



Briefing

Oracle Analysts Day - Oracle World September 1997

On September 26, 1996, Oracle hosted Analysts Day. Presentations were made by Ray Lane (President and COO), Jeffrey O. Henley (Executive VP and CFO), Jerry Held (Senior VP Server Technology), and Larry Ellison, CEO. In overview, Oracle emphasized its:

- Commitment to network computing
 1. Network Computing Architecture
 2. Remote and outsourced data management services
 3. Web-enabled Applications
- Dominance of the server market
 1. NT
 2. Unix
- Growth
 1. Revenues
 2. Application market share
- Strategy
 1. Application Market Capture

Ray Lane, President and COO

Mr. Lane presented on the topic Network Computing, Applications and Operations. Client/server computing was declared to have failed: "Client/server has everything in the wrong place... It has data and the management of data devolving to end users." (*See AT Comment 1.*) Client/server was characterized as being too expensive, too complex, and lacking scalability. (*See AT Comment 2.*) It was positioned as "two-tier", with network computing being "three-tier" and "thin client." (*See AT Comment 3.*) Network computing was characterized as being something anyone could afford and intuitive. The vision is "NC Dialtone" in which the average person can access it anytime, messages can be sent and received, and products and services can be obtained. Of note is the idea of integrating network computing with the supply chain. In Oracle's vision, this has obvious implications for Oracle Applications which will "extract value." Oracle argues that affordable access, network bandwidth, powerful servers and applications, and tools are necessary to making the vision a reality. Their mission is to provide database servers for all data and application servers for all

application logic, tools that provide design (and implementation) from the analysis process, and network computing to make the vision available to everyone. (See AT Comment 4.) Fundamental to the entire vision and strategy is the Network Computing Architecture. (See AT Comment 5.)

On the application side, Oracle sees the trend as moving from vertical integration to supply chain management, and outsourcing. It presents the current BPR approach as a non-solution. In its place, the componentization of business processes and the externalization of business process software (in application servers) via the NCA is expected to provide the means to effectively re-engineer the business in a more controlled manner. To this end, Oracle is moving to capture the applications market on a segment by segment basis. At this point, Oracle claims to have mature, complete, and recognized solutions for the CPG and Energy segments. As evidence, they pointed out that they have lost no competitive sales situation in these segments to SAP in the last twelve months. The strategy is to focus on one segment at a time, winning all competitive sales situations in that segment no matter the cost (but ostensibly on technological merit). (See AT Comment 6.)

Identified and less mature segments of interest include Public Sector, Financial Services, Industrial, Communications, and Healthcare. Associated with each segment will be a sales, R&D, and support organization with industry specific expertise and that behaves like an in-house business operating in that segment. Oracle reported 4082 customer sites and \$1.16 billion in applications revenues for FY97. They are spending \$181 million annually in applications related R&D and employ over 5,300 employees dedicated to applications (more than one employee per site).

Oracle Applications Release 10.7 is currently in Beta and will be in production in fourth quarter. This release is fully capable of Web deployment. Any Oracle Developer-based application can be re-deployed quickly and easily as a thin client and an application server, almost at the click of a button. The goal is to get all customers to upgrade to this release by December 1998. Release 11 is in initial release. It will incorporate features for over forty countries (including Eastern Europe and Latin America) and support for 28 languages with multi-lingual forms. Release 11 Financials will support Euro currencies, multiple reporting currencies, and cross currency translations. Web-enabled supply chain support, workflow, and Web-based customer self service capabilities will be emphasized.

Jeffrey O. Henley, Executive VP and CFO

Oracle reported that revenues were up 33% over last year, of which the fastest growth (44%) was due to service revenues. Nonetheless, 49% of the \$6 billion in revenues came from revenues other than consulting, education, and support (including license revenues). Revenues from the Americas constituted 53% of the total. Application licenses accounted for only 9% of the total, DBMS licenses 34%, and tools 5%, while services (and "other") accounted for 52% of revenues. Applications grew faster than either tools or DBMS licenses, at approximately 65%. With a \$4.45 billion applications market defined by the last four quarters revenues of SAP (51%), Peoplesoft (12%), Baan (10%), and Oracle (27%), Oracle reported \$1.2 billion in total applications revenues. Total application license revenue shares were SAP (57%), Peoplesoft (12%), Baan (11%), and Oracle (20%).

With this picture, Mr. Henley, Mr. Lane, and Mr. Ellison emphasized a strategy in which the Oracle sales force was being directed to win every competitive sales situation from Peoplesoft in fiscal year 1998. Oracle has followed this strategy successfully with other competitors, using tactics of undercutting license fees and providing free or low cost consulting. The goal is to capture the Peoplesoft market share, growing Oracle's market share to 32% while eroding the SAP market share in directed attacks on particular segments. The stated belief is that Baan cannot sustain its market share over the next two years and its market share will likewise be available to either Oracle or SAP. Oracle claims that it has the technological advantage over SAP and that this advantage will ultimately make it the applications market leader. It presented its expertise in database application software product development as far superior to that of Baan and SAP. It also promoted its experience in the data warehouse market (and related products) as significant in its ability to bring application data warehouses to market.

