

## Enterprise Software: Rapid Consolidation Within a Slowing Economy

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Oracle has finally reeled in BEA, [Reuters](#) reported last week. This is the latest in the company's string of software industry acquisitions, which includes Siebel Systems (\$5.85 billion in 2005) and just before that, PeopleSoft and J.D. Edwards (\$11.1 billion), and Hyperion (\$3.3 billion), not to mention all the smaller software companies purchased along the way. Coincidentally or not, on the same day that this latest piece of M&A news hit the wires, Sun Microsystems announced its acquisition of MySQL for \$1 billion. The move enables the company to enter the fast-growing, \$15 billion database market. But before speculating as to what this might mean for the future, we should first look at these acquisitions as market movements in the enterprise software arena.

In Oracle's case, the purchase of BEA was motivated by its desire for expansion in the middleware sector, so as to bolster its status as a global corporate software provider. With the acquisition, Oracle moves a step closer to IBM, which not only controls 32% of the middleware sector but is also the overall market leader in corporate software, thanks largely to it being the company offering the most complete, integrated package of products. More and more corporate customers are requesting solutions that integrate all of the software products needed to run their businesses. Working with complete software suites enables customers to simplify the way they process their data, while making it easier for them to improve any processes that may not be entirely effective, without later having to hunt down a host of providers. In other words, the complementarity of products is what gives meaning to the consolidation of companies.

Sun Microsystems' acquisition of MySQL puts the firm right in the midst of the database market. MySQL is one of the pioneers in open-source software, the database provider among the original set of firms (LAMP: Linux, Apache, MySQL and PHP) that comprised the Linux System. One of the issues MySQL is facing is its ability to stand alone in a world where software compatibility is key when it comes to corporate purchasing. Consequently, MySQL, the golden child of open-source database solutions that had announced plans to go public exactly one year ago, has been suffering financially ever since, while continuously rejecting offers, including from Oracle. A year later, unable to offer the market a promising future with its stand-alone product, MySQL is now part of Sun Microsystems. As a result, Oracle, the solid leader in enterprise database software, and Sun, a long-time maker of workstations—two companies that have been strategic allies for ages—now find themselves in a position of direct competition.

One interesting aspect of these two moves is their timing. Buying BEA and MySQL in a slowing economy makes sense for several reasons. First of all, the economic outlook makes organic growth difficult, even for large corporations like Oracle and Sun, and acquisition is a good way to kick into higher gear given the current environment. Evidently, the economic slowdown is making it hard for smaller firms like BEA and MySQL to survive, something that works to the advantage of the industry giants. So,

why not wait longer to get a better deal? The database and middleware markets are attractive, even when they are down. Buying while the seller is still strong, even if it is for another short while, is to the buyer's advantage in creating the right momentum for their market entrance.

Are these acquisitions signs of consolidation in the enterprise software business? No doubt about it: 2008 is projected to be a highly active year in this market. Increasing consumer demand for product consolidation and the current economic woes are both favorable to those who are able to grow by combining. As a consequence, the balance of power shifts in the market as suppliers of enterprise software become larger, which means a future with a high degree of standardization among the components of enterprise software.

Evidently, the future depends on the integration processes that will follow these acquisitions. Will Oracle and Sun be able to rapidly integrate the pieces into one complete system? The fact that both lack IBM's experience in product suite integration and management could slow the process, to say the least. Oracle, like Cisco, may be a veteran buyer of technology, but 70% of all acquisitions still fail to create value once the effects of the glorious announcements diminish and the time comes for tying the pieces together.