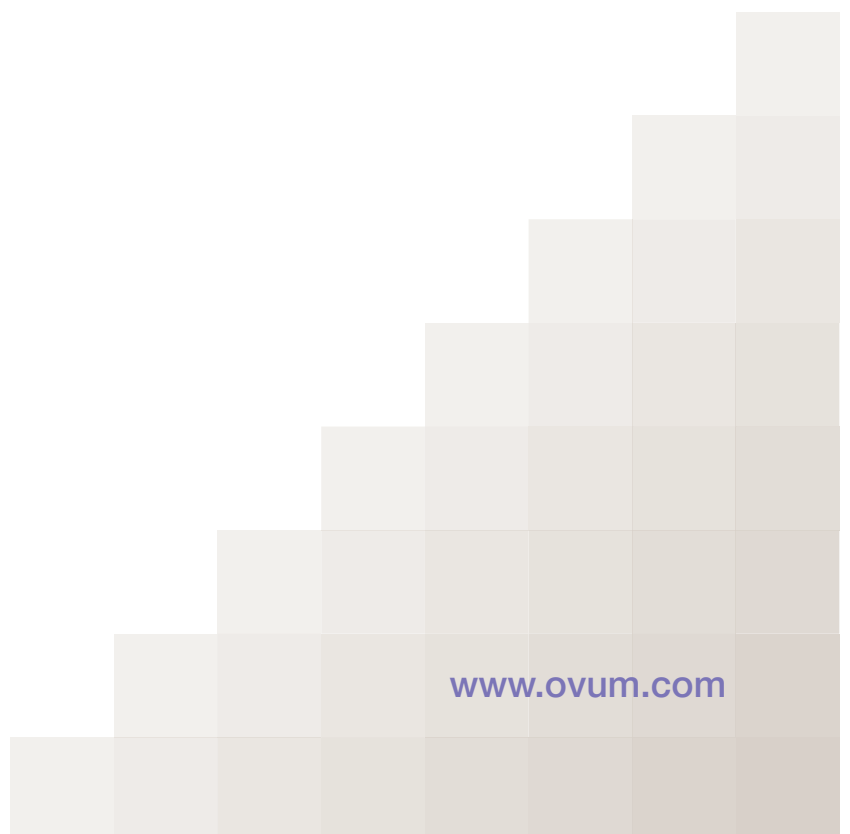




Oracle (vendor analysis)

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Oracle (vendor analysis)

The Ovum view

Oracle has one of the most recognised and visible brands in the software industry – its red and white livery is instantly recognisable. The generation of such a strong brand identity is part of the now famous \$1 billion-saving story, with central brand control being enforced and brand identity being significantly improved.

In terms of culture, Oracle has a reputation as a highly entrepreneurial and innovative company, with an exceptionally strong sales focus. Oracle had a reputation for fast-paced and aggressive sales staff in the past. This sales culture has been subtly changed by the various acquisitions of the past two years, as the DNA of the acquired companies blends with the traditional Oracle DNA. The acquisition of PeopleSoft, Retek, i-Flex Solutions and Siebel has signalled a greater business focus in the application sales teams, with the start of change in sales culture emerging in places. This is not to say that Oracle has lost its 'sales hunger' – far from it. The salesforce that is emerging needs to blend the hunger of its heritage with the business understanding that the more traditional application companies brought to the table when they were acquired.

Oracle most definitely acts as a single global business rather than a federated one. A large amount of decision-making takes place at headquarters rather than in the field organisations. This enables the company to operate a set of robust business practices that enable the field organisations to focus on customers and sales. It helps to control extraneous radicalism while allowing appropriate innovation.

The high-level Oracle strategy is to provide customers with an integrated set of technology, applications and services that focus on reducing complexity and cost. A key change in recent years has been the heightened focus on acquisition as a tool for delivering that strategy. This change reflects an increasing industry-wide consolidation. Oracle's strategy has four interlinked elements.

- Sustain and grow a technology business. The Oracle database is a substantial contributor to both revenues and margin. It is the engine that provides Oracle with the financial strength to diversify its portfolio. It is an important part of the technology business, in which Oracle must continue to show technology innovation – to avoid the progressive commoditisation and the inevitable price pressure that would result. The technology business is also an area of significant development investment, to sustain and grow the sizeable customer base. It is an area where merger and acquisition (M&A) activity is currently small scale, with acquisitions filling niche technology gaps; for example, Oblix. The development of a large-scale middleware business is a key objective of this element of the strategy, with this business now generating a run rate of over \$1 billion per year.



- Develop a world-scale application business. Oracle has invested heavily to build an applications business, through developments of its own E-Business Suite and the acquisition of PeopleSoft, Siebel and Retek. Further acquisitions are likely and will be driven by a focus on certain key industries such as telecoms, utilities and financial services.
- Develop new services-based revenue streams. One of the biggest margin contributions comes from Oracle Support. On Demand is the strategic initiative that is designed to generate further service-based revenues. Oracle Support and On Demand have a higher priority for growth than the implementation services provided by Oracle Consulting or the training services provided through Oracle Education. The entry of Oracle into the Linux support business in late October 2006 (through Unbreakable Linux) is an example of this.
- Ecosystem. Oracle also relies upon an ecosystem of other companies to generate revenues. Systems integrators and ISVs drive revenues in both technology and application businesses, as do business process outsourcing (BPO) companies. Fiscal 2007 has seen a renewed level of focus on the partner ecosystem around Oracle, with many new initiatives in place.

