Monash Technology Report

Oracle should -- and well may -- buy BEA Systems

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Obligatory Disclaimer

Obviously, everything in this report is just a prediction. I could be wrong about any or all of it.   But I think there's an excellent chance it's correct.

Introduction and Summary

The IBM/Rational deal natural raises the question: What other consolidation will be precipitated?   I believe:

- IBM's acquisition of Rational Software makes it **very hard for BEA Systems to survive and prosper as an independent company.** A merged BEA/Borland would also have great difficulties.
- IBM now has an extremely formidable technology and service stack. **Acquiring BEA is the best way for Oracle to regain the upper hand.**   In particular, Oracle could finally address its problem of connecting to non-Oracle DBMS.
- An Oracle/Borland deal would make much less sense.

Raising the Ante for Platform Software Vendors

As matters stand, there are five possibly credible platform software vendors:

- Microsoft with a huge position in OS, an adequate DBMS, sort of application server technology (although not packaged that way), backed up by widely used application development tools.
- IBM in OS (only occasionally now!), DBMS (second-best-of-breed, behind Oracle), and app server (co-leader with BEA), now backed up by the leading suite

of app dev tools and all supported by an enormous services business and sales force.

- Oracle with the best-of-breed DBMS, a decent app server, decent app dev tools, and a substantial services arm.
- BEA with a co-leading app server and not much else.
- Sun with a soon-to-be-outmoded OS, the remnants of at least three app server acquisitions (Netscape/Kana, Netdynamics, and Forte), a strong trademark in Java, and a mish-mash of other assets.

Oracle's position suddenly looks a little weak compared with IBM's. Not many customers and analysts are fully convinced Oracle's DBMS offers much more than DB2. And while few people laugh any more at Oracle's app dev tools or app server, equally few rave about them.

And **BEA's position has just become dismal.** App servers are generally used for new application development, so integration with desirable app dev tools is an important competitive factor. And there isn't even really all that much lock-in of BEA's existing customers, due to the effectiveness of J2EE and related standards in the app server space.

An Oracle/BEA Merger Would Be Very Feasible

First of all, I strongly doubt there are any personality or overarching ego issues that would block an Oracle/BEA merger. That said, the two factors that keep Oracle from doing any but the rarest acquisition are:

- Severe Not-Invented-Here syndrome.
- A very skeptical view of post-merger technology integration.

But in this case, I think both factors would be minimized.

By way of contrast, an Oracle/Borland deal is probably a non-starter. There would be lots of technical overlap between the two companies, and acquiring Borland wouldn't solve any particularly pressing Oracle problems.

Why BEA could be an exception to Oracle's NIH Syndrome

Oracle is firmly convinced it has a wonderful app server, at least as good by most measures as BEA's. But BEA's main product value really lies in an area Oracle has long

admitted it is *not* good at -- connecting to heterogeneous data sources.   Indeed, BEA's announced future product strategy consists mainly of data integration, portals (more integration), and security (principally in the area of identity management, which basically equates to yet more data integration). **Thus, BEA could become Oracle's data integration division.**

As to why data integration is important -- well, how many of Oracle's customers also have some non-Oracle DBMS installed?   How many of them have some non-Oracle apps installed?   Answer: Pretty much all of them.

BEA would fit well into Oracle's product/technology portfolio

The standards compliance of leading app servers would make it easy for Oracle to lay out a sensible path for both Oracle Application Server and BEA Weblogic. Basically, app servers amount to a reasonably commoditized core engine plus an agglutination of add-on features, all of which adhere to J2EE standards. It would not be hard for Oracle to eventually merge the engines, while indefinitely maintaining two separate product lines via two disparate sets of add-on features to the common engine.

And there would indeed be two separate product lines for a long time to come. Oracle Application Server includes the runtime elements of its app dev tools and its business intelligence tools, and anything else Oracle can think of to throw into the mix. Meanwhile, BEA Weblogic offers lots of integration and platform independence features that Oracle doesn't.

And there's **an important precedent for such a strategy,** namely Oracle's most important technology acquisition ever: Digital's RDB DBMS.   Although some Oracle folks are loathe to admit it, the RDB acquisition pretty much saved the company, providing a strong boost to Oracle's object-relational DBMS efforts when Oracle's first ORDBMS projects went down in flames. Yet a decade later, RDB is still a separate, frequently-enhanced product.

I think a BEA acquisition would be equally successful, for Oracle and the BEA customer base alike.