Oracle & Peoplesoft: A Creative Negotiating Opportunity

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Are Mergers and Acquisition Maturing The Software Industry?

By Dave Scott

The high tech industry is just buzzing these days with mergers and acquisitions. The telecom arena is playing musical chairs with who owns who this month. Meta estimates that the software industry will consolidate as much at 30% within the next 3 - 5 years. What can you do about all this merger and acquisition activity as it relates to your contracts and future negotiation position? Let's examine the high profile Oracle/PeopleSoft acquisition as representative example of how to best position your organization in preparation for this acquisition.

Truth Or Rumors? It's Really Hard To Say?

Rumor #1: The most interesting rumor was that Larry Ellison wanted revenge against Craig Conway's departure from Oracle eleven years earlier. These two executives are reputed to have such a dislike for each other that one mused about shooting the other's dog. Or could it have been something more sinister?

Rumor #2: Oracle bid on PeopleSoft in an effort to block PeopleSoft's merger with J.D. Edwards. Had the merger been completed, it would have launched PeopleSoft into the No. 2 position in the multibillion-dollar market for business-management software solutions behind German rival SAP. Oracle had commanded that spot for years and Larry Ellison was not going to stand by and watch his company slip to #3 in the industry.

Truth #1: There are many sound business reasons for Oracle to acquire PeopleSoft. Realistically, the software industry is maturing. This means that the software business will consolidate and several very large players will emerge. It remains to be seen who the "last man standing" will be. Larry Ellison has been quoted as saying that "the industry is maturing rapidly and that high-tech companies will have to consolidate to survive the coming shakeout."

Truth #2: Oracle wanted to overcome some significant weaknesses in its portfolio of products. Larry Ellison knew he needed to focus on business-applications software programs that handle finance, accounting and customer relationship management (CRM). Low and behold, this is the kind of software PeopleSoft concentrates on. It has been said that Oracle "wants to be all things to all people."

It's About The Customer – Or How To Eat An Elephant In One Bite

With the acquisition, Oracle decided that it was less expensive to buy the competition than it would be to compete against them. Another contributing factor was the $9 billion in the cash that Oracle possessed. You might conclude that the money was "burning a hole" in Oracle's financial pocket.

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In recent years PeopleSoft, Oracle, SAP and Siebel Systems have consistently fought fiercely competitive battles for new customers. Consider that Oracle will gain approximately 2,000 new customers through this acquisition. These are “new” customers that probably never had a previous relationship with Oracle. The merger will provide Oracle with technology and products to compete head-to-head with SAP and solidify Oracle as #2 in the industry.

This acquisition is providing Oracle the benefit of acquiring market share without expending precious resources marketing. Oracle, with a couple of court battles, has not only acquired a competitor, they have purchased market share. Oracle decided to “eat the elephant with one bite.”

A Crash Course In How To Compress Technology & Time With $10 Billion Dollars

Take a few moments and consider the time frame. Lets put this in perspective; how much and how long would it take to acquire 2,000 new customers? Keep in mind that the daunting task is to acquire new customers in a maturing market that has a limited number of new customer opportunities for the remaining players. So with a stroke of pen, Oracle acquired 2,000 new customers without enduring the long sales cycle and expending the necessary resources. All 2,000 customers will come from the installed base of the PeopleSoft accounts.

What did this acquisition cost Oracle? The total cost was $10.6 billion for 400 million shares. Oracle funded this acquisition by paying $1.5 billion in cash and a $9.2 billion bridge loan. The combined company will have $9.9 billion cash. This arrangement could leave Oracle in an overextended cash position.

Finally, PeopleSoft has some pretty impressive technology. Oracle in turn could leverage this technology to compete head-to-head with SAP. It would have cost Oracle a significant investment to acquire or create the kind of ERP technology possessed by PeopleSoft. It seems natural that Oracle will leverage this technology to develop other ERP applications and strengthen other Oracle product lines.

In reality, Oracle was a top database software provider but had a hard time competing against PeopleSoft, SAP and Siebel Systems in selling software programs that are more specialized. As the needs of your company mature, your company’s need for more powerful data mining and ERP applications also matures – requiring more specialized software.