Development of a stronger applications business, together with the growth of services, is part of a strategy to diversify revenues. This protects Oracle from the impact of any future commoditisation of technology. The threat of database commoditisation is real and present, with price competition from Microsoft and open source databases both likely to have an impact. Many of Oracle's business lines work on different economic cycles to each other, with this counter-cyclical element giving protection from the worst excesses of business challenges in any individual product line.

If Oracle can pull off the dual challenge of sustaining and growing its technology market position while building an integrated high-quality application business, then it will become an even more important market player than it is today. Expanding its services revenues will further amplify this.

Company

Oracle (www.oracle.com) was founded in 1977, and was the first company to market a commercial RDBMS based on SQL. The Oracle portfolio is now substantially larger. It includes the Oracle database, application server, collaboration suite, development tools, and a series of business application software products. Products in the business application software area include Oracle E-Business Suite, PeopleSoft Enterprise, JD Edwards Enterprise One, JD Edwards World, Retek and Siebel. The products originally developed by Oracle have an Internet-based architecture or have been moving in that architectural direction over recent years. Products that have been acquired through M&A have different architectural foundations, with some having much older architectural design; for example, JD Edwards World. The programme to bring together the product lines is called Fusion, which focuses on the future of both application



server and business application products. It is predicated on a service-oriented architecture (SOA) approach.

Financial 2005 was a year of major activity for Oracle on the M&A front. It eventually acquired PeopleSoft for \$10.3 billion after a long court battle with the Department of Justice. A skirmish with SAP over Retek was somewhat shorter, with Oracle winning out and acquiring Retek for around \$360 million. These represent acquisitions of horizontal application functionality. The acquisition of i-Flex Solutions, GLog, ProfitLogic and TimesTen represent industry-specific acquisitions for banking, distribution/transportation, retail and telecommunications respectively – these were also completed in 2005. A number of smaller but important technology acquisitions also took place during 2005, including open source database company Innobase and three identity management companies – Oblix, Thor Technologies and OctetString.

The Siebel acquisition was completed in January 2006, marking another large-scale application purchase. This was followed by a number of other, albeit smaller, application acquisitions – Telephony@Work, Portal Software, Demantra and Sigma Dynamics. Each of these addresses either a specific functional niche or builds depth in a target industry vertical; for example, Portal Software addresses the telecoms vertical. Including the Siebel acquisition, the spending spree has totalled approximately \$20 billion. With the acquisition of SPL WorldGroup in 2006 Oracle signalled that the utilities market is one of the next growth markets for the company. There are no signs of the M&A appetite being satiated, and with Oracle's current level of free cash flow being generated there is no need to call a halt to sensible M&A.

We characterise the acquisition strategy as having three distinct phases.

- Phase 1 – scale related. Here the target was to acquire an application business of sufficient scale to use as the basis of a more comprehensive application strategy.
- Phase 2 – technical fill. Here the target was to acquire technology components to fill out a rapidly evolving middleware story, with the market category evolving during the acquisition process.
- Phase 3 – industry fill. Here Oracle has identified industries that are information intensive and that should, therefore, be targets for them. They have then acquired either technology or application products that give them a stronger foothold in that industry. Examples include telecoms and retail.

Phases 2 and 3 have been operating concurrently, but with Phase 3-style acquisitions now appearing more frequently in the portfolio. It is a strange but interesting quirk that many of the smaller acquisitions are driven by suggestions from Oracle's customers, seeking to consolidate suppliers without reducing their technical options.

As a result of these acquisitions, Oracle now has a very extensive product portfolio – not that it had a narrow one before the acquisition spree! Managing the complexity of the product portfolio now presents a real challenge for Oracle. It will



need a great deal of technical and financial agility to manage this properly, since Oracle will need to meet several difficult challenges at once.

- Retain the customer base from its acquisitions, by showing them that their existing products still have a viable life within Oracle – thus protecting both short-term support revenues and providing valuable investment for the next-generation products. Oracle is addressing this through a combination of programmes – Applications Unlimited and Lifetime Support. The announcement of E-Business Suite Release 12 at Oracle OpenWorld in late 2006, and the broader announcement in January 2007 of a significant update release across all PeopleSoft, JD Edwards and Siebel product lines, is an initial demonstration that Oracle is delivering its commitments to continued development of these products.
- Providing a long-term vision of where the integrated product portfolio will develop, together with a roadmap to illustrate how existing customers will be able to transition to in that future portfolio – this is Project Fusion. The messaging around the future of the entire application portfolio has improved since the initially somewhat tentative and ambiguous messaging. However, there are still elements of the customer base that need convincing further and further clarity is needed on what this means for them.

