

VENDOR NEEDS AND STRATEGIES

Oracle Services Vendor Profile

Matt Healey

IDC OPINION

Oracle's Global Customer Services offerings correspond to product offerings in content and offer a wide array of options for customers of database, application, or infrastructure software. Services revenue corresponds to product revenue in its split and has maintained a steady growth rate and represented roughly 20% of total revenue over the past three years. IDC believes that Oracle has a solid base in product support, with the potential to excel in emerging areas of IT focus, such as service-oriented architecture (SOA), business intelligence, master data management, and service management. In addition:

- Oracle will continue to realize Support Services revenue associated with new product sales. It will maintain its service contracts for existing customers and focus on upselling and cross-selling Advanced Customer Services, Support Services, Oracle On Demand, and Oracle University to its installed base.
 - Oracle has the opportunity to develop significant expertise in emerging areas, and hence derive more significant revenue beyond product support.
 - Oracle's commitment to automated and preventative support makes the support organization more profitable and makes many routine support tasks such as patch distribution much less time consuming and costly for both Oracle and its customers, thereby potentially increasing customer satisfaction.
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IN THIS STUDY

This study analyzes the Global Customer Support group within Oracle's Global Customer Services organization. The study focuses on the service offerings, financial performance, and marketing strategy for Support Services.

SITUATION OVERVIEW

Oracle Corp. has established a dominant position in the software world through a strong market position for the products it developed over the last several years, as well as many (approximately 40+) recent acquisitions. Product groups, as recognized by IDC, include applications development and deployment (AD&D), primarily consisting of database products and related tools; applications (Oracle's ERP, CRM, supply chain, and other application products); and system infrastructure software (in Oracle's case, application servers, SOA tools, and other middleware). Figure 1 depicts the breakdown of product revenue for Oracle, displaying clearly that AD&D contributes the most revenue of any product line, followed by Oracle applications. Oracle middleware (systems infrastructure software) provides a relatively small contribution.

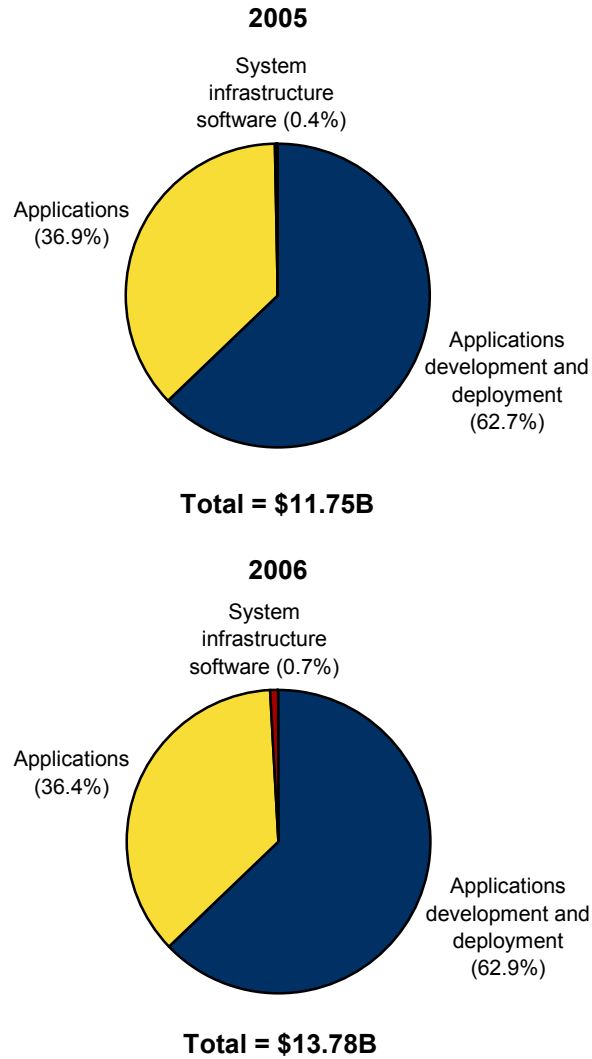
In terms of support services, Oracle offers an array of options, including technology and applications support, On Demand, Advanced Customer Services, and educational services. These offerings span product lines, customer size, and industry. The growth of these service offerings has been outpaced by Oracle's growth in software and has remained strong through the company's acquisitions.

