

Oracle's Bid for PeopleSoft: Update 13 April 2004

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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 13 April 2004, the most-recent developments in Oracle's unsolicited bid to acquire PeopleSoft include:

- On 31 March 2004, PeopleSoft allowed the customer-assurance offer to lapse that guaranteed new customers a refund in case of a hostile takeover of PeopleSoft. PeopleSoft started the program in June 2003 as a way to fend off Oracle's bid and to reassure prospective customers.
- On 12 March 2004, Oracle announced that the European Commission (EC) told Oracle it objects to the proposed takeover of PeopleSoft. During March and April 2004, Oracle and PeopleSoft responded to the objections in hearings before the EC although the EC has not disclosed the contents of the hearings. The EC must issue its final decision by 11 May 2004.
- On 26 February 2004, the U.S. Department of Justice, joined by seven states (Hawaii, Maryland, Massachusetts, Minnesota, New York, North Dakota and Texas), filed a lawsuit in the U.S. District Court to block Oracle's bid. According to the Justice Department, the deal "would eliminate competition between two of the nation's leading providers of human resource and financial management enterprise software applications, resulting in higher prices, less innovation and fewer choices" for enterprises.
- On 26 February 2004, Oracle announced that its board of directors has decided to challenge the Justice Department's lawsuit. In addition, Oracle announced it has extended its tender offer for PeopleSoft to 25 June 2004.
- On 9 February 2004, PeopleSoft's board of directors voted unanimously to recommend that shareholders reject Oracle's latest tender offer.
- On 4 February 2004, Oracle announced that it has raised its offer for PeopleSoft from \$19.50 per share to \$26 per share (a total of \$9.4 billion in cash). The offer represents about a 19 percent premium over the closing price of PeopleSoft shares on 3 February 2004 (\$22).

Analysis

If Oracle's proposed takeover of PeopleSoft happens at all, it will not happen through at least 2005 (0.8 probability). Opposition to the deal by U.S. and European regulators significantly diminishes the possibility of any transaction taking place, despite Oracle's efforts to dispute the regulatory rulings in court. Court decisions are not predictable, but even if Oracle prevails against the Justice Department and the EC, the company must still address the other challenges (see "Updated Key Factors in Oracle's Bid for PeopleSoft"). Allowing the customer-assurance program to lapse indicates that PeopleSoft is more confident the Oracle bid will not significantly distract customers from now on.

Oracle disputes the Justice Department's view that the financial and human-resource application markets for large enterprises has only three competitors: SAP, Oracle and PeopleSoft. To learn how Gartner covers these markets, see "Application Market Consolidation Causes Deployment Risks".

Advice to Clients

Enterprises that are considering PeopleSoft and J.D. Edwards offerings should use Gartner's decision frameworks to determine their strategies. The frameworks yield different advice, depending on a combination of risk tolerance, your opinion on the outcome of Oracle's bid and your company's position in the application life cycle (see "Updated Advice for PeopleSoft Enterprise Clients: 5 March" and "Advice for PeopleSoft EnterpriseOne Clients: 5 March 2004"). To develop an opinion on the potential effects of Oracle's bid, consider the elements that could affect the outcome of this action (see "Updated Key Factors in Oracle's Bid for PeopleSoft"). For example, when using the framework, consider the increased likelihood that Oracle's attempted acquisition of PeopleSoft will fail.

Recommended Reading and Related Research

Gartner offers research related to the markets affected by Oracle's unsolicited bid for PeopleSoft, as well as its impact on other vendors' customers. Review this research, and if you have 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).

Oracle

"Updated Key Factors in Oracle's Bid for PeopleSoft" — Although final resolution of Oracle's unsolicited bid to acquire PeopleSoft could still be months away, the opposition of U.S. and European regulatory bodies to the merger significantly diminishes the possibility of the transaction taking place. **By Brian Zrimsek, Bruce Bond, Jeff Comport, Betsy Burton, Yvonne Genovese and Lee Geishecker**

"Executive Changes Will Not Alter Oracle's Strategy" — Recent executive leadership changes rebalance power among Oracle's board and management team. **By Jeff Comport**

"Pivotal Factors Affecting Oracle's Bid for PeopleSoft" — Elements that could affect the outcome of Oracle's bid for PeopleSoft include PeopleSoft's "poison pill" provision and the deal price. **By Brian Zrimsek, Bruce Bond, Yvonne Genovese, Lee Geishecker, Betsy Burton and Jeff Comport**

"Frequently Asked Questions on the Oracle/PeopleSoft Deal" — Gartner answers common questions regarding Oracle's unsolicited bid for PeopleSoft, such as why Oracle is pursuing the bid. **By Betsy Burton, Joel Wecksell, Bruce Bond, Lee Geishecker, Yvonne Genovese, Robert DeSisto, Jeff Comport and Simon Hayward**