Both of these areas will need to deliver, as they are key elements of the competition with SAP that has heated up in 2006. In the initial period of extensive acquisitions Oracle struggled to get its market message across in parts. However, since the turn of calendar year 2005/2006 the messages have begun to resonate much more clearly with the market – across all geographies. The financial results in Q4 2006 and Q1 2007 show that Oracle has come through the initial period of post-acquisition integration difficulties. However, the software results for Q2 2007 also demonstrate that complacency is not an option and that concentrating on field execution should be a high priority.

However, integration is still an ongoing challenge, as more companies join the fold and integration generally deepens with more mature acquisitions. One of the main elements of the business integration challenge concerns the integration of newly acquired companies into the sales and go-to-market model. Most of the acquisitions had their own sales team, who were specialist at positioning and selling their companies propositions and products. Other acquisitions had sales teams that were structured by industry vertical rather than by product. These factors, combined with the general width of Oracle product and services portfolio, make the organisation of the sales teams into a real challenge. This complex matrix requires careful planning, with several goals in mind.

- Ensuring that there is enough focus on individual products, since Oracle competes in individual niche markets as well as the broader portfolio market. The markets have a tendency to under-perform in single product areas, especially database, even where total business performance is good.
- Ensuring that there is enough focus on industries, since customers have pain points that are, or appear to be, unique for their industry – ignoring these



industry specifics can result in sub-optimal revenue performance across multiple products.

- Ensuring that customers have the simplest possible experience of dealing with Oracle – if there are multiple different teams interacting with the customer, then there needs to be account team integration, making the experience feel fully integrated for the customer.

This is a difficult, if not impossible, circle to square, but is not a unique problem for Oracle. Every company with a large and diverse portfolio faces the self-same challenge. From a business integration perspective, Oracle has now effectively divided the company into two, separating into applications and technology organisations in the field. There are also a number of industry business units that are garnered by either product or industry, to ensure enough attention is paid to the needs of servicing key markets such as CRM or telecommunications. This is a recognition that the Oracle product and services portfolio is so large that specialist sales organisations are a necessity. Time will tell whether this division will produce the required results, or whether it will fragment relationships with clients and produce the return of the 'Oracle bus' – a phenomenon where multiple sales and support staff work on client opportunities en masse, each with revenue targets for different products. Oracle has put in place internal rules of engagement to avoid this, but it is a risk that it will need to manage actively. A key element will be to ensure that sales compensation drives co-operation across different teams, and Oracle has worked hard to iron out inconsistencies that could have driven sub-optimal behaviour in the field.

Integration will also need to be tackled at a product level. The PeopleSoft acquisition has not only brought the Enterprise product to Oracle, but also JD Edwards Enterprise One and JD Edwards World. The Siebel acquisition increased the presence of Oracle applications in the CRM market, since Siebel was the category leader in that market. Oracle now has a diverse business application portfolio, including the E-Business Suite. Project Fusion is the programme that has the role of bringing these elements together into a cohesive portfolio, without losing the strength of the constituent parts – which is no minor challenge. Project Fusion has progressively evolved its messaging, based on feedback from prior iterations and input from the market – customers, analysts and competitors. In its early stages there was market scepticism around Project Fusion, with a fear that Oracle would progressively bring development of older products to an end – forcing people onto a new product suite. In its current incarnation Project Fusion has clearer messaging and, as a consequence, is gaining a more positive response from the market – developing a market momentum that is increasing the intensity of competition with SAP. Three early signs of the progress of Project Fusion are:

- the certification of most of the acquired business applications of the Oracle Fusion middleware technology stack. This is an important building block when increasing the interoperability of different product families, and in reducing the development effort needed by the Oracle R&D teams to maintain the products
- abstraction of elements of applications technology into a common middleware layer rather than this being supported by the applications themselves. This is



true for functionality such as identity management, single sign-on, security and portal services. Again, this helps to reduce the cost of development for the R&D team, allowing investment to be focused elsewhere

- certification of business process and technical integrations that span multiple application packages – for example, an order process starting in Siebel CRM and finishing in Oracle Financials. Many of these integration scenarios have already been developed and certified. These are effectively a first generation of composite applications for Oracle.

The Applications Unlimited and Lifetime Support initiatives have been the most important elements of that improved clarity and credibility. In respect of the broader application portfolio development, three key elements need to be remembered.

- Each of the 'legacy product' lines is going through continued development and architectural change, to become an SOA-enabled product. This opens up the product architecture, gives a modernisation path, and allows customers to remain on their existing products for some time into the future. January 2007 saw the first evidence of this en masse when Oracle announced that it would be shipping updated versions of its five main business application products.
- Each of the SOA-enabled, legacy products will be able to interoperate with other products, allowing customers to pick and choose which of the application products best fits their individual circumstances – with Fusion Middleware being the glue that holds them together.
- The products will eventually coalesce into the future application range, using the best pieces of the individual product lines – some time in the future.

