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Oracle, SAP wage bare-knuckle fight for dominance

Software war getting ugly

By Jon Swartz
USA TODAY

SAN FRANCISCO — And software industry watchers thought the Oracle-PeopleSoft fight was a heavyweight slugfest.

That \$10.3 billion hostile takeover may just be a tuneup for Oracle's bigger, and newest, challenge: unseating SAP in the \$23.4 billion global market for software used by companies to run human resources, accounting and other basic business functions. Germany's SAP commands 45% of the market. Oracle is a distant second, at 19%, AMR Research says.

Still, that hasn't deterred Oracle executives from predicting victory and their SAP counterparts from barking back.

"I won't predict the round we knock them out, but we will," says Oracle President Charles Phillips.

"Talk has always been cheap," counters SAP America CEO Bill McDermott. "The reality is, we are the market leader, and gaining share. This other stuff is a sideshow."

The enmity underscores a feud that escalated in March, when Oracle trumped SAP's bid for Retek, a small U.S. maker of software for retailers, and acquired it for \$670 million. Scooping up valuable properties in the consolidating business-software market will be a key factor in determining the chief supplier of the next generation of business software, analysts say.

At the same time, SAP and Oracle are racing to create ambitious software services they say will determine who lands the biggest corporate accounts. SAP has launched the latest version of its business software, NetWeaver.

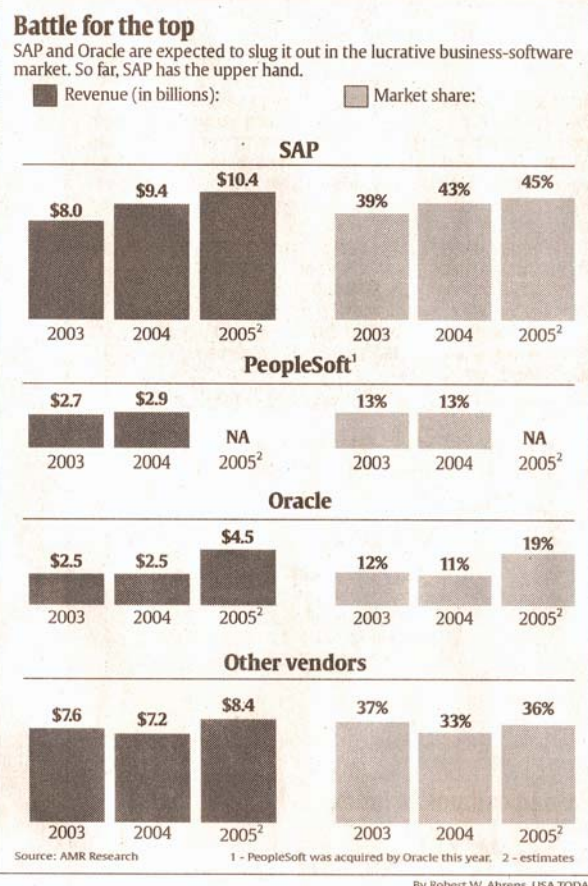
Oracle sarcastically calls it NetDeceiver, a warmed-over version of old software. "Innovation is our main weapon," Phillips says. "For SAP to come onto our turf is a Christmas gift." He says SAP's software is too complex and will increasingly frustrate customers.

SAP executives dismiss Oracle's own plan, Fusion, as being at least three years away. SAP claims Oracle has little software to complement its database. "This is a database company trying to get into the applications space, where they have no credibility," McDermott says.

If the sniping sounds familiar, consider it another Oracle clash, software analysts say. For the uninitiated, this is how it plays: Oracle CEO Larry Ellison identifies an archenemy, declares war, attacks it with bare-knuckle glee, and wins. Then, he roams the market for another notch in his holster.

Before PeopleSoft, Ellison's targets were Siebel Systems and Sybase. But this time, Oracle is picking on someone bigger, software analysts say.

"This is different from PeopleSoft," says Jim Shepherd of AMR Research. "Oracle is in the unfamiliar position of



Fighting back: "Talk has always been cheap," says SAP America CEO Bill McDermott. "The reality is, we are the market leader."
By Eileen Blass, USA TODAY

being in the No. 2 spot. They're unaccustomed to be struggling for market share. Oracle needs a staggering growth rate to catch SAP."

