

How Oracle's Bid for PeopleSoft Affects Customers

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With its tender offer for PeopleSoft, Oracle is attempting to gain more control over broader markets, including applications and infrastructure. PeopleSoft and J.D. Edwards customers will feel the greatest impact.

NEWS ANALYSIS

Event

On 6 June 2003, Oracle announced an unsolicited offer to acquire PeopleSoft for \$5.1 billion in cash. PeopleSoft's management gave an extremely negative initial response, accusing Oracle of pursuing nothing more than a marketing ploy.

Please note: We published this document on 6 June 2003, the day of Oracle's bid for PeopleSoft. Since then, many events have occurred; we continue to modify our specific advice to clients, based on events as they unfold. Please refer to gartner.com for our most up-to-date advice.

Analysis

At a minimum, Oracle is attempting to disrupt PeopleSoft's planned acquisition of J.D. Edwards, announced days earlier. But Oracle's move goes well beyond application markets and could be a broad market control move, including applications and infrastructure. Gartner believes that Oracle faces significant hurdles to completing the acquisition of PeopleSoft, for example:

- Overcoming PeopleSoft's poison-pill provision
- Presenting an offer price the PeopleSoft board and shareholders find acceptable

What to Do Immediately

If you're in the middle of a J.D. Edwards or PeopleSoft deployment, you should proceed. If you're considering a purchase of J.D. Edwards or PeopleSoft products, don't sign a deal until it becomes clear whether Oracle's plans to acquire PeopleSoft are serious. If you have specific questions, talk with your Gartner analyst.

If the Deal Does not Go Through

- **Oracle:** Oracle will at least benefit from the publicity, which will raise questions about rival PeopleSoft's viability as an independent vendor. Oracle customers should feel little impact.
- **PeopleSoft:** Damage has already been done — Oracle's announced intent has raised market concerns about PeopleSoft's long-term independence. Furthermore, if PeopleSoft's stock value declines, its own acquisition of J.D. Edwards could be at risk. PeopleSoft will feel a short-term negative impact on revenue as customers delay purchase and upgrade decisions, but PeopleSoft's viability will not be irreparably damaged. Continue to evaluate PeopleSoft products based on whether they offer you suitable functions.
- **J.D. Edwards:** In the short term, this announcement will hurt J.D. Edwards as it complicates its acquisition by PeopleSoft. Customers or prospects should hold off on any new project or purchases until the status of PeopleSoft's acquisition of J.D. Edwards is clarified.

If the Deal Goes Through

- **Oracle:** Oracle will benefit by removing an enterprise application competitor. More importantly, the deal will do more to convince the market that Oracle is a provider of a complete software, application and infrastructure stack, and is more than a database

management system vendor. While absorbing PeopleSoft, Oracle and its customers may experience short-term disruptions, such as confusing marketing messages and delays in releases. But Oracle customers will feel little long-term impact.

- **PeopleSoft:** PeopleSoft customers will face significant long-term disruption as they feel pressure to migrate to Oracle applications and infrastructure or to find alternatives. Although Oracle plans to extend support for PeopleSoft v.7, Gartner believes that Oracle will not support any PeopleSoft products in the long term. Therefore, in building any exit strategy, PeopleSoft customers should evaluate how long installed products will support their business needs and should understand what migration plans Oracle will offer. Those that recently decided to upgrade to v.8 should reconsider since Oracle will likely provide only minimal enhancements to v.8.
- **J.D. Edwards:** If Oracle also purchases J.D. Edwards, this announcement will not directly affect World customers as Gartner believes Oracle will keep them for the renewable service revenue. OneWorld customers will face pressure to migrate to Oracle in the long term. In building any exit strategy, evaluate how long your current products can support your needs and understand any migration plans from Oracle. If Oracle does not purchase J.D. Edwards, customers should not begin new initiatives using J.D. Edwards because the company will likely seek an alternative buyer.

Analytical Sources: Betsy Burton, Lee Geishecker, Robert DeSisto, Simon Hayward, Bruce Bond, Karen Peterson, Jeff Comport and Bill Hostmann, Gartner Research

Recommended Reading and Related Research

- "PeopleSoft and J.D. Edwards Fit, but Merger Will Be Complex" — 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. **By Lee Geishecker and Jeff Comport**
- "Gartner Study Shows Worldwide RDBMS Market Declined in 2002" — Gartner attributes IBM's position to its strength in DB2 on nondistributed platforms and to Oracle's 20 percent decrease in RDBMS new license revenue in 2002, compared to 2001. **By Colleen Graham and Kevin Strange**

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