Figure 2 reveals that database (AD&D) products still represent the greatest amount of revenue for Oracle, while applications revenue is expanding. Table 1 reinforces this conclusion, while showing that middleware is the fastest-growing sector of Oracle's portfolio of products.

Note: Revenue figures appearing in this study are adjusted by any acquisitions made during the years represented.

FIGURE 1

Oracle Software Revenue Share by Product Type, 2005 and 2006



Notes:

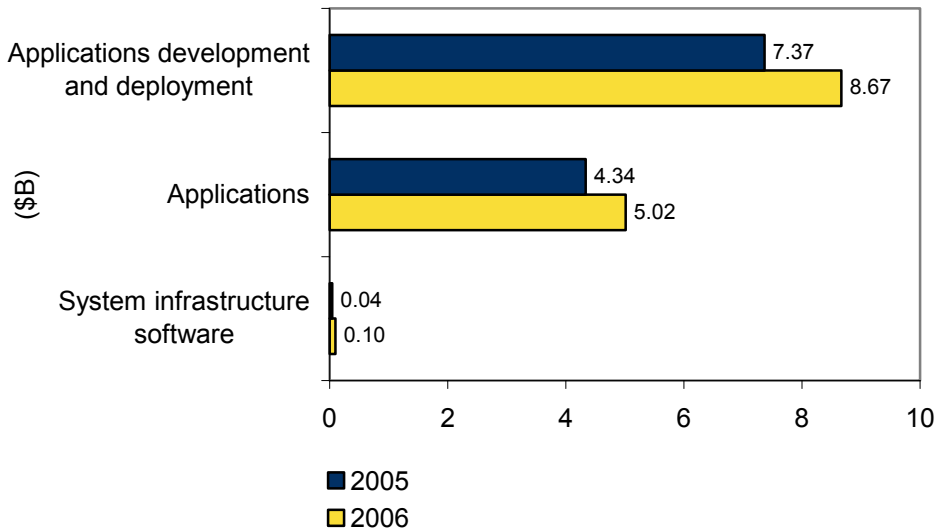
Revenue estimates are for calendar years, not Oracle's fiscal year.

Revenue estimates have been "backcast" to account for acquisitions.

Source: IDC, 2007

FIGURE 2

Oracle Software Revenue by Product Type, 2005 and 2006



Notes:

Revenue estimates are for calendar years, not Oracle's fiscal year.
 Revenue estimates have been backcast to account for acquisitions.

Source: IDC, 2007

TABLE 1

Oracle Software Revenue by Product Type, 2005 and 2006 (\$M)

	2005	2006	2005-2006 Growth (%)
Applications development and deployment	7,368	8,668	17.6
Applications	4,336	5,016	15.7
System infrastructure software	43	98	128.4
Total	11,747	13,781	17.3

Note: Revenue figures are adjusted to reflect acquisitions.

Source: IDC, 2007

Oracle delineates its services-based businesses as follows:

- ☒ **Oracle Support Services:** These are an array of options for supporting and maximizing the performance of Oracle's products. The portfolio of services includes access to info. bases; specifications for training, compliance, and ITIL-compatible services; and traditional, multichannel support. Further discussion of the specifics of Oracle Support Services follows.

- ☒ **Oracle Advanced Customer Services:** This is a global business unit within Oracle Support focusing exclusively on the operational improvement of Oracle customer environments. The company provides expertise in supporting the Oracle software stack through a strategic relationship between Oracle and the customer. Oracle Advanced Customer Services provides the service offerings listed in Figure 3.

