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Which Has The Better Apps Strategy: Oracle Or SAP?

by John R. Rymer, Paul D. Hamerman, and R "Ray" Wang
for Business Process & Applications Professionals

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Which Has The Better Apps Strategy: Oracle Or SAP?
Oracle's Bold Next-Generation Play Versus SAP's Less Disruptive Path

by John R. Rymer, Paul D. Hamerman, and R "Ray" Wang
with Tom Pohlmann and Meghan Donnelly

EXECUTIVE SUMMARY

A key decision criterion for enterprise applications is how compelling and clear the vendor's vision for the future is. Oracle's vision for the future of its apps business is now clearer and more compelling than that of archrival SAP. But Oracle's biggest test is yet to come — it must deliver the Oracle Fusion Applications system with its associated promises of better flexibility and lower cost of ownership and do it within the next two years to keep the upper hand in apps innovation. SAP offers a gradual and potentially less disruptive path for enterprise customers, evolving its current release piece by piece; it has also taken its innovative SAP Business ByDesign product off the table as its next-generation suite. Each vendor now offers more (and more complex) paths for customers to consider, but it is unlikely that mass defections will take place in either direction. Despite the size and influence of Oracle and SAP, customers should challenge the vendors to prove the value of their migration and upgrade strategies, including assessing whether either vendor offers better front-office or vertical solutions than best-of-breed suppliers or emerging cloud-based solutions.

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NOTES & RESOURCES

This report is based on conversations with Oracle and SAP about their future strategies. It is also informed by ongoing conversations with clients, systems integrators, and users about their requirements and experience with Oracle and SAP applications over the past 11 months.

Related Research Documents
"ERP Applications 2008: The Battle Goes Vertical"
June 23, 2008

"Enhancement Packages Improve SAP Upgrade Value"
May 29, 2008

"The Future Of Enterprise Applications"
December 21, 2007

"Oracle Versus SAP In Enterprise Applications: Let The Battle Of Architectures Begin!"
May 31, 2006

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THE ENTERPRISE APPS BATTLEGROUND: 2006 TO THE PRESENT

Since Forrester's last comprehensive analysis of the enterprise applications strategies of Oracle and SAP in 2006, much has changed. At that time, both vendors had launched new architectures for a new generation of service-oriented, flexible enterprise applications. SAP was riding high, having kicked into high gear its transition to applications based on the NetWeaver platform, while Oracle was still digesting PeopleSoft and figuring out exactly what its Oracle Fusion Applications were to become.[1] At the time, though Oracle was more committed to standards and had an advantage in middleware and development tools, we gave the overall advantage to SAP in this "battle of the architectures." Why? In 2006, compared with Oracle, SAP:

- **Had the larger market presence in applications.** SAP, as the largest business applications vendor, had application software revenues more than double those of Oracle. SAP dominated the enterprise applications market in its home base in Europe while also making inroads in Oracle's strongest application market, North America.[2]

- **Had faster growth and mindshare.** Oracle's monumental acquisitions of PeopleSoft and Siebel in 2005 for a total of $16 billion resulted in a decline in sales and market perception for these products. SAP and other vendors capitalized on this customer uncertainty regarding product support and enhancement road maps, as well as Oracle's ability to succeed in internal integration efforts.

- **Articulated a clearer vision.** During late 2005 and early 2006, Peter Zencke, then the leader of SAP's research division, described a new release of SAP's enterprise applications that would be fully service-enabled using SAP's Enterprise Service Architecture (ESA) and based on its NetWeaver platform. The release promised customers unprecedented customization and integration flexibility. Oracle, meanwhile, promised a new product set in 2008 that would fuse the best features from its various application lines, hence the name Oracle Fusion Applications. In public comments, Oracle hedged its bets on what customers could expect from Oracle Fusion Applications.[3]

Oracle Has Gained Ground In Enterprise Applications

SAP continues to enjoy a $4 billion lead over Oracle in enterprise applications revenues, but Oracle has narrowed that gap by $500 million during the past two years. Comparing the two vendors' applications software licenses, maintenance, and subscription revenues for the past three years on a rolling four-quarter basis, Oracle's compound annual growth rate (CAGR) in applications is 33%; while SAP's is 20% (see Figure 1). On a constant currency basis, SAP's CAGR is reduced to 13%. What's behind this?

- **Oracle has gone organic.** Oracle's prior growth in applications had largely been attributable to a series of acquisitions, including PeopleSoft, Retek, and Siebel. However, its financial results

for FY 2008 (ending May 31, 2008) reflect a 38% increase in new applications license revenues.[4] Oracle's applications licensing growth during FY 2008 was largely attributable to improved sales of industry-focused solutions beyond traditional enterprise resource planning (ERP), as well as increased volumes of use and add-ons within the existing ERP installed base and some net new licensing activity for these core products.

- **SAP grew in all categories of its business, protecting its commanding lead in apps.** SAP posted solid revenue growth in the first half of 2008 — and even posted revenue growth in the third quarter as the financial markets and economy deteriorated. Growth was consistent across all major revenue categories (software, support, and consulting). Factors positively affecting SAP's growth to date include license revenue growth among its large existing client base as well as new deals in the midmarket, expanding consulting services, and increases in maintenance prices on new contracts, which went into effect in February 2008. However, SAP's venture into the on-demand software business with SAP Business ByDesign has yet to generate significant revenues.