On the technology front, 2005 saw continued progressive development of database, application server and collaboration suite products. Although not yet in mainstream adoption, the Enterprise Grid message behind the 10g database and application server 10g products is gaining ground. The database continues to be a dominant player in the market and the application server product is progressively gaining ground, with BEA appearing to suffer most from this growth. Driving wider adoption of both middleware and collaboration technology must be a core focus of the technology team in Oracle during 2007. The key challenge for the technology business is to sustain revenue growth and product innovation, to give Oracle enough time to integrate the new applications into a new and coherent Fusion product line. For the core database product it can seem more challenging to continue to product innovation. Oracle has two strategic plays here, and a number of other supporting strategies among the hundreds of new features that are included in each new generation of database product:

- to drive adoption of its grid paradigm through a focus on improved performance, scalability and reliability in a distributed environment, using low-cost commodity hardware
- Oracle positions its database against traditional file systems and that layer of the operating system. Earlier versions of Oracle that focused on Oracle Files and Content Management functionality had relatively limited market impact



and low market penetration. The Oracle 11g database, which is in beta, and the recent acquisition of Stellent give Oracle the potential to attack this space anew – expect increased activity from Oracle in this area in 2007. Making progress in these two strategic areas, and also in a number of more tactical product enhancements, is important if Oracle is to continue to defend and grow this base.

Oracle has a large customer base, with the largest proportion of its customers being for its database product. *Figure 1* shows the spread of customers across the range of its products.

Figure 1 **Oracle customers**

Product	Customers
Database customers	Over 275,000
Real Application Clusters (RAC)	Over 9,000
Fusion middleware	Over 30,000
Applications	Over 30,000
SMB customers	Over 19,000

Source: Oracle

In the past five years, Oracle has progressively been building its executive management capacity. Important figures in the current Oracle leadership team are Jeff Henley, Safra Catz and Charles Phillips. All of these individuals have a focus and talent in M&A, signalling a continued interest in further acquisition. It is a clear strategy to have an executive team with M&A capability, in addition to their day-to-day management capacity. Despite the presence of other strong executives, there is still a market perception that Larry Ellison is the dominant personality in the company, with a very substantial influence on all aspects of company strategy and operations.

Financial data

Oracle is one of the largest software providers in the world – the second-largest ISV behind Microsoft. Oracle is based in Redwood Shores, California, and employs more than 68,000 people in offices across the US, Canada, Europe, the Middle East, Africa and Asia-Pacific.

Oracle is also one of the most profitable companies in the industry. Of the major software providers, only Microsoft has better profit margins, and Oracle has impressed with its ability to maintain margins in challenging market conditions. *Figure 2* shows Oracle's recent financial history.



Figure 2 Oracle's financial history

Year ending 31 May	2003	2004	2005	2006	2007	Last quarter comparison	
						2006	2007
\$ million					YTD	Q2	Q2
Product revenues	7,199	8,070	9,421	11,541	5,959	2,617	3,214
Service revenues	2,276	2,086	2,378	2,839	1,795	675	949
Total revenues	9,475	10,156	11,799	14,380	7,754	3,292	4,163
Operating expenses							
Sales & marketing	2,072	2,136	2,511	3,177	1,665	706	915
R&D	1,180	1,278	1,491	1,872	1,026	468	519
Other	2,783	2,878	3,775	4,595	2,764	1,002	1,372
Total expenses	6,035	6,292	7,777	9,644	5,455	2,176	2,806
Profit/loss from operations	3,439	3,864	4,022	4,736	2,299	1,116	1,357

Source: Oracle

Products

Business applications

The PeopleSoft, Retek and Siebel acquisitions brought a much wider business application portfolio to Oracle, adding to the Oracle E-Business Suite. Fusion is the strategy for the future Oracle application product family – to bring together these investments. It aims to:

- take the best elements of functionality from the existing application products
- build these applications on an SOA framework, to allow customers the architectural flexibility that this delivers
- offer continuity from the existing applications and long-term support for the existing applications.

As with the Fusion middleware strategy, the Fusion application strategy is an evolution rather than an end product. It represents a transition towards a progressively greater focus on SOA. We will publish further research on the Fusion application strategy as this evolves.



Oracle E-Business Suite

Oracle's original offering goes under the umbrella name of E-Business Suite. The overall positioning of the E-Business Suite is in three areas:

- a single database schema is used across the entire product, offering strong data integration advantages and support for integrated business intelligence
- the product can be implemented in a modular manner rather than having to be implemented as an entire suite
- the product focuses on supporting simple business processes through business flows.

A widespread range of modules is provided, including advanced procurement, contracts, customer data management, customer relationship management (CRM), financials, human resources management, interaction centre, learning management, maintenance, manufacturing, marketing, order management, product lifecycle management, projects, sales, service and supply chain.

There are also a series of intelligence modules that provide preconfigured business intelligence on specific modules and/or business processes. In addition, there are specific business intelligence modules that include activity-based management, balanced scorecard, demand planning, enterprise planning and budgeting, and a financial analyser.