- ☒ **Oracle On Demand (managed services):** Oracle On Demand–managed applications provide industry and sector specialization run on dedicated Oracle infrastructure. Customers own the software and rely on Oracle to manage the software, technology, and infrastructure on their behalf. Service delivery is accomplished using ITIL-based processes, tooling, and automation designed for Oracle application and technology customers. On Demand customers are assured that their software delivery capabilities are comprehensive and measurable and can be easily integrated with their own or partners' processes, including the following core service areas:
 - ☐ **Infrastructure management:** Infrastructure management involves providing, managing, and maintaining the hardware, network connections, and facilities for customers from Oracle's Austin datacenter. The datacenter uses Oracle grid technologies and Linux platforms to help ensure reliability.

 - ☐ **Service-level management:** Oracle provides a service desk and escalation process and is accountable for meeting service levels and for measuring and reporting results directly and through customer portals.

 - ☐ **Security management:** Security management involves managing the physical, logical, and access security tools, processes, and precautions to protect the privacy and security of customer data and solutions. With SAS 70 Type II–certified and –audited processes in the Austin datacenter, customers can leverage Oracle's compliance measures to support their own compliance needs.

 - ☐ **Software management:** Through a closed-loop process, customer problems are solved, and root-cause analysis is used to help avoid problems altogether. Further, to keep the customer's enterprise software patched and up to date, Oracle introduces change on an incremental basis, using assessments, periodic maintenance plans, and the Oracle grid.

 - ☐ **IT governance:** A Service Delivery Manager works with customers to resolve problems, plan and execute changes, and keep the customers' IT solutions aligned with their business.

- ☒ **Oracle Consulting:** This is an 11,000-consultant organization that serves Oracle customers worldwide. Specialties include:
 - ☐ **Oracle Technology Consulting:** A service focused on aiding customers in taking full advantage of their Oracle architecture; focus areas include grid computing, SOA, business intelligence, integration, security, and master data management
 - ☐ **Oracle Applications Consulting:** A service to implement or upgrade Oracle applications and optimize the business processes they support; included in this service are Application Solution Centers to host the implementation or to upgrade to take advantage of Oracle resources and reduce time to implementation
 - ☐ **Oracle Consulting Partner Services:** A service to match the needs of Oracle customers with an appropriate partner, be it for a software solution or for specialized consulting services

- ☒ **Oracle University:** Oracle offers training on all of its products. This training is geared toward audiences ranging from technology practitioners to business users. Educational content is delivered via instructor-led training at Oracle training centers or onsite; live, Web-based instruction; and CD-ROM-based course material. Certifications are offered in six Oracle Database areas, four middleware areas, 16 Oracle Applications areas, and two Linux areas. Customers may attain certification at the associate, professional, or master level.

FIGURE 3

Overview of Oracle Advanced Customer Services

	Maximize System Availability	Accelerate Technology Adoption	Reduce Change Related Costs and Risks	Simplify Support Account Management	Optimize System Performance	Faster Problem Resolution
Solution Support Center	•	•	•	•	•	•
Assisted Services	•	•	•		•	
Upgrade Management Services	•	•	•			
Business Critical Assistance	•			•	•	
Technical Account Management		•	•	•		
Application Expert Services		•	•		•	
Priority Service				•		•
Advanced Support Assistance				•		

