Customer View: Will Oracle's Strategy Pay Off?

Oracle's surprise announcement last month that they wouldn't port new versions of their software to Intel's Itanium chip has caused an uproar in the enterprise server segment of the industry. Why is Oracle dropping Itanium such a big deal? It's because Oracle, with their purchase of Sun Microsystems, is now a head-to-head competitor with former partners IBM, HP, Dell, and other server vendors.

Oracle, as a major ISV <u>and</u> system vendor, could potentially use its power as a key software provider to give unique advantages to its own hardware products while disadvantaging competitors. Many argue that Oracle is already doing this with their software pricing, while others would say that it's just business as usual in a dog-eat-dog industry.

We wanted to find out how real-world customers feel about Oracle's move, the motivations behind it, and its implications for the industry and their own organizations. More than 450 enterprise IT customers shared their thoughts with us in our **"What's Up With Oracle?"** survey. (Survey demographics and methodology are available here.)

Our first set of results (available here) discussed what customers think about Oracle's motivation – was it just business as usual, or part of an Oracle strategy to use their software franchise to push their hardware?

The second batch of questions asked customers what they thought Oracle might do next [(available here)](available here). We gave them a wide range of possible Oracle actions and asked them to predict the likelihood of Oracle taking (or not taking) each of those actions. Of course, customers also had the option of saying that Oracle wasn't pursuing any big-picture strategy at all.
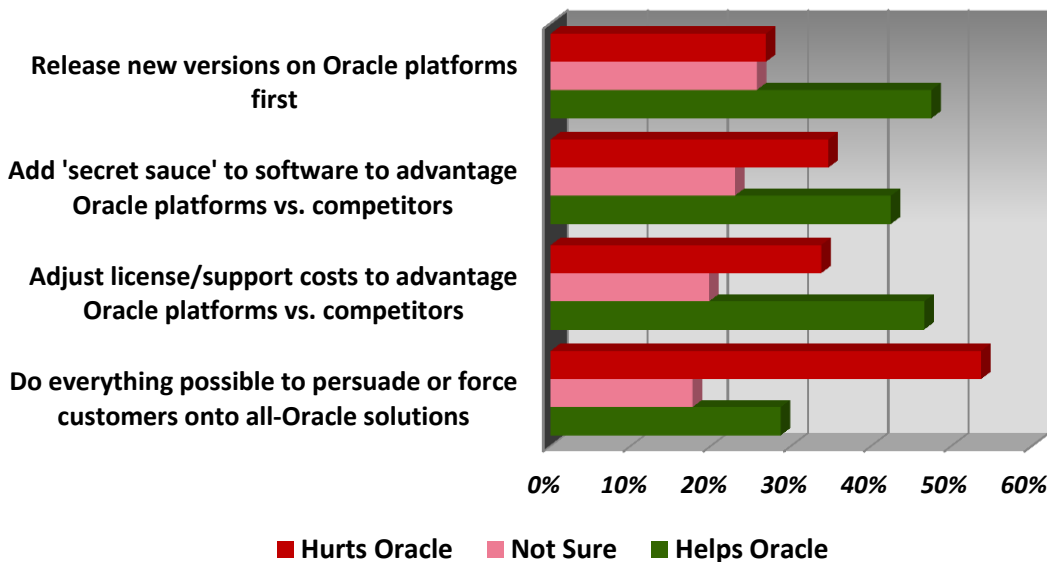
The results were clear cut: large majorities of customers see Oracle acting more aggressively, using its strength as an enterprise software ISV to displace platform competitors.

Next, we asked them to look at that same list of potential Oracle moves and tell us whether they see each move helping or hurting Oracle overall. We weren't asking the customers whether they like what Oracle might do, or whether it would help them personally. We asked specifically how each action will work for Oracle and help the company achieve its goal of increasing market share and industry dominance.

We arranged the results into two broad buckets. The first (below) consists of Oracle actions that don't strike at a particular competitor. As can be seen from the chart, customers generally see these actions as helpful to Oracle over time, even if they aren't particularly appreciated by the customers themselves.

However, the term 'Helps Oracle' doesn't describe really describe the tenor of the responses. Even the Oracle move rated as most helpful by our survey respondents ('Release new versions on Oracle platforms first') doesn't rise above the 50% level.

