

Gartner Warns Oracle Customers to Check License Fees

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Gartner believes that Oracle sales staff has inappropriately imposed extra licensing fees on some database customers. Gartner recommends four steps customers can take to avoid such fees.

NEWS ANALYSIS

Event

On 20 March 2002, Oracle was reported in the press to be in conflict with some customers over "extra" licensing fees that the customers believe the company has no ethical or legal right to impose.

Analysis

For the past four quarters, Oracle has reported revenue for its database technology business as falling at a rate of 1 percent to 17 percent, year-over-year. Gartner understands that in an attempt to lift revenue, some Oracle sales staff are imposing extraneous licensing fees on customers. Although Oracle's corporate management may not condone this practice, Gartner believes these reported fee impositions are highly inappropriate.

Clients have told Gartner that some Oracle sales staff are:

- Limiting customers' purchasing options by making them choose the option that costs the most, whether processor-based or named-user pricing. In reality, if an enterprise can identify users, it can use either processor-based or named-user pricing, regardless of Internet or intranet use.
- Trying to pre-sell far more licenses than the customer will ever use in the form of a five- to seven-year enterprise license agreements with many thousands of named users or processors. Moreover, discount rates for the reported deals are not commensurate with their size.
- Getting enterprises to pay for extra named users for data sourced from an Oracle application database into a data warehouse. According to the reports, some Oracle personnel claim that even though the data warehouse may not be Oracle-based, it still has to be licensed. Regardless of whether a target database is Oracle's, Gartner does not believe this practice is appropriate. Some of Gartner's customers that use Cognos Powerplay and Brio's BrioQuery Cache (both which can store data) have said Oracle sales staff are pressuring the users of these tools to buy licenses, even when the data has been removed from the Oracle environment.
- Trying to get customers to pay extra named-user or processor fees for a data warehouse that has data coming in from either Internet data feeds or internal data sources.
- Performing — or stating that they will perform — bottom-up audits and occasionally coming back with increases in licensing costs.

Gartner does not believe Oracle is justified in making many of these claims, and enterprises should be wary of any additional costs levied. Gartner recommends that enterprises:

- Get two proposals from Oracle based on each of the licensing methods and choose the one that makes the most business and economic sense
- Perform their own audits on a regular basis and validate any assertions made by Oracle
- Seek immediate legal and purchasing advice about the legality of any extra charges levied by Oracle

- If possible, renegotiate contracts with Oracle if these licensing issues arise and, in any new contract, ensure the licensing method is agreed to explicitly

The use of aggressive sales tactics by Oracle is not unprecedented. Gartner believes that such tactics and business practices are among the problems affecting Oracle's credibility and, as a result, its revenue growth. Based on these issues, Gartner reiterates its "caution" rating on Oracle's pricing model and sales tactics (see *Research Note* COM-13-9392 "Gartner's New Vendor Ratings").

Moreover, Oracle's customers have control because of the issues surrounding the recent growth in license fee revenue for Oracle's database management systems. Enterprises should use market numbers, financial results, Oracle's published terms and conditions (www.oracle.com) and Gartner research to help them work with Oracle to determine fair and equitable pricing.

In the process of reviewing this FirstTake, Gartner spoke with Oracle's executive vice president of North America sales, George Roberts, who said that if customers are frustrated or angry with Oracle's negotiations, he will make it a priority to work through these issues with them. He can be reached via e-mail at george.roberts@oracle and by phone at 1-312-961-5780.

Analytical Sources: Betsy Burton and Kevin Strange, Strategic Data Management, and Jane Disbrow, Software Asset Management

Need to Know: Reference Material and Recommended Reading

- "Oracle Negotiations — Converting to New License Models" (TG-15-0452). Many Oracle customers want to know whether they should convert their older licenses to Oracle's per-processor mode. **By Jane Disbrow and Betsy Burton**
- "Oracle Under Fire" (AV-14-2819). Oracle is rightly under a degree of fire from some of its customers. **By Betsy Burton**

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