

OVUM OPINION

Oracle has a credible story on continued enterprise applications investment

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OVUM VIEW

Summary

Oracle executives are often asked whether or not the company can afford to invest in its plethora of enterprise applications, both those organically developed and from acquisitions (e.g. Oracle Siebel, Oracle PeopleSoft, Oracle JD Edwards, Oracle E-Business Suite). Skepticism among IT executives is understandable, as there are many examples of serial acquirers milking acquisitions for cash and profits without investing in them (most notoriously, Computer Associates in the 1980s and 1990s). In recent conversations with Oracle executives, Ovum analysts were able to establish that Oracle does have a credible story on continued enterprise applications investment. Oracle's story is based on research and operational efficiencies coupled with growing revenue and profitability. The credibility of the story is backed up by each product's recent upgrade history and the product roadmaps communicated to customers. So the issue for IT executives is less about questioning Oracle's basic commitment to application R&D, but more about verifying where it is actually spending R&D money.

Research efficiency driven by centralizing common development tasks

Every major enterprise applications vendor has certain functions it must invest in during the normal course of product development (user interface, database integration, mobility, and so on). Oracle's approach has been to pull common functions from newly acquired companies into a central team with overlapping staff reallocated to other application development work. These central teams can achieve economies of scale by not "reinventing the wheel" and having best-in-class processes and

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tools. In addition to reducing overall costs, these centralized teams also have the ability to invest more on their functions than any of the original companies could individually, leading to potential breakthroughs in functionality, innovation, and quality. This is not just a one-time improvement in costs (iwhen the centralization takes place), but a year-over-year savings and improvement cycle.

Operational efficiency beyond back-office consolidation

Many companies position their acquisitions as having the ability to improve overall profitability by consolidating back-office functions – firing redundant staff in HR, accounting, facilities management, closing duplicate offices and factories, and so on. For software companies there is another opportunity for operational efficiency in consolidating and improving the development infrastructure. Traditional enterprise application development requires significant investment in servers, storage, networking, databases, developments tools, testing and quality assurance tools, and all the staff to select, maintain, manage, support, and operate this infrastructure. Oracle has taken the approach of consolidating these functions into larger, more efficient data centers and centralized teams. As with research efficiency, this development infrastructure consolidation has the chance to improve the overall quality of the function and not just achieve cost savings through economies of scale. In addition, assuming Oracle's claims are correct, data centers built on Exadata and Exalogic appliances should also be more cost effective than the traditional servers and storage that the acquired companies were using.

The task for enterprise and public sector IT executives: trust but verify

It is Ovum's opinion that Oracle is sincere in its commitment to continuing to invest in its enterprise applications portfolio so IT does not have to be skeptical about the basic commitment to future development. However, that does not mean that IT organizations do not need to worry about the future of their existing Oracle E-Business Suite/PeopleSoft/Siebel/JD Edwards/etc installed base. Quite the contrary. It is critical for IT to assume a stance of "trust, yet verify" when considering the future of enterprise applications from Oracle. IT executives must be diligent in watching any vendor's commitment to R&D. For example, IT managers should be carefully combing through Oracle's quarterly financial statement, investor presentations, and annual reports to track the amount of money spent on R&D and projected level of investment in R&D. IT executives should also take every opportunity to chat with Oracle enterprise applications executives about product roadmaps and the significance of planned enhancements and new products. By gathering all these and other data points – and talking with Ovum analysts – IT can generate a picture of what Oracle is really doing with its enterprise applications without wasting energy wondering if Oracle is committed to investing in its enterprise applications product portfolio.

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