Oracle E-Business Suite sees a major upgrade to Release 12 in 2007, with a focus on further enhancing its ability to manage global financial operations, through consolidated financial systems, improved and integrated operational business intelligence, and greater ability to manage single application instances for global companies.

PeopleSoft

The PeopleSoft applications also cover a wide range of functionality. At a macro level the functionality covers campus solutions, CRM, financial management, human capital management, service automation, supplier relationship management and supply chain management.

Campus solutions contain modules to automate much of the business operation of higher-education facilities – from student admissions through to student records and progress tracking. Financial management capability covers transactional finance capabilities; for example, purchasing. It also provides analytical capability (such as global consolidation and revenue management) or treasury solutions (such as cash management). Human capital management (HCM) provides functionality for the employee lifecycle, including recruitment, training and development, incentives and compensation, and performance management. Service automation covers the major aspects of the automation of a professional service-based function at all stages of a project management lifecycle. Supplier relationship management is focused on procurement and purchasing, and similar



supplier interaction points. Supply chain management covers customer order management, logistics, manufacturing and supply chain planning.

Oracle is releasing an update to PeopleSoft Enterprise 9.0. This brings improved HCM functionality in areas such as talent management and enterprise compliance. It also brings architectural evolution with further support for web services, BPEL and Fusion middleware.

JD Edwards Enterprise One

The JD Edwards Enterprise One application was acquired by Oracle along with the PeopleSoft acquisition. The application is structured as an integrated set of modules that are configured for different industry environments. Modules include maintenance management, real estate management, CRM, financial management, HCM, customer order management, logistics, manufacturing, supply chain planning, project management and supply management.

JD Edwards Enterprise One has stronger usage with SME customers than the PeopleSoft Enterprise and Oracle E-Business Suite products. It also has a concentration of users in the manufacturing, construction and physical asset-intensive industries. We have opted not to cover the much older JD Edwards World product in this profile.

Both JD Edwards Enterprise One and JD Edwards World will also see major updates in 2007, through releases 8.12 and A9.1 respectively.

Siebel

The acquisition of Siebel closed in January 2006. Siebel, as a brand, is synonymous with the creation of the CRM application category. It encompasses a very broad range of CRM, covering the sales, customer service and marketing functions. The acquisition immediately gave Oracle a leading position in the global CRM market.

In addition to the traditional software model Siebel also brought a CRM On Demand capability to Oracle, through the provision of hosted CRM – in a multi-tenancy model, as well as through the more usual single-tenancy model.

Siebel 8.0 is slated for release during 2007, with a focus on improved usability and combination of horizontal and vertical functional enhancement. In addition, development has also focused on architectural change that attempts to reduce the cost of deploying and managing Siebel technology.

Retek

Retek was acquired by Oracle during the fourth quarter of fiscal 2005. Retek provides a series of specialist software aimed at the retail industry. Retail solutions provided by the Retek products include merchandise operations management, store & multi-channel retailing, supply chain planning & optimisation, supply chain



execution, merchandise planning & optimisation and demand planning, together with integration and intelligence features.

Database and business intelligence

Oracle began its history as a database company. Although it now has other products, the database is still by far the most dominant product for the company, both in terms of market share and financial contribution.

The Oracle database has five main editions: Enterprise Edition, Standard Edition, Standard Edition One, Personal Edition and XE. The versions share a common code base and are differentiated by licensing and pricing measures. They are available across the majority of commercial operating systems, from Microsoft Windows through to OS/390. Enterprise Edition can be used on machines with any number of processors. Standard Edition can be used on hardware that has up to two processors. Standard Edition One can be used on hardware with up to four processors. Personal Edition is designed for installation on a personal computer.

In terms of pricing, Standard Edition and Standard Edition One are priced to compete with configurations of the SQL Server database from Microsoft; for example, SQL Server Enterprise Edition and Oracle Standard Edition One are broad price competitors. Standard Edition One was launched in October 2004. Since that launch Oracle says that over 75% of its sales have been to SME organisations with less than 500 employees, and that the majority of these sales have been through the indirect sales channel. Oracle announced the release of the Oracle XE database in 2005. This is a free version of the database for use in limited technical environments.

Database options

Oracle also sells a number of database options that provide enhanced functionality. These database options are used as a means of providing differentiated functionality and generating further revenues. *Figure 3* shows the main options, each of which is priced and licensed separately.



 Figure 3 Database options

Option	Purpose
Spatial	Geographic information systems functionality and location-based services
Label Security	Fine-grained security
Advanced Security	Encryption and authentication
Real Application Clusters (RAC)	Clustering facilities
Partitioning	Data partitioning
OLAP	Analytical facilities
Data Mining	Enhanced business intelligence

Source: Oracle

These database options are part of Oracle's attempt to maintain innovation and differentiation in the database market, and to generate incremental product revenues. The 'attach rate' of many of these options will progressively increase over time, with those focused on scalability, security and reliability likely to have the highest attach rates.