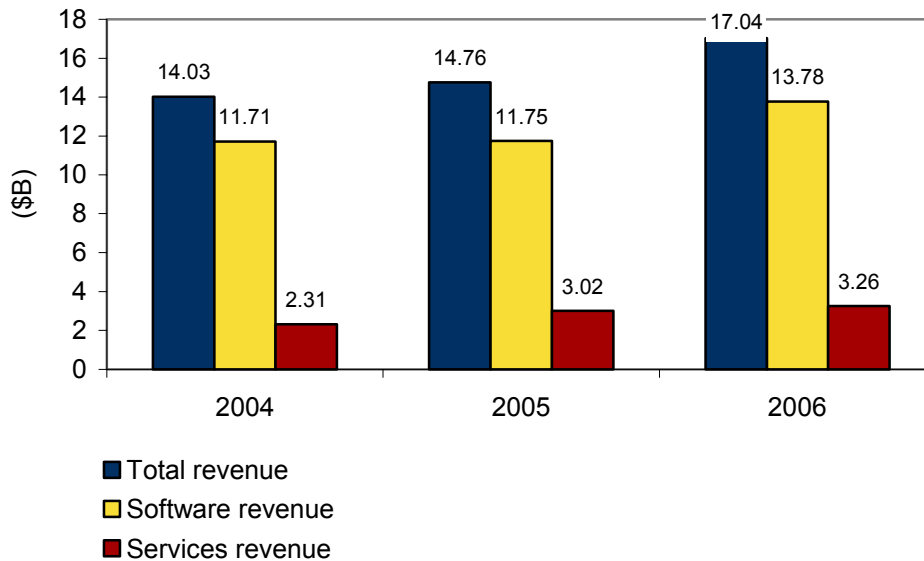
Source: Oracle, 2007

Professional services remain an important part of software sales negotiations. Oracle expects larger enterprises purchasing applications to engage for professional services minimally for implementation. The company sees potential growth, however, in technology consulting. Many enterprises of varying size are embracing advanced computing concepts such as SOA, grid computing, and business process optimization. By offering Oracle-related expertise in advanced computing areas, Oracle gives customers the opportunity not only to move forward but to do so while protecting their current investment in Oracle products.

Oracle has always developed its own definition of best practice, which it then offers to its customers. In addition, the company has taken a bold step related to its rivalry with Microsoft. Oracle offers full support of Enterprise Linux, which some consider an alternative to Microsoft technology. Oracle has contributed significantly to the GNU Linux kernel and offers Oracle Unbreakable Linux, designed to be a low-cost Linux support offering as compared with other vendors' offerings. Figure 4 provides an overview of Oracle's revenue broken down by services and software.

FIGURE 4

Oracle Software and Services Revenue, 2004–2006



Notes:

Revenue estimates are for calendar years, not Oracle's fiscal year.
 Revenue estimates have been backcast to account for acquisitions.

Source: IDC, 2007

Oracle Support Services Offerings

Oracle has clearly developed a leading understanding of intellectual capital as it applies to support. The body of knowledge and the understanding of any particular problem are increased by an order of magnitude when exposed to a community that is likely to have encountered the problem before. Oracle offers knowledge bases of frequently asked questions as well as forums connecting common users. Oracle MetaLink is a support portal available to customers of Oracle products. Oracle Advanced Customer Services provides continuous operational optimization for Support customers. Separate portals exist for PeopleSoft and Siebel users, and for users of other acquired products; however, Oracle is working to complete a unification of all customer portals.

Online support options also lower support costs for Oracle, and the company posts critical path updates to products and security alerts on its Web site. Its Advisor Webcast program delivers expertise via Oracle Web Conferencing technology.

Table 2 outlines Oracle Support Services offerings and products.

TABLE 2

Oracle Support Product and Service Offerings

Program	Feature Highlights
Premier Support	<p>Premier Support is Oracle's baseline support package. The offering includes:</p> <ul style="list-style-type: none"> • Product enhancements and updates • Automated upgrades • Collaborative support • Oracle MetaLink • Automated support tools • Customer forums • Product patches • Multivendor support
Lifetime Support	<p>To assure support of legacy products, Oracle has established Lifetime Support. Options include increased duration of support coverage.</p>
Extended Support	<p>Premier Support expires at different times for different Oracle products (including acquired products). Once Premier Support expires, Extended Support is available for some products. Like Premier Support, Extended Support's duration differs by product line, but it is generally available for three years past the expiration of Premier Support.</p> <p>Extended Support includes program updates, fixes, security alerts, and critical patch updates; tax, legal, and regulatory updates; upgrade scripts; major product and technology releases, which include general maintenance releases, selected functionality releases, and documentation updates; assistance with service requests 24 hours per day, 7 days per week; access to Oracle MetaLink, Customer Connection, SupportWeb, or WebSRTS (24 x 7, Web-based customer support systems), including the ability to log service requests online; and nontechnical customer service during normal business hours.</p>