"Oracle's Bid for PeopleSoft Won't Alter Its CRM Position" — Even if Oracle accomplishes a seamless acquisition of PeopleSoft, the deal won't enable Oracle to overtake Siebel Systems or SAP in the CRM market. **By Robert DeSisto and Michael Maoz**

PeopleSoft

"Updated Advice for PeopleSoft Enterprise Clients: 5 March" — Evaluate your enterprise's risk tolerance and its position in the application life cycle, and assess whether the acquisition will be completed. Gartner's decision framework can assist with these decisions. **By Brian Zrimsek and Jeff Comport**

"Advice for PeopleSoft EnterpriseOne Clients: 5 March 2004" — Until the Oracle/PeopleSoft situation is resolved, assess your risk tolerance, coupled with your analysis of how EnterpriseOne will emerge from this event and how its emerged condition will affect product enhancement. **By Brian Zrimsek and Jeff Comport**

"Updated Advice for PeopleSoft Enterprise Clients" — Assess your risk tolerance and the likelihood that Oracle will complete the PeopleSoft acquisition, then act based on where you are in the application life cycle. **By Brian Zrimsek and Jeff Comport**

"Updated Advice for PeopleSoft EnterpriseOne Clients" — PeopleSoft EnterpriseOne and World customers should use this framework to make decisions in light of Oracle's bid for PeopleSoft. **By Brian Zrimsek, Jeff Comport, Yvonne Genovese, Kristian Steenstrup and Lee Geishecker**

"PeopleSoft Meets Financial Targets, but Key Challenges Await" — PeopleSoft faces two hurdles to its incremental revenue goals: implementing its high-level product road map and creating a sales organization that can sell the right products to the right customers. **By Lee Geishecker, Esteban Kolsky and Yvonne Genovese**

"PeopleSoft's New Strategy Depends on Cross-Selling, Service Goals" — PeopleSoft must achieve its targets for growth in license sales, as well as newly identified cross-selling opportunities, to achieve its revenue goal for services. **By Lee Geishecker, Frances Karamouzis, Jeff Comport, Joel Wecksell 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, Betsy Burton, Yefim Natis, David Smith, Yvonne Genovese, Michael Maoz, Tom Bittman and Frances Karamouzis**

"Comparing Oracle and PeopleSoft CRM Functionality" — If Oracle acquires PeopleSoft, PeopleSoft CRM customers that migrate to Oracle CRM should not expect to recoup their migration costs within 24 months. **By Robert DeSisto and Michael Maoz**

"Oracle Could Change PeopleSoft BI and CPM Product Plans" — Formulate the terms under which the impact and cost of migration might be justified if Oracle's proposed acquisition of PeopleSoft occurs, and you use PeopleSoft business intelligence and corporate performance management products. **By Bill Hostmann, Brian Wood and Frank Buytendijk**

"What PeopleSoft Customers Can Expect if Oracle Succeeds" — Expect Oracle to try to satisfy, and thus retain, PeopleSoft customers during the first two years post-acquisition, after which this focus will wane. **By Simon Hayward, Betsy Burton, Lee Geishecker and Kristian Steenstrup**

"Short-Term Advice for PeopleSoft Customers and Prospects" — Use these recommendations to help reduce risk as the saga of Oracle's attempt to acquire PeopleSoft continues. **By Brian Zrimsek and Jeff Comport**

Markets

"Application Market Consolidation Causes Deployment Risks" — Application implementation project managers should reassess their risks based on the pending consolidation in the market. **By Brian Zrimsek, Lee Geishecker and Yvonne Genovese**

"The Deeper Implication of Oracle's Bid for PeopleSoft" — The battle for market control rewards vendors that own both applications and infrastructure, but that can limit customer application choices. **By Simon Hayward, Betsy Burton and Jeff Comport**

"Survey: Impact on Spending of Oracle's Bid for PeopleSoft" — Overall software demand and vendor preference have not been significantly affected by Oracle's tender offer for PeopleSoft. **By Betsy Burton, Thomas Hoover, Martin Reynolds and Scott Evans**

"Business Applications and Infrastructure Entwined" — "Megavendors" are creating an entwined application and infrastructure stack, which makes it difficult to create a sustainable business in

best-of breed applications without control of the underlying software infrastructure. **By Simon Hayward, Betsy Burton, Jeff Comport, Yvonne Genovese and Tom Bittman**

"Consolidation: A Reality That's Not Always Good for Users" — Build strategies based on how smaller independent vendors' products complement or compete with those vendors best positioned to survive consolidation. **By Betsy Burton and Jeff Comport**

Contracts

"Eight Best-in-Class Services Contract Terms and Conditions" — Write service agreements to account for the possibility that your service provider may be acquired or affected by an acquisition. **By Brian Zrimsek, Jane Disbrow and Beth Eisenfeld**

"Contractual Protections for PeopleSoft Customers" — PeopleSoft customers and prospects should audit contracts and seek specialized legal advice to ensure that they have sufficient protection if PeopleSoft is acquired by Oracle. **By Alexa Bona and Jane Disbrow**

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