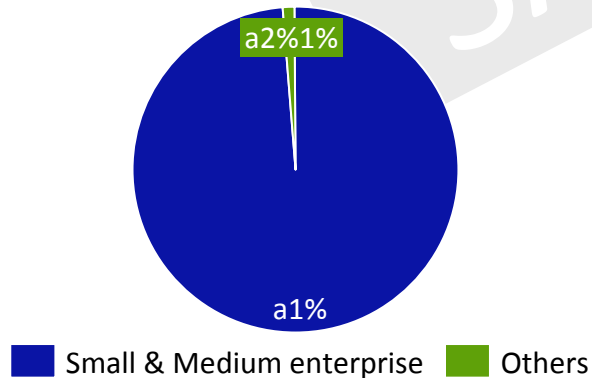
Increasing Demand from SMBs

- Finding 1
- Finding 2
- Finding 3
 - Sub-finding 1
 - Sub-finding 2

Impact



Share of SMEs in Total Chinese Enterprises

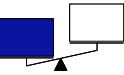


Demand from the SMBs is increasing to improve their infrastructure and with spreading out of operations

In the presence of healthy economic outlook, increasing competitiveness among SMBs is leading to more aggressive ERP growth

Note: SMB refers to Small & Medium Business

With the major enterprises entering into new industries, usage of ERP...



Penetration of ERP in New Industries (1/2)

Impact

- Finding
 - Sub-finding 1
 - Sub-finding 2



Significant opportunity lies for the ERP vendors as the major enterprises in the industry plan to enhance management systems

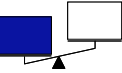
Sub-finding 3

Sub-finding 4

Sub-finding 5

Sub-finding 6

China's enterprise management software market witness rapid growth owing to rising need for cost-effectiveness



Rising Need for Management Effectiveness

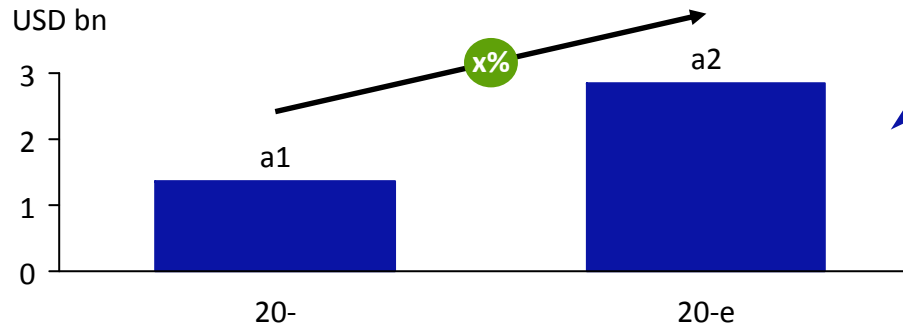
- Finding 1
 - Sub-finding 1
 - Sub-finding 2
- Finding 2
 - Sub-finding 3

Impact



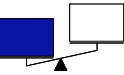
SAMPLE

Management Software Revenue Growth



China's management software market revenue was expected to reach USD -- bn in 20- with a CAGR of x% during 20- -20-

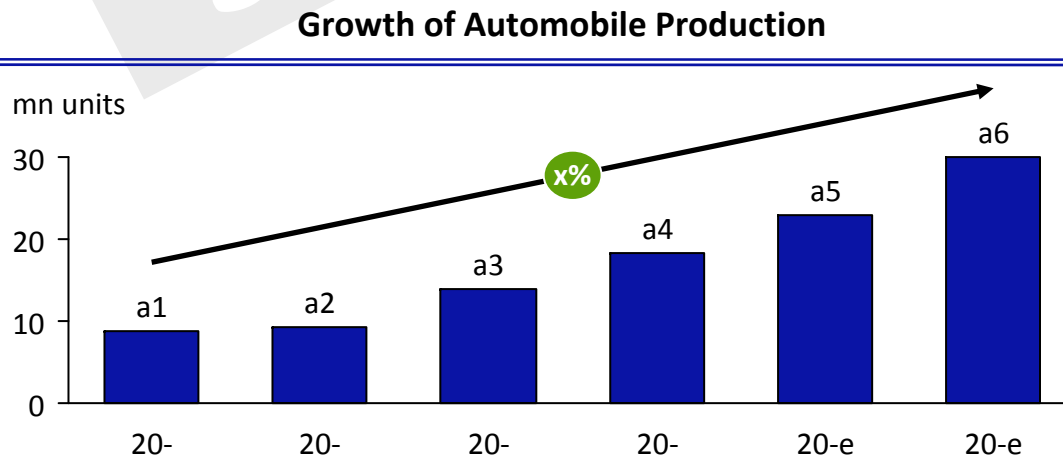
Chinese automobile sector growing with a CAGR 10% during 2007-20 will foster software demands for automakers