A key element of the Oracle database is its positioning with respect to grid computing. In this context, Oracle sometimes uses the term Enterprise Grid to emphasise the differences between its own architectural vision and the scientific grid projects like SETI@Home and Folding@Home. The Enterprise Grid allows the pooling of resources from multiple environments to provide a shared resource pool. The economic vision is that return on investment (ROI) can be achieved by increasing the utilisation of IT assets and allowing greater use of low-cost computing hardware, such as Intel-based blade servers. The Oracle RAC product is the founding technology for much of the Enterprise Grid vision. Our view is that the Oracle grid approach is still in the early stages of customer adoption, with initial projects and small-scale operational use in clients rather than customers adopting Enterprise Grid as their entire production database strategy. Despite recent strong growth, the proportion of Oracle database customers that use RAC is still below 15%.

In addition to the five main editions, there are in-memory, lightweight and embedded database technologies through TimesTen, Oracle Lite and Berkeley DB. These target environments where computing resources are scarce (for example, mobile) and where very high performance is needed. These embedded database products are likely to play an increasingly important role, both in terms of a standalone addressable market, but also for the technology that they will feed into the mainstream RDBMS product lines (for more information see [Life beyond the sleeping cat for Berkeley DB?](#)).

Oracle provides business intelligence facilities via three routes:

- functionality provided with the E-Business Suite



- functionality embedded into the database and application server products
- business intelligence applications.

Business intelligence is a focus area for Oracle and one where further product evolution will continue. A key part of the business intelligence strategy is the move towards delivering business intelligence from transactional systems, and away from batch-oriented data warehouse approaches. Much of this is enabled by application architecture and design in the business application products, combined with advances in database technology; for example, materialised views.

Middleware

Oracle has a range of products that it now classifies as part of its middleware product family. There have been major advancements in this product family since Thomas Kurian assumed leadership of the product. Some developments have been organic while others are based on acquisitions; for example, Collaxa for its BPEL support. The main product in the family is Oracle Application Server.

Like its database cousin, Oracle Fusion Middleware has many editions, including Enterprise Edition, Standard Edition, Standard Edition One and Java Edition. Each edition is assembled as a package of facilities taken from the overall capability mix. The overall list of facilities is shown in *Figure 4*.

Figure 4 **Application server functionality**

Component	Description
Portal	Enterprise portal infrastructure
Identity management	Single sign-on and authentication
Integration	Data and process integration and package adapters
BPEL	Process modelling and management
Business intelligence	OLAP and reporting facilities
Forms	Forms-based applications support
TopLink	Object-relational mapping facilities
JDeveloper	J2EE and web service development
OC4J	J2EE environment
Web cache	Caching for dynamic websites
Wireless	Mobilisation of infrastructure and applications

Source: Oracle

Oracle Application Server is a rapidly developing product. Since Thomas Kurian assumed leadership, there has been a renewed focus on industry-standard compliance rather than proprietary features, with the phrase 'Hot Pluggable' being used to describe the standards-based approach where middleware components can



interoperate together and with competing products. The other focus has been on bringing coherence and integration to the product. This latter focus is welcome and continued attention to these issues is needed. During 2007 and 2008 Oracle will have a continued investment focus on Fusion middleware, both for the market opportunity that it represents in itself and also for the role that it plays in enabling the Fusion applications strategy. The role of Fusion middleware in the Fusion application activity is to enable the move of application infrastructure functionality from each individual application into a common middleware services layer, saving the cost of development-equivalent functionality in each application product. It is a key building block for bringing the cost equation for Project Fusion into balance.

At an architectural level there are similarities with Oracle database in the focus on grid technologies. The middleware products are, largely speaking, able to be deployed in a grid environment, with the scalability and reliability advantages that are derived from this.

Fusion middleware is a crucial next-generation platform for Oracle. It provides many of the foundations for the future Oracle applications strategy, as well as a technology base for a wider technical evolution in the industry. The architectural goals for Fusion middleware are focused on two areas. Firstly, it aims to increase the flexibility of IT infrastructure. Secondly, it aims to reduce the cost of managing IT infrastructure. Fusion middleware is best considered as an evolution strategy rather than a product as such. The design aim is to produce a standards-based application platform that will support SOA-based applications, building on technologies such as J2EE, EJB, ESB and BPEL. Fusion middleware is an evolution of the previous middleware product strategy rather than a completely new venture, since existing application server products adhere to many aspects of the Fusion middleware vision. Integration of the various middleware components into a coherent middleware platform is a key development goal. We will be producing more detailed analysis on Fusion middleware as the product evolves and the vision is delivered.

Collaboration Suite

While some consider Collaboration Suite to be a component of Oracle Application Server, we consider it to be another set of applications. Elements of Collaboration Suite are based on the Steltor acquisition that Oracle made in 2002.

Collaboration Suite components

- Web Conferencing – this offers a web-based collaboration facility that allows for web-based presentation, interactive meetings and co-browsing.
- Content Management – this component, also known as Oracle Files, allows standard files to be stored, catalogued and indexed in the database. Files can then be accessed via a web interface, or alternatively through operating system facilities such as WebDAV. The acquisition of Stellent by Oracle in November 2006 for \$440 million gives Oracle a much greater range of content management facilities, and a significant content management customer base.



