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INSIGHT

Oracle Showcases "Power of the Portfolio" in EMEA

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IDC OPINION

In a recent analyst summit held in Dubai, Oracle presented its progress in the Europe, Middle East, and Africa (EMEA) region. The tagline for the summit was "Power of the Portfolio" and it revolved around how Oracle's customers can leverage the 43 acquisitions that Oracle has made since 2004. Based on information gathered at the summit, IDC concludes the following:

- Oracle is changing the face of the ERP market as customers such as France Telecom, Morrisons, and Ricard Pernod are mixing best of breed products, such as Siebel, Retek, and iFlex, with ERP suites, such as E-Business Suite, JD Edwards, and PeopleSoft Enterprise, more aggressively than ever before. Oracle's commitment to existing applications via Application Unlimited and to cross application integration via Application Integration Architecture has convinced customers to make bold purchases that few would have predicted three years ago. Oracle's ability to successfully build packaged business processes across its applications portfolio appear paramount to its success in EMEA. After a softer third fiscal quarter in EMEA marked by deal slippage, Oracle must now demonstrate a continued momentum for application combos in the market.
- In the software as a service (SaaS) area, Oracle is making rapid advanced in CRM with its CRM On Demand product. As SaaS-enabled Fusion applications become generally available, Oracle's SaaS footprint will broaden further, initially in the CRM area. However, in other areas, such as talent management applications, IDC believes that Oracle must make a move, possibly via an acquisition, so as not to miss another booming SaaS segment.
- Oracle now has a broad, integrated, and competitive middleware offering built on a single platform. The addition of BEA's software to Oracle's middleware portfolio should further improve both brands of middleware.
- Oracle has built a strong region-wide presence in the Middle East and Africa, and is currently expanding its regional coverage further. IDC estimates that Middle East and Africa currently makes up 10%–15% of Oracle's EMEA revenues — a revenue stream larger than that of China.
- Oracle has made concrete plans for oil and gas and utilities industries and IDC expects the company to make progress despite SAP's European dominance in these industries. On the manufacturing side, IDC perceives a significant opportunity following the acquisition of JD Edwards, Demantra, and Agile. However, Oracle must make more noise around European manufacturing references and capabilities to beat strong local competition across Europe.

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IN THIS INSIGHT

This study analyzes and discusses announcements and information gathered at a recent analyst summit hosted by Oracle in Dubai and provides insights in a number of functional areas, including ERP, CRM, business intelligence, middleware, and databases, and industry areas such as manufacturing, oil and gas, and utilities.

SITUATION OVERVIEW

Review of a "Soft" Third Fiscal Quarter

Oracle recently reported earnings on its third fiscal quarter. Its global software growth was 21%, including currency-inflated foreign revenues and acquisitions, which temporarily disappointed investors; Oracle's share value declined 8% in a single day (stock has since fully recovered from this decline). The EMEA region saw an applications license growth of only 6% in constant currencies, while databases and middleware saw an 11% license growth.

Oracle attributed most of the softness to deal slippage both inside EMEA and worldwide. The majority of slipped deals were closed in March — i.e. fiscal 4Q. While the U.S. credit crisis affects financial services and to a lesser extent retail in Europe, Oracle sees no weakening of its sales pipeline in Europe in other sectors. Furthermore, financial services continue to buy packaged software with spending simply shifting from a revenue orientation (e.g., CRM solutions) to an efficiency orientation (e.g., core banking and performance management solutions). Therefore, the overall sales pipeline for Europe remains unweakened.

As Oracle's coverage expands into more and more software areas and geographical markets and as the market for packaged software matures, GDP growth becomes the best predictor of Oracle's revenue performance. Consequently, the large continental European markets are likely to see relatively slow growth, Eastern Europe will perform significantly better, while the former CIS and Middle East and Africa will continue to see very high growth.