TABLE 2**Oracle Support Product and Service Offerings**

Program	Feature Highlights
Sustaining Support	Sustaining Support is available after Premier Support or Extended Support expires and includes all support available in Extended Support, with the exception of new program updates, fixes, security alerts, and critical patch updates; new tax, legal, and regulatory updates; new upgrade scripts; certification with new third-party products/versions; and 24-hour commitment and response guidelines for Severity 1 service requests.
Oracle Advanced Customer Services	This global business unit focuses on continual operational improvement for Oracle environments.
Oracle Priority Service	Customers choosing this option are provided with a Priority Service Manager and receive a higher prioritization of their service requests through the escalation process.
Oracle Advanced Support Assistance	This option offers customers a Service Delivery Manager versed in Oracle's best practices to provide ongoing management of Oracle-related IT projects and resource coordination.
Oracle Business Critical Assistance	In addition to a Service Delivery Manager, this option offers a Service Delivery Engineer who is an expert in Oracle technical issues and familiar with the customer-specific Oracle environment. The engineer can help provide risk mitigation and problem resolution.
Oracle Solution Support Center	The Oracle Solution Support Center is staffed with engineers who have expertise in each customer's Oracle environment and vertical industry. These engineers work to optimize the performance of the Oracle environment and provide ongoing services management.
Oracle Assisted Services	These specialized services are available on an as-needed basis. Services include ITIL/services management support, performance assessment and tuning, disaster planning and recovery, production DBA support, automated "HealthChecks," installation and upgrade advice and assistance, problem reproduction, functional and load testing, patch management, and SAP integration.
Oracle Unbreakable Linux	This service provides support for any Red Hat Enterprise or new Linux user. There are three levels of Linux support to choose from: <ul style="list-style-type: none"> • Network: Software, including updates • Basic: 24 x 7 global support and complete Linux server life-cycle management • Premier: 24 x 7 global support, complete Linux server life-cycle management, backports, and Oracle Lifetime Support

Source: IDC, 2007

Acquired Product Support

As with most acquisitions in the software area, when Oracle went on its acquisition spree of recent years, the first thing that users of the acquired providers' software considered was the future support that Oracle would provide. Oracle has gone to great lengths to alleviate any fears that the installed base may have by maintaining a lifetime support infrastructure. Oracle has published end-of-life dates for its acquired products, and for most large acquisitions it has maintained their support

infrastructure. This is true of many of the products for which Oracle has maintained product subbranding. A support portal exists for each product for Siebel, PeopleSoft (hence, JD Edwards), and Hyperion. The portal is the gateway to a "parallel universe" of support for customers of these products.

To date Oracle has successfully allayed the fears of organizations that have invested in acquired technology. Continued support is the most visible way to satisfy these customers, and hence lead them to further invest in the technologies they own and in future Oracle technology. Oracle has announced the availability of Premier Support for five years from the general availability date of the applications for JD Edwards and PeopleSoft. For Siebel, Extended Support differs by module. Most modules will be supported for between five and eight years. Oracle has also announced support time frames for the majority of acquired company products, with many of those products also receiving five years of Premier Support and indefinite Sustaining Support.

Oracle also announced the Applications Unlimited program. This program demonstrates the company's continued investment in, and commitment to, acquired application product families. For example, Oracle has continued to deliver new releases of PeopleSoft, JD Edwards, and Siebel, providing those customers with the ability to continue to protect their investment in those product families. Applications Unlimited provides a strong complement for Lifetime Support.

Automation of Support

While maintaining knowledge bases of support information is a long-standing method of reducing support delivery cost, Oracle has successfully further reduced resolution time through the use of automated tools. The technology is used to capture customers' use of Oracle products, "push" updates and patches to customers, and provide information to support customers remotely. Included in this set are the Software Configuration Manager, the Maintenance Wizard, and Oracle Diagnostic Tools.

