THE WALL STREET JOURNAL.

TUESDAY, NOVEMBER 20, 2007
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As Software Firms Merge, Synergy Is Elusive

Shareholders May Prosper From Trend, but Customers See Scant Benefits So Far

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SMALL BUSINESS

WHEN **ORACLE** Corp. bought rival software maker PeopleSoft Inc. two years ago, it assured customers like Lev Gonick that life would get easier.

At Case Western Reserve University in Cleveland, Ohio, where Mr. Gonick is chief information officer, students and faculty used software from both companies. Often, that resulted in confusion as some people struggled to remember to use Oracle's portal software for tasks like renewing library books and PeopleSoft software to register for classes. So when Oracle acquired PeopleSoft in 2005, Mr. Gonick hoped people would be able to access all the services through just one program.

That hasn't happened. Instead, Case Western's information-technology department today pays Oracle more than $200,000 a year in support fees for both systems. Mr. Gonick also estimates he has spent at least an extra $100,000 on staff and equipment for the systems because the integration that Oracle promised hasn't materialized. Oracle says it is still working on integrating its existing and acquired products and has introduced technology that customers can use to integrate software themselves, but Mr. Gonick remains wary. "In my experience, it's been a dog's breakfast wrapped in a nice pretty ribbon," he says.

The issue of what customers experience after a big tech merger is once again coming to the fore as the software industry undergoes its latest wave of consolidation. **International Business Machines** Corp. last week plunked down $5 billion to buy software maker **Cognos** Inc., while Germany's **SAP** AG recently agreed to purchase France's software maker **Business Objects** SA for $6.8 billion. Meanwhile, Oracle last month made a failed bid for software maker **BEA Systems** Inc., and has in recent years also purchased software makers Siebel Systems Inc., Retek Inc. and Hyperion Solutions Corp.

While the voluminous deal activity has meant a bonanza for shareholders—many software stocks have soared this year, partly because of the hot merger landscape—Mr. Gonick's experience highlights the flip side: As the big software companies flesh out their integration plans internally, customers on the outside are left with unanswered questions about their future. It often takes years for software makers to integrate all the products they have bought—if they manage to at all—making it hard for customers to decide what to buy in the meantime. Some customers worry about losing negotiating power in the long run as the number of product choices dwindles. And all the dealmaking can crimp a CIO's ability to plan, since it's unclear which software makers will survive.

"Despite what the software companies would tell you, all these acquisitions aren't necessarily beneficial to customers," says Lee Geishecker, an analyst at tech-research firm AMR Research.

Larry Ellison

Oracle spokesman Bob Wynne declined to comment on Mr. Gonick's experience but he acknowledged that integrating all of Oracle's existing and new software "happens over time." He said Oracle's Application Integration Architecture—a platform introduced earlier this year—is meant to help customers integrate software on their own, in the meantime. He said in a statement that following each Oracle acquisition, customers benefit from having a single source of technical support, fewer challenges in getting disparate pieces of software to work with each other, and the promise that Oracle will over time package more software together in an integrated way.

Overall, software customers are treated better today than in the 1990s, says AMR Research's Ms. Geishecker. Back then, software giants swallowed smaller firms, then slashed funding for product development and technical support. That left customers with outdated software and little help using it.

That has changed as the software industry has matured. Now, after a company is bought by the likes of Oracle, **Hewlett-Packard** Co. or IBM, customers often deal with the same sales reps they had before the deal. And rather than being forced to switch to the new parent company's products, customers say that acquirers are supporting and updating the software they have bought.

But that isn't the only thing that has changed in recent years. Today, many of the companies being acquired aren't start-ups. They're established, profitable companies with a slew of customers.

This has left CIOs and information technology departments with less influence in negotiating software discounts because there are fewer vendors to pit

Big Tech Companies Get Bigger

Some recent software company acquisition deals

Target	Acquirer	Deal value, in billions	Date
Cognos	IBM	$5.0	Pending
Business Objects	SAP	6.8	Pending
Opsware	H-P	1.6	Sept. '07
Hyperion Solutions	Oracle	3.3	April '07
Internet Security Systems	IBM	1.4	Oct. '06
FileNet	IBM	1.6	Oct. '06
Mercury Interactive	H-P	4.8	Nov. '06
Siebel Systems	Oracle	6.1	Jan. '06
PeopleSoft	Oracle	11.1	Jan. '05

Source: company filings

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against each other at the bargaining table, though customers can also potentially lower maintenance and integration costs by buying more software from a single vendor, says Eliot Colon, chief operating officer at Miro Consulting Inc., a software-licensing consultancy in Fords, N.J.

Steve Snodgrass, chief financial officer and head of IT at **Granite Rock** Co., a Watsonville, Calif., company that owns and operates quarries, says the consolidation has been disconcerting. Years ago, he bought accounting software from software firm J.D. Edwards & Co. and financial-reporting software from a firm called Crystal Decisions Inc.

Today, J.D. Edwards is owned by Oracle and Crystal is owned by Business Objects, which is being acquired by SAP. He pays Oracle a 22% maintenance fee, up from the 12% fee he paid J.D. Edwards, and Business Objects just raised its rate to 25% from 22%. Even if the new owners change the software so they wouldn't work with each other's products, which Mr. Snodgrass fears will happen, he can't afford to buy something new. "Replacing the software would be a monumental undertaking," he says.

Bill McDermott, president and chief executive of SAP's U.S. division, says the company won't change the software it acquires. Oracle Chief Executive Larry Ellison said last week that his company would continue to build its products so that they work well with products from other vendors.

Even the best acquisitions can create some turbulence. When H-P bought software maker Mercury Interactive Corp. in 2006 for $4.8 billion, Steve Flammini, chief technology officer at **Partners HealthCare System**, found that his costs didn't go up and that H-P minimized the number of sales and service people he had to deal with. Still, he says he misses the intimate relationship he had when Mercury was smaller. "You're picking more than a product," Mr. Flammini says. "You're picking a partnership."

David Gee, H-P's vice president of marketing for software, says the company is working hard to improve the experience for customers of companies it has acquired. He says H-P is folding technology from these companies into new products and will continue to support customers who want to keep using the old products.

Those just now buying software from big vendors and planning to start using it in a few years could find themselves in a better position than existing customers. Kristen Blum, CIO at **Abercrombie & Fitch** Co. in New Albany, Ohio, earlier this year bought retail- oriented software from Oracle that originated from Retek and Hyperion. She is installing all of it now, intending to use the programs starting in 2009. By then, she is betting Oracle will have found a way to integrate all that software. "As long as they stay ahead of me, I'm good," says Ms. Blum of Oracle.