

PeopleSoft/J.D. Edwards Deal Will Benefit Asia/Pacific Firms

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Acquiring J.D. Edwards will enable PeopleSoft to expand in the Asia/Pacific region beyond its strongholds in Australia and New Zealand. If the vendor executes well, Asia/Pacific customers will get more functions for more industries.

NEWS ANALYSIS

Event

On 2 June 2003, PeopleSoft announced a definitive agreement to acquire rival enterprise resource planning (ERP) vendor J.D. Edwards for \$1.7 billion in stock. J.D. Edwards will become a subsidiary of PeopleSoft. Regulators and both companies' shareholders must approve the deal, which PeopleSoft expects to close by early 4Q03. The combined entity will generate annual revenue of about \$2.8 billion.

Analysis

This acquisition will allow the companies to expand their presence in the Asia/Pacific region. In this region, the combined entity will generate the second most revenue from application software licenses (\$54 million annually, of which PeopleSoft accounts for \$41 million), just ahead of Oracle. The enlarged PeopleSoft would become the region's second-largest provider of supply chain management (SCM) and ERP and the fifth-largest vendor of customer relationship management (CRM). However, both vendors rely overwhelmingly on Australia and New Zealand, which account for 48 percent of PeopleSoft's Asia/Pacific revenue and 65 percent of J.D. Edwards' Asia/Pacific revenue. Both have aggressively sought business in Greater China and India and have had a marginal presence in South Korea. By combining their resources, they can better penetrate Asian markets. On their own, they found it difficult to take on entrenched players, mostly SAP, Oracle and local players in some countries, such as Korea and China.

Despite some functional overlaps, PeopleSoft and J.D. Edwards complement each other in their vertical industry focus. J.D. Edwards has succeeded primarily in manufacturing, distribution and other asset-intensive industries (accounting for 75 percent of the company's license revenue). PeopleSoft has succeeded in financial services, government, higher education and telecom. HR management systems provide a big part of PeopleSoft's revenue but just 6 percent of J.D. Edwards' ERP license revenue. PeopleSoft has emphasized CRM, whereas J.D. Edwards has focused on SCM in the Asia/Pacific region. By combining their strengths, the vendors should be able to participate in many more deals than they could individually.

Asia/Pacific customers will avoid some of the complications of overlapping products with this merger. Neither J.D. Edwards' CRM nor PeopleSoft's manufacturing offerings had rolled out in the region. Thus, Asia/Pacific firms have fewer overlaps and contradictions to worry about than U.S. companies that may have purchased one of these modules. Therefore, Asia/Pacific customers should not change their plans until PeopleSoft announces its product plans and outlines how it will merge product lines. If it executes well, customers will benefit from offerings that cover more industries and have more functions.

Analytical Sources: Kristian Steenstrup, Pranav Kumar and Dickson Tang, Gartner Research

Recommended Reading and Related Research

- "PeopleSoft and J.D. Edwards Fit, but Merger Will Be Complex" — PeopleSoft plans to organize J.D. Edwards as a line of business called PeopleSoft Midmarket. Though simple in concept, execution will be complex. **By Lee Geishecker and Jeff Comport**
- "Asia/Pacific: ERP, an Insight Into Complex Dynamics" — Gartner Dataquest believes the ERP market will return to modest growth in 2003 and continue to expand gradually through 2006, achieving annual growth of 10 percent in that year. **By Pranav Kumar, Dickson Tang, Yanna Dharmasthira and Nanta Photduang**

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