

Oracle – Sun : A hard road ahead

A blog post by Gary Barnett

I've had a number of conversations with clients on this topic over the past few months, so it made sense to write a note.

If you're pressed for time:

- It's sad and all that, but Sun had it coming; Sun's performance meant that acquisition was inevitable
- There's a hard road ahead for Sun employees as Oracle moves to meet the commitments it's made to shareholders; once the deal goes through, expect 12-18 months of turmoil within Sun
- There are major opportunities for IBM and HP, while Sparc isn't yet a burning platform there's a definite smell of smoke in the air
- While there's no doubting Oracle's success in software, the company is unproven in hardware and Oracle has plenty of challenges to focus on over the next five years without adding the saving of a hardware business to the list
- Sun brings a mixed bag of software assets, with a danger that they'll provide more disruption than revenues
- It's unlikely that Oracle will mess up Java
- It's unlikely that Oracle will spike MySQL and if it tried to MySQL would survive
- The EU will delay, but not prevent the transaction : That is unless Ellison gets bored with waiting

It's sad and all that, but Sun had it coming

I've been an admirer of Sun technology since the 90's. So there is a part of me that's a little blue at the thought of such an industry icon simply being absorbed into the Oracle machine. That said; Sun had it coming: the company is reaping the rewards of appalling strategy and excessive sentimentality.

Sun has suffered from a desire to “focus” on so many things that the result has been a lack of proper focus on anything. The adage “Sun invented Java, and then managed to make no money at all out of it” has become a cliché. Yes, there's a case that Java drove the Sun brand which in turn drove hardware sales but no matter how hackneyed a cliché is, there's nearly always a strong underlying truth to it.

Sun wasn't in imminent danger, the company had plenty of cash, and if the latest restructuring plan had been well-executed, there was a reasonable likelihood that Sun could have found an even, albeit smaller, keel. But, Sun has had plenty of restructuring plans (this latest one is referred to as “Restructuring Plan IX” - or “Plan i” in alphabetic terms) so it has seemed pretty clear to me for some time that, notwithstanding Jonathan Schwartz's manifest talents, he was either unable to, unwilling to, or prevented from driving the kind of wholesale change that Sun needed in order to thrive in the post dot-com era.

At the strategic level Sun was too slow to respond to changes in the market – As hardware vendors divided into the commodity players (like Dell) or the blended hardware + software + services players like IBM (and to some extent HP) Sun managed to fudge its strategy by partially committing to the commodity/volume play on one hand, and by making a big play in the software market on the other.

There's a hard road ahead for Sun employees as Oracle moves to meet the commitments it's made to shareholders

Larry Ellison has made some powerful promises to shareholders, the most exciting of these being that he expects the Sun acquisition to add \$1.5 billion to Oracle's non-GAAP operating profit in year one, and \$2.0 billion in year two. Those aren't just big numbers, they're massive. If you just take Sun's R&D and SG&A expenses (excluding the restructuring charges and "impairment of goodwill and intangible assets" hocus pocus), Sun has a gross operating loss of \$378 million for the 2009 financial year. So in order to deliver \$1.5, we're looking for a combination of increased revenues, and reduced costs that drive an improvement in performance close to \$2 billion dollars.

You don't make those savings by cutting the office supplies budget.

Once the deal goes through, expect 12-18 months of turmoil within Sun

Sun reported that it had 34,000 employees in its 2008 annual report. There have already been a number of lay-offs since then, but the total is still close to 30,000. Only recently Sun announced another round of lay-offs, which it chose, absurdly, to blame on the delay in completing the acquisition caused by EU's investigation. Anyone who believes that those lay-offs would not have happened had Oracle been able to complete the transaction is in for a big big surprise when it does complete.

Despite being relatively close to one another geographically, Oracle and Sun have cultures that are as different as night and day. Oracle's culture is one that is absolutely focussed on commercial success with no room for sentimentality. While Sun may have been a more "fun" place to work – Oracle is a far better run business.

There is going to be blood on the walls at Sun, because that is the only way Oracle can deliver the financial turn-around it has promised.

I expect Sun's total employee count to be a lot closer to 20,000 than 30,000 by the end of next year.

There are major opportunities for IBM and HP: While Sparc isn't yet a "burning platform" there's a definite smell of smoke in the air

There's no doubt that Sun's recent performance has created an opportunity for the likes of IBM and HP to offer Sun customers a more secure long-term vision. The Oracle acquisition adds to the questions surrounding the long-term viability of Sun's hardware business, and Oracle's currently stated intent to retain the hardware business raises even more concerns.