Non-Oracle Product Support

Oracle's support of Red Hat Enterprise Linux is clearly a competitive answer to respond to customers' desire to reduce the number of support service providers they utilize. The Oracle Unbreakable Linux support program delivers enterprise-class support for Linux, including premier back ports, Lifetime Support, comprehensive Linux server life-cycle management, full indemnification, and testing. IDC research has demonstrated that enterprises are interested in consolidating their support service contracts. By extending the support services offerings to include Red Hat Linux, Oracle is responding to this need.

Beyond its efforts in Linux, Oracle has taken steps to capitalize on its support infrastructure to support non-Oracle products. Oracle's Ecosystem Support extends support to third-party products, including browsers, databases, application servers, operating systems, and hardware server architectures. When partners' products are integrated into an organization's infrastructure, Oracle forms joint escalation teams with support engineers from Oracle and the partners. Support includes applications written on Oracle databases, as long as a partnership relationship exists. Oracle also offers support packages to its partners on a service request basis.

Oracle continues to invest in areas operating distributions, specifically in Oracle Cluster File Systems (OCFSs), I/O, memory, and disk management. By investing in these areas, Oracle can increase the value in support and the long-term viability.

Oracle is able to offer this level of support for Red Hat Linux because the source code is available under the GPL, which requires free distribution of the source code. This arrangement enables Oracle to take the source code that Red Hat makes available under GPL. By supporting Linux, Oracle can offer support for both clustered file systems in Linux — OCFSs and GFSs. Further, the launch of Oracle VM extends the value proposition where all Oracle products can now run in a supported, virtual framework in which the guest operating systems could be Linux or Windows.

Business Process Support

As an additional means of increasing revenue, Oracle offers professional services on business process management, sharing best practices learned from the customer base. Conceptual technology such as SOA, BPO, and master data management is at the point of requiring significant education in the IT world. Oracle has recognized this need, and has committed to growing this market. Oracle consultants are also gaining traction in helping customers align their IT initiatives with corporate strategy.

FUTURE OUTLOOK

Opportunities

The support and deployment services market is not forecast to increase at a rate that most technology-intensive markets have historically been accustomed to. The 2007–2011 worldwide compound annual growth rate (CAGR) is expected to be 5.8% for software support services. While developing new service offerings corresponding to current products is expected, Oracle and other support entities must develop offerings that will reduce the customers' costs of maintaining their IT infrastructure or gain business advantage. This approach allows Oracle to pursue opportunities beyond pure software support, making it a more valued partner to its customers.

The support services market can often serve as a way to gain greater customer intimacy. The support professionals become familiar with their customers' IT infrastructures and are aware of their customers' plans for upgrades. This familiarity can provide Oracle with opportunities in consulting and integration services as well as the opportunity to sell additional software.

ESSENTIAL GUIDANCE

Challenges

Oracle Services will be successful as long as Oracle itself remains successful. Customers will always need basic support for their software, particularly as organizations become more dependent on the advantages of automation. Oracle has,

however, several challenges in remaining successful, and in gaining revenue above and beyond simple product support.

First, Oracle must continue to make efforts to instill confidence in customers of acquired products. Organizations are not likely to abandon their investment in Siebel, PeopleSoft, JD Edwards, or Hyperion. Oracle must convey its commitment to support for these customers.

Second, with the emergence of new technologies, most notably SOA, organizations are seeking expertise and leadership in these areas. Oracle is perceived as a database and applications vendor, but it must emerge as a trusted advisor in creating this infrastructure. Oracle has product offerings in SOA, business intelligence, master data management, and several other leading-edge areas. Oracle Services must establish and exploit expertise in these areas beyond simple product support, extending to consulting. The challenge is to do this without encroaching on the territory of consulting partners such as Accenture or BearingPoint.

LEARN MORE

Related Research

- ☒ *Worldwide and U.S. Software Support and Deploy Services 2007–2011 Forecast* (IDC #206386, April 2007)

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