Buy or be bought

Lately, the feud has centered on the tug of war over Retek, one of several business-software makers that could be swallowed by Oracle or SAP as they jockey for dominance. SAP could target as many as a dozen specialized companies, including several Oracle has eyed, such as Siebel and BEA Systems, says Martin Schutz, an analyst at Hochfeld Independent Research Group.

"It seems everybody is in play in the enterprise-software market," says software analyst Erin Kinikin of Forrester Research. "The market is consolidating, and SAP and Oracle are in the best positions to pick up share."

Acquisitions are a departure for SAP and Oracle, which until recently shied from buying companies. But Oracle's December buyout of PeopleSoft doubled its share in a market SAP has lorded over for years.

If Oracle continues to make smart acquisitions, it can build revenue and close ground on SAP, software analysts say. Oracle's high-margin database business gives it a distinct advantage over SAP in acquisitions because it generates so much more cash.

Plus, Oracle's 40% operating margin dwarfs SAP's 27% margin. As a result, Oracle has \$9.2 billion in cash, more than twice SAP's, says Stephen Trotta, an analyst at Technology Business Research.

"Acquisitions may be the only way for Oracle to catch SAP," Shepherd says.

Oracle may not be through. It is considering scooping up rival Siebel, according to reports in the mainstream and trade press. Oracle and Siebel declined comment.

By the same token, Oracle runs the risk of stretching itself thin if it buys too many firms too quickly, software analysts say. "Tech acquisitions are the most difficult to pull off," Trotta says. "It all comes down to management and execution."

SAP can hardly rest on its lead. If it doesn't come up with database and infrastructure software that pleases corporate customers, it could conceivably become an acquisition target, some say.

Trip Chowdhry, senior software analyst at FTN Midwest Research Securities, says SAP could be purchased by Microsoft, IBM or Hewlett-Packard. But SAP's market valuation of \$50 billion could make it too expensive.

Microsoft discussed a play for SAP but deemed it too pricey and complex, according to testimony during the antitrust trial over Oracle's bid for PeopleSoft last year.

Formidable foes

Chowdhry's assessment appears unlikely for now, however. SAP is the world's largest business-software company, with 27,000 customers worldwide. It plans to hire 3,000 employees this year, or 9% of its 33,000-person workforce.

What's more, its recent quarterly results — a 17% increase in revenue, to \$2.3 billion — is the latest proof it will be hard to dislodge.

"SAP is taking (market) share from everyone," Kinikin says. "It is a safe choice for companies because it's the most widely used software, and it supports 25 vertical industries."

The nearly 51,000-person Oracle, by comparison, has added 10,000 workers in part because of its acquisition of PeopleSoft. Oracle's software-application business, including PeopleSoft, jumped 47% to \$851 million in its third quarter, ended Feb. 28. It has 23,000 customers. Database revenue is counted separately.

Says McDermott: "The beauty of the financial markets is that every quarter the scoreboard reflects who is winning."

"Oracle talks a lot about us for a reason," SAP's McDermott says. "Their house is so out of order, with a flawed (business-software) strategy, \$11 billion in acquisition costs and a precipitous decline in applications revenue. They have no story to tell."

Still, SAP's path isn't entirely clear. While Oracle and SAP slug it out, Microsoft hopes to close ground by wooing smaller businesses. Within several years, Microsoft should be in position to mount a serious challenge, software analysts say.

Microsoft executives say they are avoiding pricey enterprise solutions and concentrating instead on thousands of small and midsize businesses.

"We'll let Oracle and SAP beat each other up over the largest 1,000 customers. We're focused on the next 50,000," says James Utzschneider, a general manager at Microsoft. "If Oracle or SAP offered their products to midsize companies, those companies would gag on the price and complexity."

With so many behemoths in the same ring, it wouldn't be surprising if SAP had pause for such a daunting fight. But company executives are confident — and with good reason, software analysts say.

"SAP controls its destiny," Forrester's Kinikin says. "If they give customers a fair deal and resist the temptation to act like a monopoly, they'll maintain a wide lead. It is no pushover."