The strategy for the evolution of Stellent under Oracle ownership is progressing, with both standalone content management and content management functionality as part of wider technical infrastructure being an end goal.

- Email – this is a standards-based email product based on the Oracle technology stack. It offers a web mail client, as well as access through email clients such as Microsoft Outlook. There is specific support for Outlook via Oracle Connector for Outlook.
- Voicemail – this component integrates voicemail with the other elements of collaboration Suite; for example, by delivering voicemail as a sound file attachment to an email. Similarly, fax messages are delivered as graphic file attachments.
- Calendar – this component provides calendar facilities through three routes: a web client, a desktop client and a plug-in component for Microsoft Outlook. There are also synchronisation facilities for handheld computers, such as Pocket PCs or Palm devices, as well as SyncML devices such as smartphones.

Collaboration Suite positioning

Collaboration Suite is also designed with the Enterprise Grid vision in mind, inheriting part of this from the technology used to build it.

Collaboration Suite is an emerging product rather than a mature product. Oracle needs to focus on the following aspects when maturing the product: ease of installation, manageability, integration within the suite and scalability. Convincing large-scale users to migrate from alternative platforms will require demonstration of all of these capabilities.

Its biggest challenge is in competitive positioning against specialist solutions that offer functionality in fewer areas, but have strong brand recognition for them.

Services

Although Oracle is primarily a product company it also has a certain amount of services business.

Oracle Consulting is the implementation group within Oracle, providing services around both technology and business applications. The relative balance of technology and applications varies by country. Fixed-scope implementations are now more common than they were five years ago. The adoption of a business flow approach can be given credit for the increase in fixed-scope implementations. Oracle Consulting still offer services based around its technology. However, this is a much smaller proportion of consulting revenues than the contribution from applications-focused consulting. Oracle Consulting is now smaller than it was five years ago, in a conscious strategy by Oracle to allow more space in the overall economy for its partners.



Oracle University is the customer education group within Oracle. It provides training on the use of Oracle products to customers and partners. Training is delivered, either as classroom-based instructor-led training, at a customer site, or increasingly as e-learning programmes delivered via the Oracle iLearning product.

Oracle Support is the customer support organisation within Oracle, providing technical support to customers via phone, email and the Web. The severity of the problem encountered by the customer dictates the level of response, with up to 24x7 support being provided. Oracle provides consistent global support operations with common practices and procedures around the world.

Oracle On Demand provides application and technology management services to Oracle customers. It is available in two main permutations. The most comprehensive configuration is where Oracle provides software management and the actual hardware, with the hardware being hosted in the Oracle data centre in Austin, Texas. The other model is for the customer to provide and manage the hardware on their own or a partner's premises, with Oracle managing the application and/or technology over a remote VPN connection. In both of these scenarios Oracle charges a monthly fee dependent on the software being managed. The fee is in addition to the initial software purchase cost, and is also in addition to the standard product support fees.

Oracle also has a nascent capability in the broader IT services space, through the launch of its Linux support business in October 2006. This aims to offer Linux product support in the market in general, not only to those who buy other Oracle products. There are two underlying aims to this broader services thrust:

- to further encourage the adoption of Linux in the data centre, as a means of encouraging wider adoption of Oracle database and grid technologies
- to begin to build a wider services revenue stream.

Of these two objectives, the former is the most significant at the moment for Oracle.

Marketing strategy

Positioning

Finding a way to position Oracle in the industry is complex, since Oracle is a large and multi-faceted company. Oracle has traditionally seen combinations of IBM, SAP and Microsoft as its prime competition. IBM is seen as a strong competitor for the large infrastructure software market. However, its systems integration business drives revenues for Oracle technology and applications. SAP is primarily viewed as an application competitor, although it is now viewed as an infrastructure competitor with Netweaver. Interestingly, SAP is also a strong partner and drives database adoption, with a large volume of its customers running SAP on the Oracle database. Microsoft is an infrastructure competitor with .NET products and SQL Server, and is now a potential application market competitor. Again, Microsoft is a



strong partner for Oracle, with substantial revenues generated by Oracle database servers under Microsoft Windows.

Marketing

Oracle has been very successful in brand marketing, particularly in the last five years. A consistent brand identity has been created. The promotion and advertising strategy across the world has focused on consistency of execution, and has contributed greatly to the improved consistency of brand identity.

Oracle product marketing has been less successful than its brand marketing. The biggest challenges have been with new products such as Application Server or Collaboration Suite. Bringing together the diversity of components that now constitute Application Server has brought difficulty in establishing a clear and stable product identity. A particular challenge has been product positioning versus both niche competitors and platform players. An analogous difficulty has also been experienced around Collaboration Suite.

The Enterprise Grid has been an architectural and economic vision behind many Oracle campaigns. The emphasis from Oracle has been on reducing the overall cost of IT operations via a grid infrastructure. This campaign has found some resonance with customers who understand the simple economic and architectural vision. However, the grid strategy has yet to attain widespread adoption. A key challenge will be to persuade customers that the Oracle architectural vision of low cost computing is superior to the seemingly competing visions of other major IT companies; for example, IBM with On Demand or HP with Agility.