Streamlining and Consolidating Go-to-Market in Europe

Oracle's broadened portfolio has required the company to rethink its go-to-market strategy in Europe. It has abandoned country P&Ls as meaningful measures of success, because customers act as multinationals and because the larger portfolio has required specialized regional teams. Instead, Oracle focuses mostly on regional results by product and by industry. In its highest aggregation of performance measurement, Oracle measures performance for Western European technology products, Western European application products, Central and Eastern European technology and application products, and Middle Eastern and African technology and application products.

To stay competitive against smaller, more specialized vendors, Oracle manages acquired businesses through specialized, regional teams, for example for CRM, for enterprise performance management, and for retail applications. However, to avoid multiple account representatives for larger customers, Oracle is re-implementing a key account director position to bridge the customer decision maker and the specialized sales teams.

On the partnering side, Oracle's current priority in EMEA is to further align individual systems integrators to specific industries. One example of this industry alignment are 40 Accelerate industry solutions for small and midsize businesses that are now available in EMEA. IDC estimates that Oracle's channels and alliances organization in EMEA, headed by Stein Surlein, has more than 500 employees supporting the 11,100 Oracle partners in EMEA. Roughly 10% of these are highly committed Certified Advantage or Certified partners, while the rest are standard Open Partner Network members. According the IDC's estimates, approximately half of the 11,100 partners are ISV partners, while the rest are channel and services partners.

Applications Strategy on the Road to Fusion Applications

During the summit, Oracle clarified its vision for Fusion Applications. IDC summarizes Oracle's application strategy in the following bullet points:

- *Applications Unlimited* continues. A key part of Oracle's application strategy is to ensure not only continuous support for acquired products but also new functionality and innovation in the existing product lines. On the slate for 2008 are a heap of new product releases for the existing products lines, including E-Business Suite 12.1, PeopleSoft Enterprise 9.1, Siebel 8.1, JDE EntepriseOne 9.0, JDE World A9.1.2, CRM On Demand 16, Oracle Demantra 7.2, Oracle G-Log 6.0, Oracle Agile, Oracle Retek, and Oracle Portal

- *Application Integration Architecture* (AIA) represents Oracle's strategy to tie its product portfolio together to support business processes spanning different applications. AIA leverages Oracle Fusion Middleware and services to further cement Fusion Middleware as the integration foundation for all Oracle applications. Oracle's AIA initiative is described in greater detail below.

- New *non-core ERP and CRM Fusion applications* will be the first next-generation Fusion applications to appear. The applications will appear around the edges of the traditional enterprise applications. The three first Fusion applications that are planned for 2008 are related to CRM and called Sales Prospector, Sales Campaign, and Sales Library.

- A *Fusion application suite* will eventually be released. Oracle reiterated that while a Fusion application suite would feature some code-reuse for mature features such as general ledger, the new suite will be based on a complete new architecture to meet emerging user requirements around service architecture, consistent and rich user interface, software as a service readiness, embedded analytics and workflow, and centralized security administration.

Tying the Pieces Together: Application Integration Architecture

Oracle's Application Integration Architecture (AIA) is essentially a response from Oracle to customers' need for pre-built standard integration, which includes a common object model, common semantics, standards-based middleware, prebuilt integration packs, and foundation packs, along with a reference architecture.

With AIA, Oracle aspires to make product combinations more valuable and more predictable for its customers. Indeed, Oracle has started to see customers buying combinations of distinct Oracle products to meet overall business needs. Examples of such recent combined purchases in Europe include:

- Morrisons (retailer, U.K.) bought a combination of Retek, E-Business Suite and Siebel CRM, along with Oracle Fusion Middleware (specifically Oracle SOA Suite and Oracle Identity Management) and Oracle Database.
- AIB (bank, Ireland) bought Oracle Financial Services (formerly iFlex), Hyperion, and PeopleSoft Enterprise.
- A European bank bought Flexcube and Oracle Database.
- British Telecom bought E-Business Suite, Hyperion, Portal, Fusion Middleware, Oracle Database, and RAC.
- France Telecom bought E-Business Suite, PeopleSoft Enterprise HCM, Portal, Oracle Database, Data Warehouse, and RAC.
- A European manufacturer and distributor bought Retek, Oracle Business Intelligence, Siebel, SOA Suite, and JD Edwards.
- Pernod Ricard (beverage maker, France) bought JD Edwards, PeopleSoft Enterprise HCM, Hyperion, Siebel CRM, Oracle DB, and Oracle Business Intelligence.

