

PeopleSoft and J.D. Edwards Fit, but Merger Will Be Complex

Lee Geishecker, Jeff Comport

The acquisition would create the second-largest vendor of enterprise applications. Though the two companies generally complement each other, PeopleSoft must deal with overlap in products and markets and with technology disparity.

NEWS ANALYSIS

Event

On 2 June 2003, PeopleSoft announced a definitive agreement to acquire rival enterprise resource planning (ERP) vendor J.D. Edwards (JDE) for \$1.7 billion in stock. Regulators and both companies' shareholders must approve the deal, expected to close by early 4Q03. The merged entity would have combined annual revenue of \$2.8 billion and would be the second-largest enterprise application software vendor behind SAP.

Analysis

This event reflects ongoing consolidation in the maturing enterprise software market focused on license and maintenance revenue, operational efficiency, and economies of scale. PeopleSoft and JDE complement each other in industry sectors, product functions and geographic presence. PeopleSoft gains an entry into the challenging area of manufacturing. JDE gains midmarket entry into the services sector, beyond its strengths in construction and real estate. The combined company would be highly viable. It represents the evolution of the combined market and product strategy that will have the greatest impact on enterprises.

PeopleSoft likely will organize JDE as a line of business focused on the midmarket, with the existing PeopleSoft products focused on large enterprises. Though the merger is simple in concept, execution will entail abundant complexities. PeopleSoft will consolidate general and administrative expenses and will search for operational efficiency. It will seek consolidation targets among the merged entity's two sales forces, at least three product development teams (and technical foundations) and multiple support groups. Over time, a high and low product strategy may work, but product rationalization will likely cause some evolution and displacement of products, strategies, technology and people.

Areas to watch:

- CRM strategy (rationalization of Vantive using PeopleSoft technology and YOUCentric representing JDE's newly-acquired flagship technology)
- Indirect channel rationalization (availability of PeopleSoft Enterprise products, particularly HR, through the midmarket channel)
- Supply chain planning product rationalization (RedPepper and Numetrix)
- Unified global strategy, particularly for the Asia/Pacific region

PeopleSoft recognizes that the JDE AS/400 customer base is a valuable, entrenched asset and will support that product line until at least mid-2007 (0.8 probability).

Customers will likely not feel an impact from this acquisition until at least mid-2004. As details about the merger's execution emerge, the impact on specific products will become clearer. Customers and prospects should consider newly available information with each purchase and upgrade decision. Check with Gartner and PeopleSoft at each decision point.

Analytical Sources: Lee Geishecker and Jeff Comport, Gartner Research

Recommended Reading and Related Research

- "ERP II Is a Critical Player in the Real-Time Enterprise" — The need for enterprises to operate at or near real time will continue to grow, and ERP II will become an

increasingly critical enabler of business processes. **By Brian Zrimsek, Lee Geishecker and Yvonne Genovese**

- "Vendor Viability Concerns Growing in the ERP II Midmarket" — Although there are compelling reasons to consider larger, more-viable vendors, they may lack proven capabilities to understand and provide the low-cost, high-support, feature-rich and rapid-implementation requirements of midmarket users. **By Yvonne Genovese, Chad Eschinger, Robert Anderson and Brian Zrimsek**

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