Another recent focus of Oracle marketing has been on customer ROI. Almost every marketing campaign will be accompanied by customer ROI case studies that demonstrate the financial return from Oracle-based projects. Oracle has also tried to emphasise its view on the total cost of ownership (TCO) advantages of its products over those of the competition. While ROI is a better focus than the previous 'featurism', it will still take time to convince customers of the veracity and independence of the figures. The focus on ROI is a common one for many vendors and customer scepticism is a generic rather than Oracle-specific issue.

Mid market

Oracle has re-established a focus on the mid market in 2005. Its technology focus has been on two areas: price and complexity. It has introduced Standard Edition and Standard Edition One versions of both database and application server products, priced keenly against lower-priced competition. It has also made a successful push towards reducing installation and management complexity. It is too early to tell definitely whether the push towards mid-market technology has been successful in generating new business, rather than substituting enterprise revenues. However, there is initial evidence to suggest that substitution is not occurring.



A specific version of E-Business Suite has been launched by Oracle to target the SME market – Oracle E-Business Suite Special Edition. Qualified channel partners rather than the Oracle sales teams sell this product. The product consists of a series of preconfigured software modules for financials, purchasing, inventory management, order management, manufacturing and salesforce automation, together with preconfigured business intelligence. Time will tell whether this product will drive Oracle application business in the mid market.

In addition, there is a strong track record of SMB sales in both JD Edwards and Siebel product lines, broadening the SMB market for Oracle.

Vertical markets

Historically, Oracle has oscillated between horizontal and vertical go-to-market approaches. At present, Oracle has largely taken a horizontal market approach. Its position has been that there are substantial commonalities in business processes across different markets, and that software should focus on the common processes rather than industry-specific differences. The acquisition of Retek is a signal that vertical market approaches are in fashion again. However, it is unclear exactly how the vertical focus will be instantiated in practice, in terms of sales and marketing organisations. We do not see vertical market approaches being adopted in all industry sectors. Instead, we see Oracle as having to focus on a small number of selected verticals, putting its resources behind these. Given the renewed focus on vertical markets we also feel that further M&A activity in the key markets is likely. The key markets are likely to be in telecommunications, public services, retail and financial services. We expect to see a lot of development in the Oracle industries approach in the future, both through M&A activity and organic change.

Another element of the Oracle vertical market approach has been the creation of solution maps or solution footprints. These show how Oracle products, together with those of ISVs, can be assembled and configured to meet specific industry needs. The inclusion of ISV applications in these footprints is a welcome move, acknowledging that the Oracle products alone do not cover every functional niche.

The Oracle strategy is to continue with sales of all of its application products. It intends to focus each product on different industries, depending on functional fit and the existing penetration of the products into that industry.

Sales strategy

Since the start of fiscal 2006, Oracle has divided the global sales organisation into two separate groups: an application business and a technology business. The technology sales organisation has long been the envy of many other companies, for its outcomes if not for its tactics. The application sales organisation is a merger of the sales organisations from Oracle, PeopleSoft and Siebel. The integration of these sales teams is bearing fruit, with organic growth being demonstrated in the aggregate applications business. Within each sales organisation there are also



specialist sales representatives who focus on a smaller set of products, such as Human Resource Management System (HRMS).

Channels and partners

The Oracle sales channel and its partner network has traditionally been viewed as less important than its direct sales organisation. It focuses on ISVs, systems integrators and resellers. However, the latter part of 2005 saw an increased focus on partners and channels, with recognition that they are a crucial part of Oracle's future business. In EMEA Oracle cites that 52% of its revenues are sold or fulfilled through partners, that there are 4,490 ISV partners, and 8,950 partners in total. These numbers exhibit positive growth over their equivalents in 2004.

The Oracle partner approach and its PeopleSoft equivalent were different in nature, with PeopleSoft focusing on a smaller number of partnerships than Oracle. Oracle had partnership levels, such as Certified Advantage Partner, Certified Partner and Member Partner, and the criteria needed to become a Member Partner were low. During the coming year, the Oracle and PeopleSoft programmes will progressively converge.

Avoidance of channel conflict was a key focus for Oracle in 2005. In prior years there has been a feeling in some partners that Oracle competed with them. 2005 saw changes, such as the Open Market Model, to discourage such competition. Such a perception is not healthy for Oracle. It will need consistent and disciplined management to ensure that relationships between Oracle and its partners develop strongly, and that partners can build effective businesses. In 2006 and 2007 there is a renewed focus on channel, with many new programmes being launched throughout fiscal 2007 that aim to improve channel revenues – both in absolute terms and as a proportion of the overall revenue mix.

Geography

Oracle is based in Redwood, California, and has a strong global presence. It has offices in more than 60 countries across the Americas, EMEA and Asia-Pacific. Its products are available in most major languages and its business applications support the legislative requirements of major countries.



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