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Oracle's Bid for PeopleSoft: Update 10 July

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With its tender offer for PeopleSoft, Oracle is attempting to gain more control over broader markets. Gartner advises how this offer could affect you.

NEWS ANALYSIS

Event

As of 10 July 2003, the latest developments in Oracle's unsolicited bid to acquire PeopleSoft include:

- On 3 July 2003, Oracle extended the deadline for PeopleSoft stockholders to tender their shares from 7 July to 18 July 2003. Oracle said that almost 35 million PeopleSoft shares had been tendered, a little more than 10 percent of PeopleSoft's more than 315 million outstanding shares.
- On 3 July 2003, PeopleSoft reported to the U.S. Securities and Exchange Commission that its Customer Protection Program could add up to \$354 million to the cost of an Oracle takeover. Under the program, customers signing new PeopleSoft contracts would be paid two to five times the cost of the software licenses if Oracle acquires PeopleSoft.

Analysis

Clients often ask whether a "white knight," or friendly company, will emerge to purchase PeopleSoft and prevent a takeover by Oracle. Based on today's market and vendors' strategies, Gartner does not think that will happen (see "'White Knight' Candidates for PeopleSoft"). The note also discusses how this event will affect other IT vendors and markets beyond business applications.

Since Oracle announced its intent to purchase PeopleSoft on 6 June 2003, Gartner has said that Oracle sought the deal to compete as a technology "stack" vendor against major rivals SAP, Microsoft and IBM. The trend of vendors controlling as much of the technology stack as possible will drive further market consolidation (see "Business Applications and Infrastructure Entwined"). This is one factor complicating the dynamics of the enterprise application and infrastructure markets, and this complexity makes it difficult for companies to set long-term strategies. The 2002 market share of the enterprise application software (EAS) vendors gives companies some background data to help in developing those strategies (see "EAS Market Share Scenarios Based on Acquisitions").

Clients should not oversimplify their decisions by simply not buying products from PeopleSoft or J.D. Edwards until the deal is settled. Gartner continues to advise clients considering PeopleSoft and J.D. Edwards offerings to use Gartner's decision frameworks to determine their strategy. The frameworks yield different advice depending on each client's view of whether the deals will be completed balanced with its risk tolerance (see "Short-Term Advice for J.D. Edwards Customers, Prospects" and "Short-Term Advice for PeopleSoft Customers and Prospects"). Clients aiming to sign purchasing contracts in the short term with PeopleSoft should not make the decision based exclusively on negotiated reimbursement guarantees such as those of the Customer Protection Program. Rather, make sure any contracts are thorough, particularly in areas such as support, upgrades, migration and service (see "Contractual Protections for PeopleSoft Customers").

Gartner continues to work on research related to the individual markets affected and the impact on customers of other vendors. We encourage clients to review our current research, and if you have specific questions, talk with your Gartner analyst — by phone (United States +1 203 316 1266, Europe +44 1784 267770) or e-mail (bizapps@gartner.com, euro.inquiry@gartner.com). Gartner offers the following research:

- "EAS Market Share Scenarios Based on Acquisitions" — Should the Oracle bid for PeopleSoft or the PeopleSoft bid for J.D. Edwards go through, the list of the top four

EAS vendors would almost certainly change. **By Thomas Topolinsky and Chad Eschinger**

- "'White Knight' Candidates for PeopleSoft" — The position of other vendors in the infrastructure and application markets makes it unlikely that a company will emerge to offer a friendly takeover of PeopleSoft. **By Simon Hayward and others**
- "Business Applications and Infrastructure Entwined" — The "megavendors" are creating an entwined application and infrastructure stack; this trend makes it difficult to create a sustainable business in best-of breed applications without control of the underlying software infrastructure. **By Simon Hayward and others**
- "Comparing Oracle and PeopleSoft CRM Functionality" — If Oracle does acquire PeopleSoft, PeopleSoft CRM customer should not migrate to Oracle CRM with any expectation of recouping the migration costs within 24 months. **By Robert DeSisto and Michael Maoz**
- "Consolidation: A Reality That's Not Always Good for Users" — To be safest with a smaller independent vendor's products, build strategies based on how those products complement or compete with those vendors best positioned to survive consolidation. **By Betsy Burton and Jeff Comport**
- "Contractual Protections for PeopleSoft Customers" — PeopleSoft customers and prospects should *immediately* audit contracts and seek specialized legal advice to ensure they have sufficient protection if the company is acquired. **By Alexa Bona and Jane Disbrow**
- "What PeopleSoft Customers Can Expect if Oracle Succeeds"— We believe that during the first two years, Oracle would work very actively to satisfy and thus retain PeopleSoft customers. This focus would begin to wane in subsequent years. **By Simon Hayward, Betsy Burton, Lee Geishecker and Kristian Steenstrup**
- "Short-Term Advice for J.D. Edwards Customers, Prospects" — While uncertainty lingers, don't stop all J. D. Edwards deployments. Assess your risk tolerance and acceptance of the product "as is," coupled with your assessment of how J. D. Edwards will emerge from this event and how its condition will affect its product enhancement. **By Brian Zrimsek, Jeff Comport, Yvonne Genovese, Tony Humphries and Kristian Steenstrup**
- "The Deeper Implication of Oracle's Bid for PeopleSoft" — The battle for market control rewards vendors that own both applications and infrastructure but can limit customer application choices. **By Simon Hayward, Betsy Burton and Jeff Comport**
- "Frequently Asked Questions on the Oracle/PeopleSoft Deal" — We answer some of the most common questions our clients are asking about Oracle's unsolicited bid for PeopleSoft. **By Betsy Burton and others**
- "Oracle Could Change PeopleSoft BI and CPM Product Plans" — If the proposed acquisition of PeopleSoft by Oracle takes place, and if you use PeopleSoft business intelligence and corporate performance management products, you should formulate the terms under which the impact and cost of migration might be justified. **By Bill Hostmann, Brian Wood and Frank Buytendijk**
- "Short-Term Advice for PeopleSoft Customers and Prospects" — Gartner provides a framework to help clients make decisions. **By Brian Zrimsek and Jeff Comport**

- "Oracle/PeopleSoft Deal Would Greatly Affect ERP Market" — If Oracle's bid succeeds, PeopleSoft customers would have to undertake a disruptive migration at some point, and J.D. Edwards' customers may not see any major new functions. **By Karen Peterson, Yvonne Genovese, Lee Geishecker and Betsy Burton**
- "Oracle's Bid for PeopleSoft Won't Alter Its CRM Position" — Even if Oracle accomplished a seamless acquisition, the deal would not allow Oracle to overtake Siebel Systems or SAP in the CRM market. **By Robert DeSisto and Michael Maoz**
- "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. **By Lee Geishecker and Jeff Comport**

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