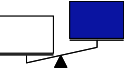
Rising Automobile Production

Impact

- Finding 1
 - *Sub-finding 1*
 - Sub-finding 2
- Finding 2



Lack of ERP adoption in China is primarily due to high cost of implementation



High Cost of ERP Implementation

Impact

- Finding 1
- Finding 2
 - Sub-finding 1



Total Cost of an ERP Solution

finding 1

Hardware Costs of an ERP System

finding 2

Company Size	ERP Users	Total Cost of ERP Ownership
Small	-	USD --
Medium	-	USD --
Big	-	USD --

Company Size	ERP Users	Hardware Costs
Small	-	USD --
Big	-	More than a mn USD

ERP industry stands to gain from wider growth avenues as the govt. increases focus on IT and software innovation

Plan for Growth in Five Key Areas of Beijing's Software and Information Services Industry

1

Finding 1

2

Finding 2

3

Finding 3

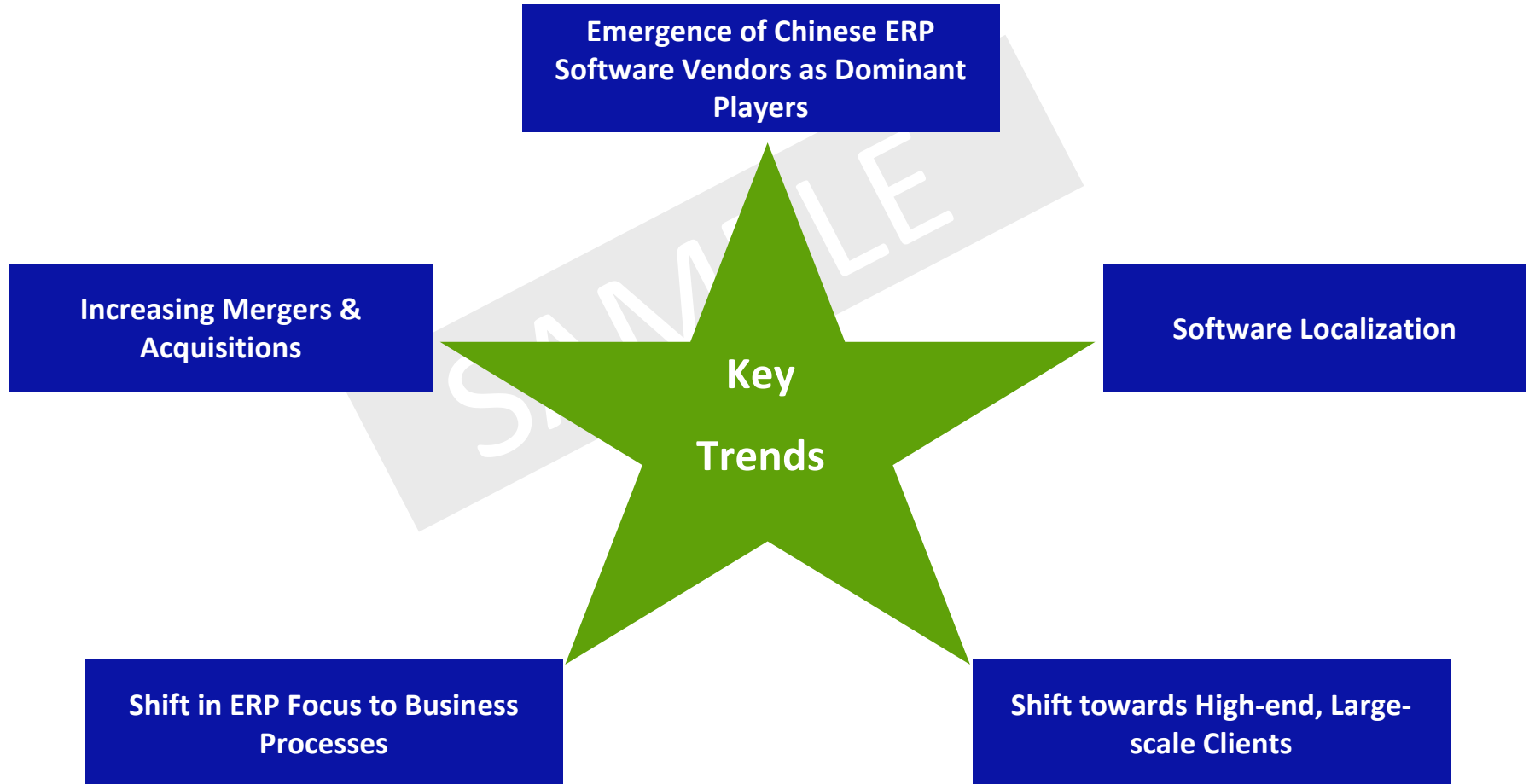
4

Finding 4

5

Finding 5

Trends – Summary



Domestic ERP vendors like company 1, company 2 and company 3 accounted for more than x% of ERP market share

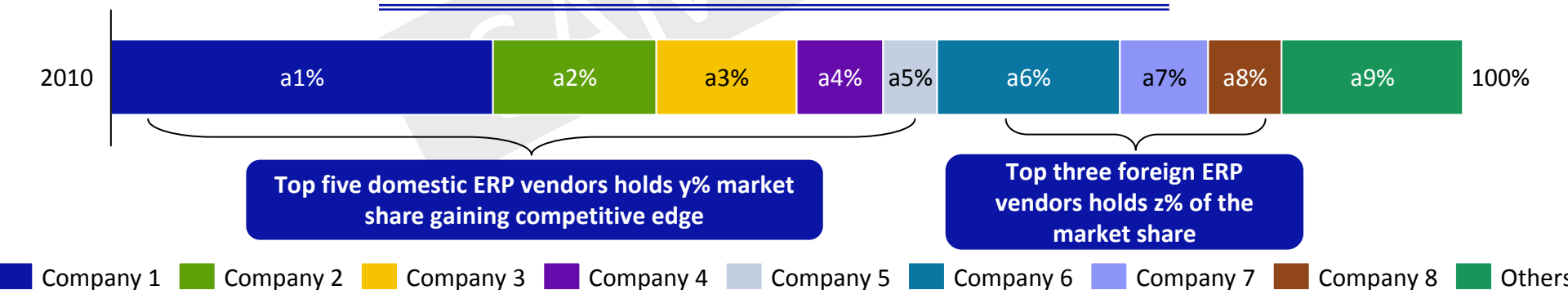


Emergence of Chinese ERP Software Vendors as Dominant Players

- Finding 1
- Finding 2
 - Sub-finding 1
 - Sub-finding 2

Local ERP vendors are dominating the market

Market Share of Major ERP Vendors (2010)



Motivation behind Development of Domestic ERP Market

- Motivation 1
- Motivation 2
- Motivation 3

Note: Market share is in context with overall ERP market

With a1% ERP market client share in China, large-scale enterprises...