Helps or Hurts Oracle? General competitive moves

Release new versions on Oracle platforms first

Add 'secret sauce' to software to advantage Oracle platforms vs. competitors

Adjust license/support costs to advantage Oracle platforms vs. competitors

Do everything possible to persuade or force customers onto all-Oracle solutions

0%   10%   20%   30%   40%   50%   60%

■ Hurts Oracle   ■ Not Sure   ■ Helps Oracle

Other measures, like 'Add secret sauce' to make Oracle software run better on their own platforms vs. competitors, is seen as an Oracle competitive advantage by 42% but as a competitive disadvantage by 35% of our respondents.

It's a similar story when it comes to Oracle adjusting licensing and support costs to change the price-to-performance ratio of their platforms vs. competitors.

Fewer than half of the customers we surveyed saw this as beneficial to Oracle over the medium to long haul. We also had a number of respondents say that they believe that Oracle is already doing this on its pricing for SPARC vs. competing processors. Recently, Oracle upped the price for Itanium processors while lowering prices for multi-core SPARC processors. It could be argued that comparative performance between the processors justifies different pricing for each, but many believe that Oracle uses these ratings to give TCO advantage to their own gear.

The last category on this chart is where, in our survey respondents' minds at least, the story changes. A hyper-aggressive Oracle strategy to use every tool at their disposal to drive customers to an all-Oracle infrastructure is seen as a negative by more than half of our respondents.

According to qualitative responses in the survey, customers are already seeing pressure from Oracle salespeople along these lines, and many of them (the customers) don't appreciate it. As we'll see in other survey results, a significant number are reacting by re-evaluating their current Oracle solutions in light of the "New Oracle."

Oracle actions that are targeted against specific competitors are seen in an even dimmer light. The chart below shows that over 60% believe that Oracle dropping support for IBM's Power systems (Unix) would be a mistake that would ultimately hurt Oracle. A bare 13% believe that this would be helpful to the company.

Helps or Hurts Oracle? Targeted moves against platform competitors
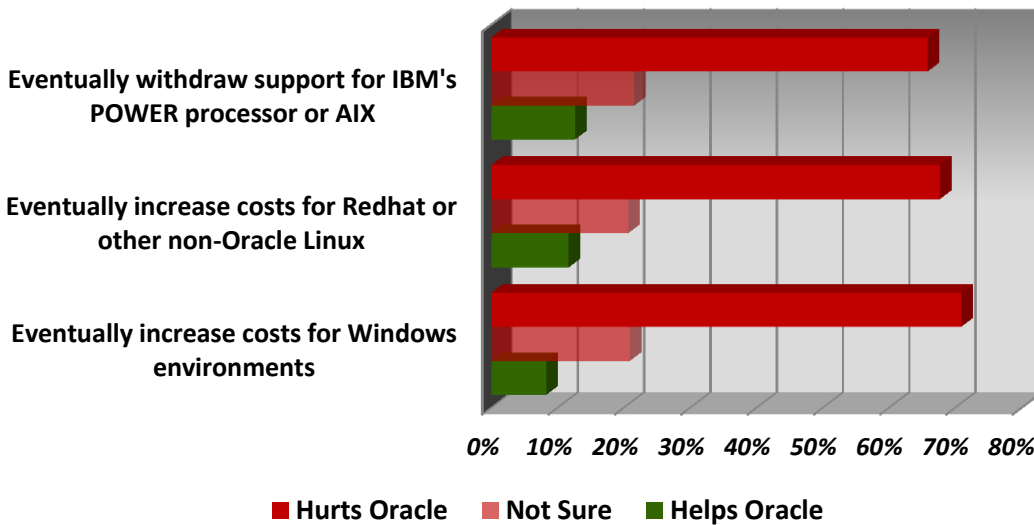
We see the same pattern when it comes to RedHat or other non-Oracle Linux distributions.

While Oracle can't technically ensure that their software won't run on these operating systems, there are plenty of ways they could make it more costly to use those environments for Oracle software.

By a large margin, customers see this as a bad move by Oracle.

The worst move for Oracle in the eyes of our survey respondents would be to launch a tactical strike at the Windows installed base. There are several reasons for this, one of which is the sheer size of the Windows-centric market. It's also because Microsoft's SQL Server database has advanced steadily over time to become a lower cost 'good enough' substitute in many situations.

In the next and final section of the survey, we ask our respondents whether their opinion of Oracle has changed in the last few years. We also ask about their usage of specific Oracle products and how it might change in the future. Stay tuned for that.

If you're interested in finding out more about this survey (demographics, expanded results, detailed GCG analysis), you can find it all on GCG's Recent Research web page or use the contact information below to reach out to us.

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