The two main components of AIA are process integration packs and foundation packs:

- *Process integration packs* are pre-built, packaged integrations between specific Oracle applications to support a certain business process. Already available examples include Opportunity to Quote (from CRM On-Demand to E-Business Suite), Order to Cash (from Siebel CRM to E-Business Suite), and Communications Order to Bill (from Siebel CRM to Oracle Communications).
- *Foundation pack* is a predefined, application independent object and service model that requires Oracle SOA Suite. It defines key objects such as a shipment receipt, purchase order, or price list. Version 2 contains 25 so-called enterprise business objects and 240 service operations.

Most of the 15 process integration packs available today connect acquired best of breed products with either E-Business Suite or J.D.Edwards. Oracle currently has more than 200 requests for process integration packs and is looking for codevelopers and providers of repeatable AIA services in the systems integration community.

Both process integration packs and foundation packs are priced per CPU, but Oracle does not expect AIA will become a significant revenue stream of its own right. Rather, Oracle's intention with AIA is to increase applications and Fusion middleware sales. Examples of AIA customers include KPN (Netherlands), Rackable Systems (U.S.) and Schneider (U.S.).

Moving the CRM Applications Portfolio to the Next Level

The current Siebel version 8.0 represents a major product release. This version offers a new way for users to execute tasks through a task-based user interface, with embedded real-time analytics, and improved data quality management. This new version also provides SOA Web service capabilities to allow for composite applications built on top of Siebel. Industries continue to be a major focus area for Siebel, with 12 target verticals including public sector, communications and media, finance, life sciences, retail, high technology, energy, and automotive. Siebel 8.0 adds new industry functionality such as management of reserves, coverage, and invoicing for insurance providers.

In parallel, Oracle has made significant investments in its CRM on demand offering and has more than doubled the associated spend on research and development, customer services, direct sales, and marketing. Release cycles have been frequent, with Oracle CRM On Demand R15 following only six months after the R14. R15 of CRM On Demand adds Web 2.0 capabilities for sales professionals as well as improved mobile and offline usage (BlackBerry, Portlets, Browser). Oracle plans to further integrate its Siebel on-premises and CRM on demand offerings with upcoming process integration packs as part of the application integration architecture.

An Update on Oracle's Approach to Software as a Service

CRM On Demand is currently the company's only true SaaS offering, though its technology platform is widely used by SaaS players and Oracle also offers services we classify as outsourcing under the "on demand" banner. When the three new Fusion applications, previewed at Oracle OpenWorld in November 2007 in San Francisco, are launched later this year, they will expand the portfolio but will remain in the CRM domain.

Oracle says that CRM On Demand has seen strong growth in Europe from a very small base, and though it expects growth to tail off, this is more a reflection of the growing size of the denominator than the change in the numerator. Oracle announced that it would be offering two new options for CRM On Demand — @customer and @partner. The @customer option offers customers a version of CRM On Demand to run in-house infrastructure (subject to tight system specifications from Oracle) while managed and supported remotely by Oracle.

This is a small step away from the "SaaS in a box" of Google's enterprise search appliance. Indeed, Oracle said it was considering providing @customer as a sealed box with just power and network connectors. In either case, it is effectively an SaaS system that can sit behind the customer's firewall. This offsets some of the most important objections to SaaS (in particular, location of data, which is an issue in some European countries and sectors) but still offers the low management overheads at the expense of a small rack space in the server room.