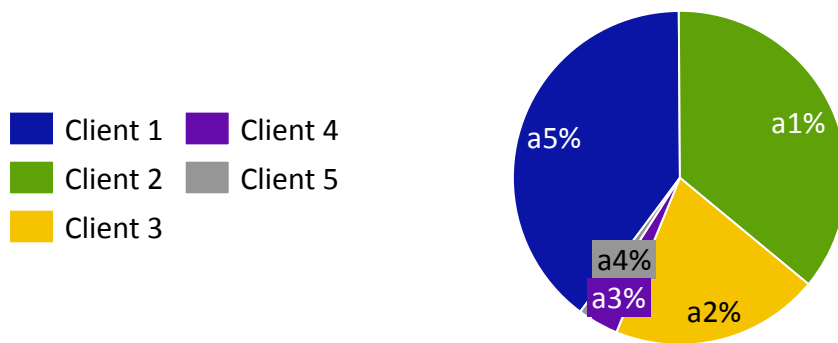


Shift towards High-end, Large-scale Clients (1/2)

- Finding 1
 - Sub-finding 1
- Finding 2
- Finding 3
 - Sub-finding 2

China's ERP market is shifting towards the high-end clients

China's ERP Market Client Structure (20-)



By 20-, China's ERP market captured a1% of the large enterprises evidently showing the shift towards high-end, large scale clients

Note: SME – Small & Medium Enterprises

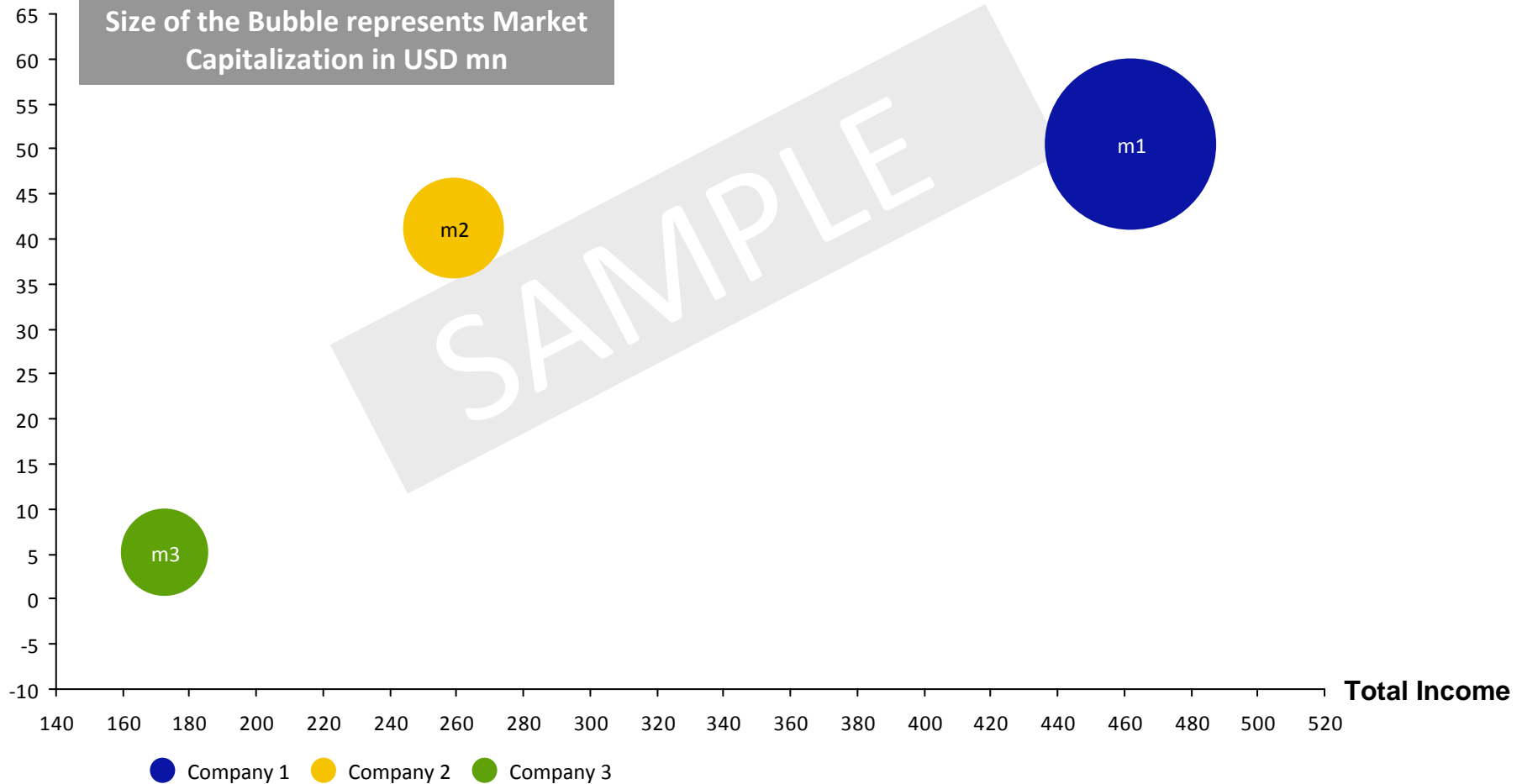
Mergers & Acquisitions (M&A) (1/3)