Consequences To You

The biggest consequence of this merger is that if you have PeopleSoft operating on IBM’s DB2, you potentially face a large infrastructure change. Larry Ellison has never made his lack of love for IBM a great secret. I suspect that Oracle will not support PeopleSoft products running on DB2 for the long term. I assume that Oracle will try to force those using DB2 to move over to Oracle’s platform.

Many PeopleSoft customers are rightly concerned about the quality of support and/or changes in support when moving to Oracle. This is a big concern given the large amount of PeopleSoft employees who will not be on the payroll in the next few months. If this happens, you must plan to potentially consume huge financial resources to avoid a complete disruption of your internal maintenance and support infrastructure. You know the relationships built between your internal IT support team and the PeopleSoft support team are going to be severely disrupted. This will leave your organization with support challenges.

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The post Oracle/PeopleSoft merger has eliminated 5,000 PeopleSoft employees. Oracle did tender offers to about 6,000 PeopleSoft employees, which approximately 90% have accepted. A key to the success of this merger is retaining PeopleSoft developers and programmers, including management, which Oracle states they are running at about a 96% success rate. This continuity of the work force is the cornerstone of the successful operational performance of the merged organization. The final merged company will have a research and development work force of over 8,000 with more than 3,000 coming from PeopleSoft. Lastly, this will result in Oracle becoming one of the largest R&D shops in the industry.

Oracle's next challenge will be to retain the PeopleSoft customers. Oracle has set a goal of 95% retention rate. Oracle is hinting at its dedication to PeopleSoft's client base by supporting PeopleSoft products until 2013.

Zen And The Art Of Options And Opportunities

The Oracle/PeopleSoft merger presents several negotiating opportunities. These points may seem obvious, but take the time to study the legacy contract or seek professional assistance – it may save millions of dollars that you suspect are already "sunk costs." On the other hand, it might be more advantageous to keep your old deal. Here are two points to consider:

First, and perhaps the most obvious is to leverage the total volume of the relationship for both Oracle and PeopleSoft into new terms and conditions for your company. Even though Oracle will continue to use their policy of negotiating terms and conditions on a case-by-case basis, it will be in your best interest to exploit this as much as possible if your legacy system will be compromised.

Secondly, if your Oracle and PeopleSoft renewals provide any degree of latitude during a new rollout or expansion, it would be prudent to re-negotiate your current terms and conditions. This course of action follows the old attorney saying of "It depends." That is, it depends on the timing of your renewals and the terms and conditions of your legacy contract.

Either way, it would be prudent to review both the Oracle and PeopleSoft agreements, consider your options, calculate your financial exposure for hardware and software, and realize – change is hard.

Caveat Emptor – You Had Better Learn What This Means & Pretty Darn Quick

If you haven't already done so, you might want your Contract Manager and/or internal counsel to review both license agreements' assignment clauses. This will dictate a lot of your strategy. However, no matter what your assignment language dictates, the courts or the final merger agreement could supersede any language you have. My bet is that this will be the case and you will be operating your PeopleSoft license under your Oracle agreement. Again, make sure to consult your legal counselor.

Microsoft and SAP are beginning an aggressive marketing campaign to current PeopleSoft accounts in an effort to woo them from moving towards Oracle. Some of the offers are extremely attractive. As an example, SAP unveiled their safe passage program to migrate your PeopleSoft license to the "mySAP" ERP suite. It offers current PeopleSoft customers up to 75% trade-in credit off their original licensing price. SAP is also offering technical support and maintenance for PeopleSoft products.

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What does this all really mean? Take your time! Review as many options as possible. Review your legacy agreement, review your assignment language, listen to Oracle's pitch on their future, and study possible migration to SAP, Microsoft or IBM.

Pay close attention to the marketing campaigns of SAP, Microsoft, and IBM; because if they see Oracle stress because of being financially over extended and they start a price war on DB2 and SQL… lets just say things could get interesting in a hurry!

Maxelerate's goal is to help Sourcing, Procurement, Purchasing, Engineering, IT and other professionals in all industries and government agencies to get better deals from suppliers. We accomplish this by providing Consulting, Training, Seminars and Leadership Implementation.

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