

EVENT FLASH

Oracle Continues Expansion in the Supply Chain Management Application Market by Acquiring Demantra

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IN THIS EVENT FLASH

This IDC Flash examines Oracle Corp.'s acquisition of Demantra Inc., a supply chain management (SCM) application provider, and how the purchase will impact Oracle's position in the SCM application market. Furthermore, it highlights Oracle's product offering in the demand planning area and the inherent benefits to existing customers that come with this acquisition.

SITUATION OVERVIEW

The worldwide SCM market has picked up growth again, but a lot of SCM application vendors went through a difficult period in 2002–2004 and the bigger ERP vendors have taken advantage of the financial situation of the best-of-breed vendors. Oracle, for one, has gained marketshare in this area by acquisitions, and the last 15 months have included the acquisitions of Retek Inc., ProfitLogic Inc., and G-Log.

The purchase of Demantra, although smaller than the others, complements Oracle's solutions in demand-side planning as well as sales and operations planning processes. Demantra's Spectrum Suite offers demand planning, sales and operations planning, trade promotions planning and optimization, and retail store replenishment and planning. Demantra's focus group has been the consumer products industries, media and entertainment industry, as well as the medical devices industry and retail, with over 140 customers such as C&S Wholesale Grocers, McCain Foods, National Brands Ltd., Welch, Johnson & Johnson, and Wendy's. Most customers are U.S. based but around 30% of the revenue comes from overseas customers in Europe and Asia/Pacific. Demantra's R&D is based in Israel.

By Oracle's own admission the two existing product lines — the E-Business Suite Demand Planning module and the JD Edwards Demand Management Tools (originating from Numetrix) — are due for upgrades, to support increased levels of scalability as well as deeper and broader functionality. The Demantra acquisition will become a shortcut to this end. Especially the planning algorithms of Demantra's product (a Bayesian-Markov based forecasting model) are far superior to what is available in the Oracle modules, and as such among the best in the market.

The terms of the deal are undisclosed, but over its 10 years of existence Demantra has received around \$42 million in venture capital funding, so the sales price is expected to be at least of this magnitude.

FUTURE OUTLOOK

Around 75% of Demantra's customers are also Oracle applications customers — mostly of Oracle's JD Edwards suite — so they will benefit from this deal in the sense that Oracle will be developing standard integrations to their Demantra software. Existing customers of Oracle's demand planning module will eventually be offered a license exchange to a sub-set of the Demantra products.

All Demantra employees will be offered positions at Oracle, and Oracle will spend resources on integrating the Demantra products and the JD Edwards and E-Business Suite applications. Furthermore, Oracle will integrate Demantra's trade promotion planning and optimization tools with the promotion management module of the Siebel CRM suite.

The technical challenge of integrating yet another acquired product into the portfolio may seem minor to Oracle, which experiences this every time it acquires a new company. The sales side, however, could potentially prove more difficult as Demantra's products have been sold on terms different from Oracle's standard "module pricing," depending on the type of customer and solution — even on transaction-based terms. Nevertheless, Oracle has stated it will honor all existing contracts.

Demantra being a vertical specialist has also achieved "Powered By SAP NetWeaver" certification through the successful integration of the Demantra Business Process Platform with SAP NetWeaver Exchange Infrastructure (SAP NetWeaver XI) and a Business Package for SAP Enterprise Portal Business Process Platform, and for the minority of Demantra customers that happens to be SAP customers, this acquisition will be good news as well, since they will benefit from the support of the Oracle organization. In the longer term Oracle's commitment to keeping the SAP integration modules updated will be sustained, as Oracle plans to sell the Demantra suite both as a standalone offering and as part of an integrated demand and supply chain offering.

This acquisition will enhance Oracle's presence in the SCM application market and strengthen its position relative to SAP and Microsoft in the ERP — or full solution vendor market — as well as relative to vertical SCM application specialists. It is yet another step towards Oracle's goal of becoming the number 1 global vendor in applications, and in a message to its partners regarding the acquisition, Oracle commits to broadening the existing partnerships with ISVs (independent software vendors) and developers, as well as establishing new partnerships to complete its combined footprint.

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Filing Information: June 2006, IDC #LS52N, Volume: 1

European Supply Chain Management Applications: Event Flash