Announced Date	Closed Date	Target	Buyer/Investors	Sellers	Size (USD mn)
Jan-16-20-	Jan-11-20-	Target Company A	Investor Company A	Seller Company A	USD X mn
Sep-6-20-	Jan-4-20-	Target Company B	Investor Company B	Seller Company B	USD X mn
Sep-22-20-	N.A.	Target Company C	Investor Company C	Seller Company C	USD X mn
Sep-20-20-	Sep-16-20-	Target Company D	Investor Company D	Seller Company D	USD X mn

SAMPLE

Major Domestic Public Companies – Summary (1/2)

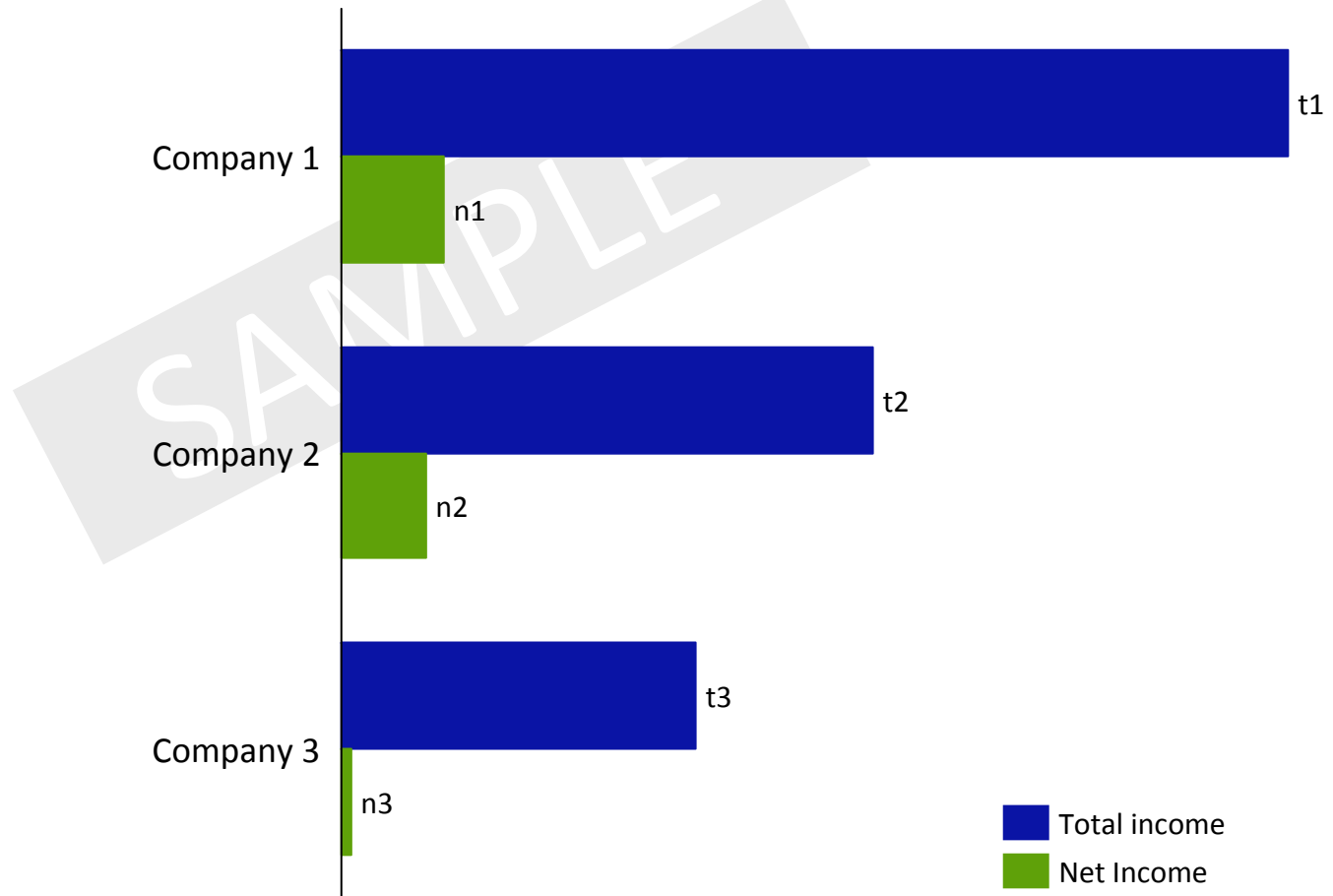
Net Profit



Note: Revenue and Net Profit figures are in USD mn for the year ending Dec 31st 2010; Market Cap figures for UFIDA Software Co., Ltd. is for Feb 1st 2012, for Kingdee International Software Group Company Limited is for Jan 20th.2012 and for Inspur Group is for Feb 23rd 2012

Major Domestic Public Companies – Summary (2/2)

Total Income and Profit for Major Domestic Companies



Note: All figures are in USD mn for the year ending Dec 31st 2010

Domestic Company – Company A

Company Information

Corporate Address	Company 5 x, y Avenue, City 5, City 5 Pin-code, Country
Tel No.	xxx-yyy-zzz
Fax No.	xxx-yyy-zzz
Website	-
Year of Incorporation	19
Ticker Symbol	xx
Stock Exchange	yy

Products and Services

Category	Products/Services
Software Products	Enterprise resource planning, information security software
Development Platform Products	Web groupware, Web application framework, business service platform, business process management, model driven architecture
Tax-control Products	Chipsets, cashing machines, controllers, printers

Locations – China



Key People

Name	Designation
Person 1	Chairman of the Board, CEO & President
Person 2	Vice Chairman & General Manager
Person 3	General Manager & Director
Person 4	CFO & Secretary

Domestic Company – Company A

Financial Snapshot



Financial Summary

- The company earned a net profit of USD - mn in FY 20-, as compared to net loss of USD - mn in FY 20-
- The company reported total Income of USD - mn in FY 20-, registering an increase of x % over FY 20-
- The company earned an operating margin of y % in FY 20- an increase of z percentage points over FY 20-
- The company reported debt to equity ratio of - in FY 20-, an increase of a % over FY 20-

Financial Summary

Indicators	Value (23/02/2012)
Market Capitalization (USD)	x1 mn
Total Enterprise Value (USD)	x2 mn
EPS (USD)	x3
PE Ratio (Absolute)	x4