While UNIX DBMS licenses made the greatest contribution to DBMS license revenues (69%), growth was only 17%. By contrast, NT DBMS licenses contributed only 22%, but growth was 148%. According to a September 1997 Dataquest report, Oracle now claims the majority market share for NT DBMS licenses at 35% (over Microsoft's 33%). Oracle emphasizes this win in the NT market and forecasts NT as the dominant platform of the future for servers.

Oracle also claims 54% of the UNIX DBMS market. Oracle reported a DBMS license and services revenue share of 70% versus Informix (16%) and Sybase (14%) over the last four quarters.

Jerry Held, Senior VP, Server Technologies

Mr. Held emphasized Oracle's early successes with network computing, citing nine key customers. Network computing was defined as a three-tiered architecture with Network Computers, application servers (Oracle's Web Application Server), and data servers (currently Oracle8). The Network Computer was presented as replacing terminals and PCs in corporate environments. The Web Application Server 3.1 (currently in Beta) is an NCA version of the company's Web Server, designed to permit easy deployment of business processes in the form of "application cartridges."

Although Oracle presented Oracle8 as undergoing rapid adoption (citing positive experience by a number of Beta customers), only one customer (EDS) was identified as going into production. The company stated that DBMS support for Java (via stored procedures) would go into Beta with Oracle8.1 during the first half of 1998. Oracle8.1 was promised to go into production in the second half of 1998. (*See AT Comment 7.*)

Specialized Oracle Data Mart Suites (for example, a Sales & Marketing Data Mart) were described, though no delivery dates were given for particular suites.

Larry Ellison, CEO

Speaking after dinner, Mr. Ellison further emphasized Oracle's commitment to Network Computing. He pointed out that it was now cheaper to keep your data in an Oracle DBMS server than on the desk top. Product capability to drag PC documents off the desktop and drop them on a remote, Web-accessed DBMS server was promised, further promoting a vision in which Oracle (the company) would provide data servers which managed all data remotely as an outsourcing arrangement. The degree to which the vision includes Oracle providing this outsourcing is unclear. (*See AT Comment 8.*)

The vision does include remote database administration services in which Oracle, for a fee, will design and manage databases for Oracle DBMS users. Oracle has modified its Enterprise Manager tool to support this service, which it will introduce in the first quarter of 1998. The justification given for this service is the increased demand for skilled database administrators and the decreased supply of computer science graduates. Indeed, Mr. Lane had earlier stated, "There aren't enough Oracle DBAs and there will never be. Its impossible. We can't keep running the model where every company needs dozens of them." (*See AT Comment 9.*)

However, if skilled personnel are not generally available, it does not seem to follow that Oracle will be able to acquire sufficiently skilled personnel. Indeed, since application-specific expertise is often required of database designers and administrators, any such Oracle employees would have to be trained in customer's proprietary business practices as well. Furthermore, it seems unlikely that Oracle will convince very many businesses to share proprietary knowledge about their data, as is necessary to its proper administration.

Mr. Ellison further derided SAPs ability to deliver quality software in a timely manner. He suggested that Oracle would almost certainly take over Peoplesoft's market share and overtake SAP as the market leader in a few years.

Mr. Ellison also expressed amusement at the plight of Informix. When asked if he would consider a bid to purchase Informix, Mr. Ellison said that someone certainly would - that if the stock price fell low enough, his cat could buy it. (*See AT Comment 10.*)

Analysis of the Financial Report

First quarter 1998 revenues increased 30 percent to \$1.369 billion over first quarter 1997 revenues of \$1.052 billion. Net income was reported as having risen 33 percent to \$149.8 million (compared to \$113 million). In fact, net income on the core business *decreased* by approximately 29 percent. Oracle moved \$167.1 million to a lower tax bracket through the acquisitions of TSC and Navio.

Had the acquisitions of TSC and Navio not been used for pre-tax credits, net income would have been approximately \$80.13 million. This decrease was due to unusual increases in net operating expenses, which more than consumed the 30% increase in revenues. The unadjusted net operating expenses (without the TSC and Navio expenses to create adjusted net operating expenses), actually grew by approximately 49% over first quarter 1997. (See AT Comment 11.)

AT Commentary

AT Comment 1:

We believe that these comments are equivalent to Oracle "throwing in the towel" on client/server. Considering the large number of successes that many customers have had with client/server, it seems more likely that Oracle's experience is indicative of Oracle's products than of client/server technology.