Both IBM and HP will win business from Sun over the next two years. Even with a tie-up with the likes of Fujitsu, the future of Sparc is extremely doubtful. Sparc is certainly a great technology but it's simply not viable over the long term. The level of investment required in order to sustain a processor business demands that you ship in volumes that Sparc simply cannot reach. Intel and AMD get those volumes from the PC / Server markets and IBM's power processor family benefits enormously from its use in all three of the top games-consoles.

Oracle may be able to push Sparc as the "ideal" or "preferred" processor on which to run the database, and I'm convinced that Oracle's famously "keen" salespeople will drive some volume, but I don't believe they'll drive enough to make Sparc sustainable in the long-term.

While there's no doubting Oracle's success in software, the company is unproven in hardware

This is an obvious point but Oracle is absolutely unproven in the domain of hardware. Indeed, in the past, Oracle has done a great job of battering hardware suppliers on price in order to retain margin for their software.

It's also telling that IBM previously walked away from negotiations with Sun; IBM has far more experience as a hardware/software/services company, and part of me thinks that if IBM didn't think the deal was worthwhile, it may not actually be worthwhile?

Oracle has plenty of challenges to focus on over the next five years without adding the saving of a hardware business to the list

The rejuvenation of Sun's hardware business is going to require an immense amount of management time and effort. In the meantime, the software industry is undergoing massive change, the emergence of SaaS and cloud computing represent serious threats to the established business models upon which most large software companies base their businesses. If I were an Oracle shareholder I'd want Larry to be focussed on the likely impact of SaaS and cloud, rather than have him figure out how to sell more tape drives.

Sun brings a mixed bag of software assets, with a danger that they'll provide more disruption than revenues

Looking at Sun's software portfolio, it seems that there are only a few really interesting bits: DTrace (beloved of kernel developers and Sysops everywhere) and Sun's identity management technology (especially notable on account of it being profitable) to begin with. Then the two star attractions; Java, and MySQL.

There are other assets of course – the glassfish app server (which is unlikely to survive as a commercial offering), NetBeans (a great development tool that totally doesn't deserve the market failure it's enjoyed to date, then there are the assets that form Sun's stack. The EAI technology (from the \$387 million dollar SeeBeyond acquisition) will add little to Oracle's Fusion middleware stack which is already considerably enriched as a result of the BEA purchase.

It's unlikely that Oracle will mess up Java

Oracle has been a supporter of Java, and has its own Java IDE (successor to the technology licensed from Borland some time ago). Given the JCP, and the fact that Oracle already has a clear stake in the Java middleware market, it's hard to see how much more Oracle gets by acquiring the core technology itself. Oracle may see opportunities to drive cash out of the Java platform that Sun never did but I suspect that if Oracle tries to hike the licensing fees for things like mobile Java the licensees may simply say "No thanks".

It's unlikely that Oracle will spike MySQL and if it tried to MySQL would survive

I don't think MySQL represents a major threat to Oracle's database business today, and it may be that by owning MySQL Oracle hopes to prevent it from becoming so – But in the mean-time, MySQL has found its way into places that the Oracle database has not. Essentially Oracle now has the number 1 market-share slot in both the commercial and open source database sectors.

I'm curious though, about how Oracle's sales force will view a "free database"; having been brought up on the raw steak that is big proprietary software, I doubt they'll have much appetite for the hummus that is open-source.

Ultimately, the get out of jail card for MySQL is the fact that it is open sourced. If all else fails, we can create a fork, call it "OurSQL" and get on with it.

The EU will delay, but not prevent the transaction

I'm really not a fan of the EU when it comes to competition regulation in the IT sector. They've bungled the Microsoft case time after time, and seem to me to be approximately a decade behind the times in terms of their thinking. I think the most likely outcome is simply a delay (and the opportunity for Oracle/Sun to blame more lay-offs on the EU), but there remains a small chance that Oracle will have to give up MySQL, and an even smaller chance that Larry will get irritated with the whole process and walk away entirely. When it comes to EU bureaucrats (and indeed Mr Ellison) you never can tell.

This blog entry was originally published on Gary Barnett's blog (www.thinkovation.com/blog). IBM has licensed it for re-publication, unchanged.

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