The other option, @partner, is aimed at providing a system that partners can host on behalf of their customers, while Oracle still monitors and manages the system. One key use of this is for geographies where national and international communications infrastructures are less reliable, so customers need a local hosting provider. Oracle seems reluctant to let partners "verticalize" the @partner version, as this will limit

Oracle's ability to monitor and manage the system. However, we suspect that this is exactly what a number of partners will want to do.

Overall, the similarity of implementation offerings between Oracle's CRM On Demand and Microsoft Dynamics CRM is very striking. Both have SaaS, partner hosted and on-premise versions with the same code-base. However, Microsoft is not going to remotely manage on-premise or partner-hosted versions.

Middleware and Database Developments

This Oracle analyst summit touched briefly on the Oracle Database itself — unlike other Oracle events where the Oracle Database has been the center of the show. And with the limited time available this seemed like a good choice — no analyst can be unaware of the capabilities of Oracle Database 11g and Oracle's market leadership in this area. Instead, it was made clear that the database including the heavily marketed Real Application Clusters (RAC) is one of the key components of the Oracle technology stack.

The technology track at the analyst event focused on Oracle's Fusion Middleware offering. Middleware is a broad term at Oracle, as it includes everything from application server and SOA over Java development tools, enterprise content management, and identity management to business intelligence and enterprise performance management. Oracle's middleware vision centers on an integrated environment, and with Oracle Fusion Middleware Oracle now offers a broad suite of middleware and business intelligence software. However, the strength of the offering today — that it is built on one single platform — could prove to be a challenge in the future, as the Oracle portfolio continues to grow. Nevertheless, with Oracle Fusion Middleware, Oracle offers a complete and integrated middleware suite enabling organizations to bring together application development, integration, process automation and management, and content management along with business intelligence on a single platform, managed through a common console.

Within the middleware stack, business intelligence and enterprise performance management constitute a key focus area for Oracle. A dedicated business intelligence sales force has been educated and is now in place. Oracle is also developing centers of expertise with both IBM and Accenture — a set-up that wasn't possible when Hyperion was on its own. Main themes for the continued development of the software itself include predictive analytics, such as statistical simulation and forecasting as well as transactional intelligence (the embedding of analytics in transaction systems). In short, Oracle is determined to make the most of its Hyperion acquisition and leverage Hyperion expertise and software across the organization.

Oracle in the Middle East and Africa

In the Middle East and Africa (MEA), Oracle's numbers speak for themselves. The revenue contribution of the region is larger than that of China. IDC estimates that roughly 10%–15% of Oracle's EMEA revenues come out of MEA. Oracle has seen stable annual growth of over 30% over recent years, which is impressive considering that Oracle's string of acquisitions has added almost no additional revenue in MEA. In other words, the growth is purely organic. Finally, IDC estimates that 60% of Oracle MEA revenues actually come out of the 55 plus countries of Africa — a continent all but ignored by even large IT vendors.

Oracle has a very solid foothold in the region with over 1,500 employees and 1,200 partners serving around 3,000 customers in 60 countries throughout the region. Oracle's ability to provide one complete, good-enough software stack from database over middleware to applications appeals to many regional customers that are looking first and foremost to keep things simple. Many customers are looking to build and implement a complete enterprise IT infrastructure in three months.

The fact that many regional organizations are unburdened by legacy infrastructure creates demands and approaches that are very progressive, also compared to Western Europe. The entire government of Dubai runs on a single Oracle instance, a level of consolidation and consistency not yet achievable for most governmental institutions in more traditional IT markets. Key MEA verticals for Oracle are government, banking, telecommunications, air transportation, real estate, retail, and utilities/oil and gas.

Looking ahead, Oracle's key growth inhibitor in this booming region is a lack of skilled labor to recruit. The MEA labor markets are relatively open but Western European contractors are most often too expensive for local conditions. The price of foreign labor from lower cost countries such as India has increased significantly, so long term approaches such as local training and education appear most viable.

