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Oracle Seeks to Consolidate the Middleware Market With BEA Deal

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Oracle's offer to buy BEA Systems will create short-term uncertainty. If the deal proceeds, Oracle will strengthen its position and emerge as the most powerful competitor to IBM, the current middleware market leader.

NEWS ANALYSIS

Event

On 12 October 2007, Oracle made public a letter it had sent to the board of BEA Systems, offering to buy the company for $17 a share, a 25% premium over the previous day's closing price. BEA's board of directors declined the offer, saying it undervalued the company, and asked for greater clarity about Oracle's intentions. In the past month, investor Carl Icahn, who holds 13% of BEA, has said he would like the company to be sold.

Analysis

Gartner believes Oracle's main motive is not to acquire technology, but to gain market share. If a deal is finalized, Oracle would emerge as a portal, process and middleware vendor with revenue second in size only to IBM, the market leader. These two vendors would be the main players in the Java-centric middleware market, well ahead of the remaining vendors. Oracle and IBM would also have a significant lead over Microsoft, which focuses on .NET-centric middleware, although Microsoft and SAP will continue to be formidable competitors in the larger application infrastructure market. It is also possible that Oracle's motive is to prevent others from entering the middleware market by buying BEA.

The technology of BEA's portfolio and Oracle Fusion Middleware overlaps significantly, so an acquisition would mean a lot of rationalization. Some BEA products — such as Tuxedo and WebLogic Server — have customers generating substantial maintenance revenue, so it would be in Oracle's interest to keep supporting them, even if they don't become strategic components of Oracle Fusion Middleware. Others — such as JRockit, AquaLogic BPM, AquaLogic PEP and AquaLogic Enterprise Repository — complement Oracle Fusion Middleware, so they might be fully integrated in the Oracle stack. BEA's technology is generally of a high quality, so it is not certain that Oracle's own products would always be strategic. In some cases, the needs of Oracle Fusion Applications would determine which product became strategic.

The offer might create obstacles for BEA by generating uncertainty in clients and prospective customers. It might also pose problems for Oracle, as prospects may not buy products that might be replaced by BEA equivalents or be converged. Oracle has given no indication about the direction of products after an acquisition. Even though it has stated it intends to protect customers' investments in BEA products, its product road maps and convergence plans are still unknown. This uncertainty will create short-term opportunities for the likes of IBM, Software AG, Tibco Software, Progress Software and Red Hat, and further consolidation is likely as second-tier players try to gain the critical mass needed to compete against the two middleware behemoths.

RECOMMENDATIONS

- **Users of BEA's most popular products:** Don't panic, as long-term support is not in danger, even if the acquistion proceeds. Customers and prospects should continue to monitor the situation and weigh the risks of new strategic implementations before investing.

- **Oracle Fusion Middleware users and prospects:** Monitor progress of the proposed acquisition and its potential impact on Oracle products, weighing risks when making new purchases.

- **Other players:** Prepare strategic countermeasures. If the acquisition proceeds, second-tier vendors will find it harder to survive.

RECOMMENDED READING

- "BEA Systems Under New Pressure to Be Sold" — Carl Icahn has invested more than $400 million to acquire a significant stake in BEA and is advocating the sale of the company. **By Yefim Natis, John Rizzuto and Massimo Pezzini**
- "Trends in Platform Middleware: Disruption Is in Sight" — The combined effect of 14 major trends will disrupt the apparently static application server and transaction-processing markets. **By Massimo Pezzini and Yefim Natis**

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