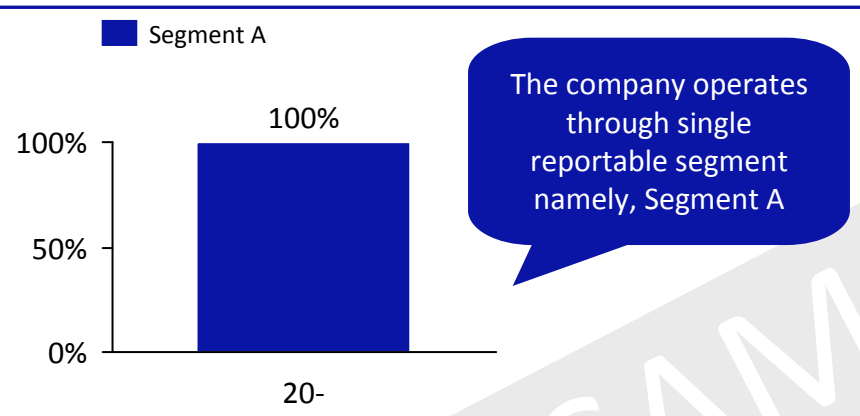
Key Ratios

Particulars	y-o-y change (2010-09)	2010	2009	2008	2007
Profitability Ratios					
Operating Margin	↑	-	-	-	-
Net Margin	↑	-	-	-	-
Profit Before Tax Margin	↑	-	-	-	-
Return on Equity	↑	-	-	-	-
Return on Capital Employed	↑	-	-	-	-
Return on Working Capital	↑	-	-	-	-
Return on Assets	↑	-	-	-	-
Return on Fixed Assets	↑	-	-	-	-
Cost Ratios					
Operating costs (% of Sales)	↑	-	-	-	-
Administration costs (% of Sales)	↓	-	-	-	-
Interest costs (% of Sales)	↑	-	-	-	-
Liquidity Ratios					
Current Ratio	↓	-	-	-	-
Cash Ratio	↓	-	-	-	-
Leverage Ratios					
Debt to Equity Ratio	↓	-	-	-	-
Debt to Capital Ratio	↓	-	-	-	-
Interest Coverage Ratio	↑	-	-	-	-
Efficiency Ratios					
Fixed Asset Turnover	↑	-	-	-	-
Asset Turnover	↑	-	-	-	-
Current Asset Turnover	↓	-	-	-	-
Working Capital Turnover	↑	-	-	-	-
Capital Employed Turnover	↑	-	-	-	-

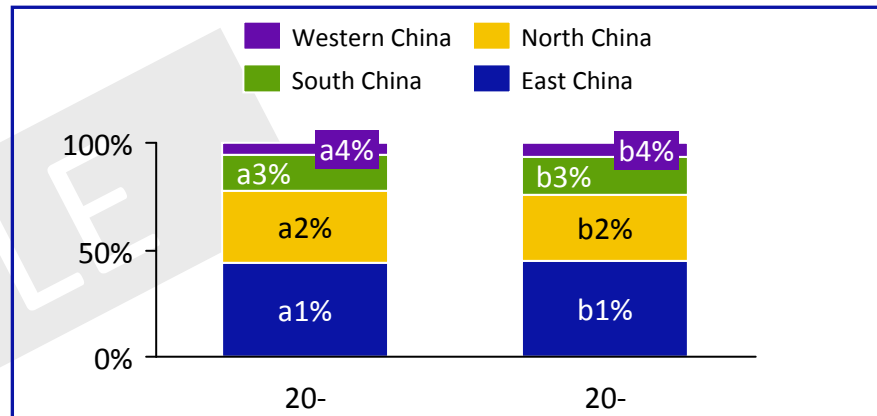
↑ Improved ↓ Decline

Domestic Company – Company A

Key Business Segments



Key Geographic Segments



Key Recent Developments

Description	News
Overview	<ul style="list-style-type: none"> Company A provides various information technology (IT) products and services in China and internationally Company A is one of the major domestic ERP vendors in china accounting 10.4% market share in 2010
Approval	<ul style="list-style-type: none"> Ministry of Science and Technology (MOST) has approved China's Company A to establish the national engineering technology research center for information storage in recent days
Joint Venture & Acquisition	<ul style="list-style-type: none"> Company A and Comarch Semiramis have agreed on a joint venture for entering into the Chinese ERP market together in 2010 Company A acquired 49% stake in LC Genersoft, an ERP company in 2008

ERP market in China is expected to be the fastest growing market in the world with x% CAGR during 20-- - --