Review of Oracle's Vertical Industries Approach

Traditionally, Oracle has pursued a go-to-market strategy based on a technology-oriented approach and, today, the company is largely perceived as a technology provider, especially in Europe.

However, over the last few years the company has fostered a new vertical-industry orientation and has put in place an organization based on industry-specific business units that are able to reach a higher level of vertical-industry focus. Internally, Oracle has focused teams that bring all the components of the Oracle portfolio together as end-to-end solutions for the customer. Those teams are grouped in industry business units.

In terms of single verticals, Oracle targets 22 industries that span from aerospace to communications, from engineering and construction to financial services, from oil and gas to travel and transportation.

For four of those industries — retail, financial services, utilities, and communications — Oracle has recently formed Global Industry Business units (GBUs) out of acquired industry-specific applications companies.

These GBUs, which work in a coordinated fashion with the IBU's, were formed to keep the sales, marketing, and development resources from the acquisitions together, and to maintain their entrepreneurial spirit.

Review of Oracle in the Utilities Business

Oracle's commitment to the utilities industry is unquestionable. Oracle's application strategy, encompassing Applications Unlimited and Application Integration Architecture and Fusion, is promising, and the company has certainly demonstrated a willingness to provide additional value for customers of existing product lines, starting to share best-of-breed components among the existing products, and moving towards a native SOA environment. In addition, Oracle has stated that its applications will continue to be compatible with other middleware. This is good news for utilities that have already invested time and money in enterprise application integration (EAI). This also gives more flexibility to utilities interested in selecting some applications from the Oracle suite without committing to the entire footprint.

Review of Oracle in the Oil and Gas Business

In the past, Oracle addressed the oil and gas business with a horizontal approach, but as acquisitions went forward it decided to resume a more vertical approach. Furthermore, its acquisition strengthened its oil and gas footprint, with Siebel adding ENI and BP to its customer list, JD Edwards adding Chevron, and Hyperion adding Schulmberger, to name a few examples. A major focus in EMEA is to target national oil companies (NOC), while Europe pushes for the super majors. Oracle actively leverages relations with IT departments or IT companies within the NOCs to create a partnership allowing the IT company to deliver solutions, not just Oracle software products. An example of this type of partnership is Oracle's collaboration with ENOC in the Middle East.

From an applications point of view, the main areas of focus are the so-called "Digital Oilfield" for upstream, and the "Refinery of the Future" for downstream. In both cases, the key strategy is the definition of standards allowing a simplification of data management, communication, and integration between operational systems and a portfolio of tools for decision-making and risk analysis.

Review of Oracle's Value in the Manufacturing Industry

Improving speed of business execution is a key goal for any manufacturing enterprise today as a way to win over competition. Indeed, currently available IT applications support such a goal, enabling more collaboration among organizational silos and the value chain, as well as providing in-context information at the fingertips of employees.

However, the majority of companies need time to accelerate speed of business execution, as this requires a thorough transformation of traditional internal information systems. In effect, a number of technology shortcomings — including the co-existence of heterogeneous systems, point-to-point integration, and proprietary technologies — are hindering this transformation process.

In a context of shrinking IT budgets, the majority of manufacturing CIOs do not have enough resources to support large IT transformational processes and consider it too complex, expensive, and risky to execute.

Oracle believes that its current breadth of solution portfolio, based on the acquisition of a number of best of breed industry applications, can bring value to its manufacturing customers particularly stressed by the complexity of their legacy systems, through:

- Simplifying the integration process
- Leveraging deep industry coverage offered by Oracle's best of breed applications
- Avoiding overhead complexities and costs connected to the integration and coordination of third-party vendors
- Providing more commitment to customer success with broader solution coverage

FUTURE OUTLOOK

Oracle has demonstrated an impressive ability to cross sell products across its product portfolio to customers, such as France Telecom, KPN, and Ricard Pernod. These companies are aggressively mixing best of breed products, such as Siebel, Retek, and Oracle Financial Services (formerly iFlex), with ERP suites, such as E-Business Suite, JD Edwards, and PeopleSoft Enterprise, in order to automate broader flows of business processes. The two key ingredients to this success are Oracle's commitment to existing applications via Application Unlimited and to cross application integration via Application Integration Architecture. Much will depend on Oracle's ability to successfully build and deliver packaged business processes across its applications portfolio. After a soft third fiscal quarter in EMEA marked by deal slippage, Oracle must now demonstrate a continued momentum for application combos in the market.