The management of data "devolving" into the hands of end users may be characteristic of Oracle's client/server experience, but it is definitely not the approach that any sane client/server architect would follow. Of course, the whole idea of moving away from the horrors of mainframe computing was to put data in the hands of end users. If Oracle perceives this as bad, then we fear they will lead us into a "dark ages" of computing in which Oracle attempts to be the feudal warlord. Sound silly?

AT Comment 2:

The idea that client/server is too complex, too expensive, or does not scale is a strange analysis. Client/server is less complex in many respects than centralized computing, and certainly network computing application design and development does not reduce any of the complexity. Network computing increases complexity in many ways over more traditional client/server approaches (additional required tiers, special languages, special application design, many more application components, management and security difficulties, etc.). Many analysts have promoted the idea that client/server was more expensive than centralized computing. The problem with these analyses is that they do not take into account the massive investments that were made in mainframe infrastructure nor do they make comparisons based on business functionality. Although a particular application may cost more than its corresponding legacy application, it also delivers more business functionality in less time and in a more flexible manner than the mainframe application. Who (besides Oracle management) can forget the "priesthood" that held us captive in the days of centralized computing (before client/server).

Client/server non-scalability is a vigorously promoted concept, especially by some (e.g., Gartner Group). However, there are many counter examples (including Oracle sites) and those that are most fervent in this crusade demonstrate a poor understanding of scalability issues. See the our reports on results from the Alternative Technologies DBMS Scalability Project. We believe that Oracle would be better served by learning what makes a client/server application scale, have a good ROI and ROR, and be relatively inexpensive rather than condemning all client/server based on some of its customers experiences with its products. Teaching success is always better than condemning failure.

AT Comment 3:

This is a very misleading characterization. Client/server is characterized by the method of cooperation among distributed components, and not whether it uses thin or fat clients, or a two tier or many tier architecture. In deed, using thin client or three-tier architectures inappropriately can be as devastating as any other mistaken use of the technology.

AT Comment 4:

This aspect of Oracle's strategy is certainly an admirable goal. There is certainly room for a computing appliance that would bring access to email, Internet information, and simple Web applications to the general public. We hope that Oracle will recognize that this type of computing defines a new market and does not compete with either the technology or the market of client/server computing.

AT Comment 5:

It is interesting to note that many of the key components of the Network Computing Architecture do not as yet exist. We expect this will be remedied in 1998, but for now the DBMS does not have its own ORB, nor is Java supported within it.

AT Comment 6:

Oracle is likely to be moderately successful with this strategy. Although we do not believe they will overtake SAP, Oracle will most likely make the market an unfriendly place for both Baan and PeopleSoft unless these companies become much more aggressive.

AT Comment 7:

We believe that Oracle8.1 will come much closer to delivering NCA and object database features that were promised, but not delivered in Oracle8.

AT Comment 8:

In any case, it seems unlikely that control of either the personal data of the typical corporate worker or mission critical data would be relinquished in this manner. Although some smaller businesses (such as private schools) may find the option attractive, any company that considers their data to be a part of their competitive advantage will most likely insist on maintaining local control of it. As one executive commented, "Why would I put my data in a vendor's hands when they can't even give me the support I need now?"

AT Comment 9:

Anecdotal accounts do seem to confirm Oracle's experience that "...there aren't enough Oracle DBAs and there will never be. Its impossible..." and "... every company needs dozens of them." We are concerned that Oracle may have interpreted its customer's experiences with the Oracle DBMS as inherent in customer managed RDBMS technology, rather than attempting to analyze why so many DBAs are needed and address those problems. Oracle8 has gone a long way toward addressing some administrative problems with the products.

We believe that the only model of database administration that will make sense ultimately will be that of DBMSs that manage themselves based on rules, goals, and configuration information supplied by the DBA. Rule based optimization of storage allocation, data placement, data access and update, backup, etc., will permit the integration of the functions into the DBMS kernel and permit them to be performed continuously and with full online access to all data. Oracle's Ken Jacobs (Sr. VP Server Technology) concurs and believes that Oracle will pursue this model.

Postscript AT Comment 10 (January, 1998):

It is interesting to note that, despite Mr. Ellison's sarcastic response to Informix's financial woes, Oracle is now experiencing the pain of low stock values. At the time of the remarks, Oracle's stock near its 52 week high of 42 versus an Informix stock price of about 8. The company has since dropped as low as 17.75 (and sold as low as 14) versus Informix's 4.

Postscript AT Comment 11 (January, 1998):

Interestingly, Oracle decided to restate its earnings about two weeks after this briefing, and, in particular, decided not to take the pre-tax credit for one of the two companies. If both had been involved in the restatement, a year to year decrease in net income of approximately 29% would have been reported in the restatement by our calculations. Interestingly, we found no financial analysts that realized how important the pre-tax credits for TSC and Navio were to Oracle's reported good financial health.

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