

The Deeper Implication of Oracle's Bid for PeopleSoft

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Oracle's bid for PeopleSoft points up the value of controlling both applications and the supporting software infrastructure. However, the resulting market consolidation will reduce customer choice in business applications.

NEWS ANALYSIS

Event

On 6 June 2003, Oracle announced an unsolicited offer to acquire PeopleSoft for \$5.1 billion in cash. PeopleSoft's management reacted negatively.

Analysis

The importance of this deal goes well beyond consolidation in the market for business applications (see "How Oracle's Bid for PeopleSoft Affects Customers"). Sure, Oracle's bid for PeopleSoft and PeopleSoft's agreement to buy J.D. Edwards involve financial management, supply chain management, customer relationship management and HR applications. However, all these applications are underpinned by a set of software infrastructure, including application servers, databases, integration brokers and portal frameworks. Traditionally, enterprises chose application software independent of such infrastructure. No longer. The battle for market control rewards vendors that own both applications and infrastructure.

Oracle requires its application customers to use Oracle infrastructure and databases as does Microsoft. SAP has articulated a clear vision (via its Enterprise Services Architecture and NetWeaver product) for delivering (and thus controlling) all of this stack, except the database. PeopleSoft has some of these platform components in its AppConnect product (a portal and integration broker). IBM steadfastly refuses to enter the application market but wants to attract as many application vendors as possible to WebSphere and DB2. Up to now, PeopleSoft has been an important partner for IBM.

Oracle stated that, if it acquires PeopleSoft, it will not continue developing the PeopleSoft product range because it will create applications only on the Oracle platform. Of course, no one would expect Microsoft to create applications on WebSphere. However, most of those buying applications have yet to recognize the full implications. After all, you can change hardware; you can select best-of-breed applications, but you cannot readily switch software infrastructure stacks. By binding applications and software stacks, major vendors reduce integration costs, make it easier to extend the whole system and improve its robustness. But in return, enterprises get more constrained choices for applications. As enterprises weigh best-of-breed functions against the cost of infrastructure diversity, the balance will tip increasingly toward reliance on a single infrastructure. To exploit this trend, enterprises should seek to exploit the infrastructure of their primary application vendor rather than purchase unrelated products.

Analytical Sources: Simon Hayward, Betsy Burton and Jeff Comport, Gartner Research

Recommended Reading and Related Research

- "Megavendors Will 'Handcuff' Your Enterprise Architecture" — Because vendors will likely succeed in making them customers for life, enterprises should carefully evaluate compatibility with a vendor's industry, technical strategies and service strategies. **By Jeff Comport, Betsy Burton and Jeff Schulman**
- "Some Vendors Will Survive SODA, and Others Won't" — Gartner sees a movement toward service-oriented development of applications (SODA) using integrated SODA environments. **By Michael J. Blechar, Jim Duggan, Nick Jones and Matthew Hotle**

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