Europe Wants SaaS — Will Oracle Supply It?

IDC surveys have shown that European users are receptive to using SaaS in ERP systems. Oracle has no current SaaS-based offerings in the ERP domain, but IDC expects that to change.

Oracle is in the throes of developing its Fusion applications, which will initially supplement, then, subject to user acceptance and adoption, replace much of its current business applications portfolio. Fusion applications have been engineered to be SaaS ready, unlike the existing portfolio of business applications. Quasi-religious debates over multitenanting aside, it is clear that applications not built for SaaS are very hard to offer as SaaS.

We do not expect any more than a tiny minority of enterprise customers to throw out working business systems just to adopt SaaS. But as Fusion applications are adopted, using SaaS as a delivery model becomes an option, and one that will be attractive as a substitute for applications-hosting services.

Before the full portfolio of Fusion is launched, we expect to see more non-core ERP and CRM Fusion applications — applications that are targeted at a specific business problem and that complement rather than replace existing business applications. We believe that these will give Oracle a far wider SaaS footprint in the ERP space than the Fusion Application Suite, at least for the foreseeable future.

One area where Oracle could move faster than this is on the "hot" area of talent management. IDC would not be surprised if Oracle used an acquisition to get into this area, acquiring an SaaS talent management application vendor such as Taleo.

Utilities and Oil and Gas Industry

As already mentioned, Oracle's commitment to develop further in these industries is unquestionable.

Customer information system (CIS) and customer relationship management (CRM) products will be at the core of its industry offerings, along with Oracle Utilities Meter Data Management (MDM), derived from the Lodestar acquisition.

In the European market, Oracle will have to cope with SAP's market leadership, even if good opportunities can be foreseen. Oracle is expected to have major success in the Middle East and Africa if it leverages its historical local presence and good ISV partnerships in these markets.

Manufacturing Industry: Future Outlook

Oracle provides software solutions to most of the larger companies in industries such as aerospace, automotive, chemicals, consumer products, high-tech, and industrial manufacturing. IDC estimates that the manufacturing sector accounts for almost 20% of Oracle's total business in Europe.

Nonetheless, IDC's impression is that Oracle does not significantly communicate or leverage enough on its manufacturing references or industry solutions, and we believe they should make more noise around manufacturing capabilities.

Oracle's manufacturing-specific footprint has gotten stronger over recent years, as the company has made several acquisitions that reinforced its ability to tackle the industry. Further, looking from an industry perspective, we believe Oracle needs to leverage these acquisitions further.

JD Edwards (acquired via the 2005 PeopleSoft acquisition) is among the most interesting manufacturing-focused acquisitions made by Oracle. JD Edwards strengthened Oracle's presence as an ERP vendor to the manufacturing industry, while the most recent Demantra acquisition has been a good opportunity to reinforce Oracle's supply chain management footprint in industries such as CPG, fashion, and consumer durables.

However, it is thanks to the most recent 2007 acquisition of Agile Software, one of the primary global providers of PLM applications, that the company is setting higher expectations in terms of European manufacturing industry penetration, particularly in sectors such as automotive, aerospace and defence, and electronics.

Although the majority of vertical messages coming from Oracle refer to non-manufacturing industries, such as retail, financial services, communication, and utilities, IDC believes that Oracle is progressively willing to play a more relevant role in the European manufacturing industry.

This path is bumpy as competition in Europe is strong; nonetheless, IDC believes that the breadth and depth of Oracle's current solution portfolio can further strengthen the company's market share in the European the manufacturing industry.

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