Despite various challenges, future of Chinese ERP market is optimistic

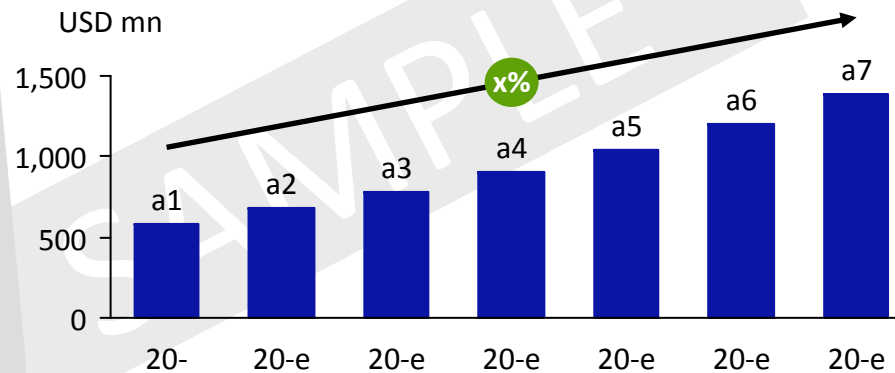
Trends in the Market

Local ERP vendors are gaining competitive edge over their foreign counterparts particularly in low-end, with 5 Chinese domestic companies holding 53% share of the market

By 2010, China's ERP market captured 36% of the large enterprises evidently showing increased focus on high-end solutions for large scale clients

ERP focus is shifting from finance and accounting to business process related modules such as CRM, SCM and PLM

Market Size



Challenges

- High Cost of ERP Implementation
- Cultural Issues
- Lack of ERP Experience
- Communication Barrier
- Profitability Concerns for ERP Vendors

Initiatives Taken by Players

Players are taking steps to upgrade the quality of their products and after-sales services along with development in software outsourcing services

Though the ERP spending is till low, ERP vendors are developing through M&A to improve their products and satisfy the multiplying demands of customers

Appendix (1/2)

Ratio	Calculations
Operating Margin	$(\text{Operating Income} / \text{Revenues}) * 100$
Net Margin	$(\text{Net Profit} / \text{Revenues}) * 100$
Profit Before Tax Margin	$(\text{Income Before Tax} / \text{Revenues}) * 100$
Return on Equity (ROE)	$(\text{Net Income} / \text{Shareholders Equity}) * 100$
Return on Capital (ROCE)	$\text{EBIT} / (\text{Total Assets} - \text{Current Liabilities}) * 100$
Return on Working Capital	$(\text{Net Income} / \text{Working Capital}) * 100$
Return on Assets	$(\text{Net Income} / \text{Total Assets}) * 100$
Return on Fixed Assets	$(\text{Net Income} / \text{Fixed Assets}) * 100$
Operating Costs (% of Sales)	$(\text{Operating Expenses} / \text{Sales}) * 100$
Administration Costs (% of Sales)	$(\text{Administrative Expenses} / \text{Sales}) * 100$
Interest Costs (% of Sales)	$(\text{Interest Expenses} / \text{Sales}) * 100$

Ratio	Calculations
Current Ratio	$\text{Current Assets} / \text{Current Liabilities}$
Cash Ratio	$\{(\text{Cash \& Bank Balance} + \text{Marketable Securities}) / \text{Current Liabilities}\}$
Debt to Equity	$\text{Total Liabilities} / \text{Shareholders Equity}$
Debt to Capital Ratio	$\{\text{Total Debt} / (\text{Shareholders Equity} + \text{Total Debt})\}$
Interest Coverage Ratio	$\text{EBIT} / \text{Interest Expense}$
Fixed Asset Turnover	$\text{Sales} / \text{Fixed Assets}$
Asset Turnover	$\text{Sales} / \text{Total Assets}$
Current Asset Turnover	$\text{Sales} / \text{Current Assets}$
Working Capital Turnover	$\text{Sales} / \text{Working Capital}$
Capital Employed Turnover	$\text{Sales} / \text{Shareholders Equity}$

Appendix (2/2)

Key sources of information used in the report include the following:

- News articles
- Journals
- Business intelligence databases
- Industry associations
- Government publications

Thank you for the attention

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