Figure 1 A Comparison Of Oracle And SAP Software Revenues, 2005 To 2008

Oracle CAGR = 33%
SAP CAGR = 20%
SAP constant currency CAGR = 13%
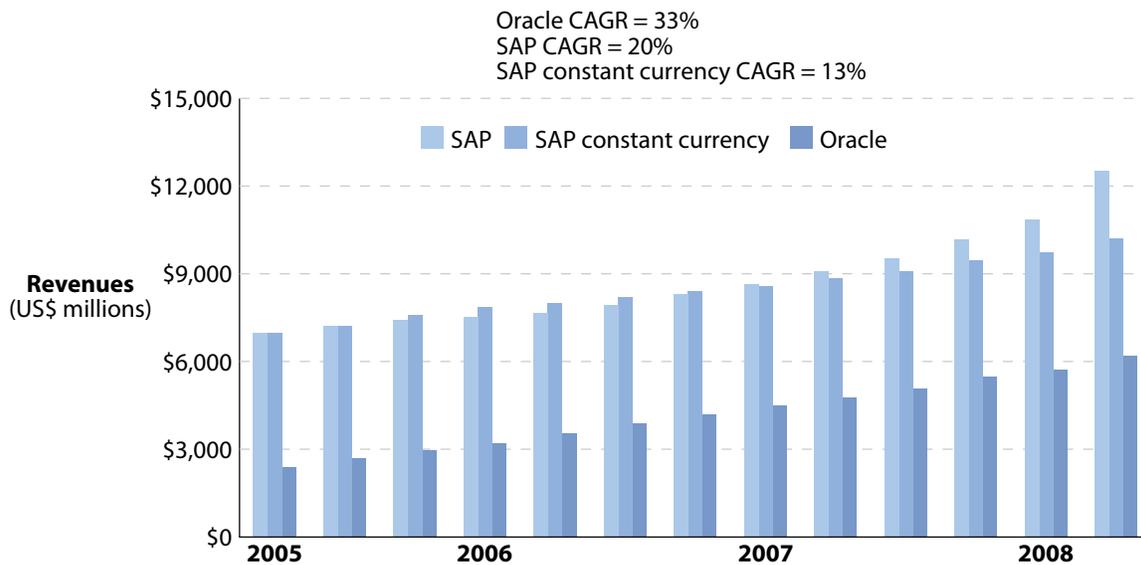
Note: Trailing 12 months (ttm) of licence and maintenance revenues for the past three years. Oracle results reflect applications only. The results are aligned to the nearest month due to different fiscal years for Oracle (May 31) and SAP (December 31).
Source: Oracle and SAP financial reports

41885   Source: Forrester Research, Inc.

Customer Requirements Have Also Evolved, Resulting In Two Types Of Applications

Most enterprise applications customers now view their portfolios as having two categories of applications. The first category provides traditional back-office functions, such as human resources and finance, where both Oracle and SAP dominate that market for large enterprises. The second category of applications provides front-office functions to support sales and marketing, as well as industry-specific processes for core business operations, such as refining, merchandising, and manufacturing.

- **In core ERP, standardization and speed have become the drivers.** Most customers are seeking to normalize their ERP applications so that they are easier to maintain, faster to implement, and less expensive to evolve. One large North American manufacturer, for example, defined a standard ERP configuration and product so that it could quickly bring new plants online. Software-as-service (SaaS) is also starting to make inroads into this category, primarily in customer relationship management (CRM) and human capital management, because of its speed of implementation and easy upgrade paths.

- **Many customers seek to supplement ERP with specialized applications.** These applications are tailored to either a specific vertical-industry problem, such as Aspen Technology for upstream oil and gas exploration or MindBox's mortgage origination applications, or to fill gaps in core ERP, such as Taleo's recruitment solution, Primavera Systems' project management offering, and Chordiant Software's call center solutions. Oracle and SAP offer these types of specialized applications, but best-of-breed suppliers typically lead in completeness of functionality.

Both Oracle and SAP promote the potential of service-oriented architecture (SOA) to satisfy clients' needs for both types of applications and, more generally, to make enterprise applications more flexible, better tailored to key roles in the enterprise, easier to integrate, and faster to customize. Forrester calls this next generation of enterprise apps Dynamic Business Applications. Their user interfaces (UIs) are truly designed for business people, and the software is built for continuous evolution.[5] Since 2006, many customers have begun to demand these characteristics now rather than wait for large, new application suite releases. Forrester sees the strongest demand for Dynamic Business Applications in the specialized apps category but believes most customers will eventually demand these characteristics in their core apps as well.

## Both Vendors Have Responded . . . With More Complex Choices For Customers

In response to competitive realities and evolving customer requirements, both Oracle and SAP have made changes, including:

- **Expanded product sets.** Oracle now has four categories of applications products: 1) Oracle Applications Unlimited; 2) Oracle Fusion Applications (yet to be released); 3) vertical industry applications; and 4) Application Integration Architecture (AIA) — process-based integration packages that connect Oracle's existing application product lines (see Figure 2).[6]

SAP, meanwhile, has raised its number of ERP product lines to three by adding SAP Business ByDesign for small companies.[7] It has also adopted an incremental upgrade strategy for its enterprise ERP product and, more recently, its full SAP Business Suite, promising to gradually revamp the suite piece by piece over the course of five years. SAP bought Business Objects, which it manages as a separate operating unit and product set.[8] SAP has also added complexity to customer choices by introducing multiple user experience options, including Duet, Adobe, and the UIs from OutlookSoft and other acquired products (see Figure 3).

- **Swaps in leadership styles.** Personalities matter in both these firms, with both their employees and their customers. SAP went from an aggressive, public-facing leader, Shai Agassi, to a more pragmatic, "get the job done" leader in Jim Hagemann Snabe. Meanwhile, Oracle replaced the congenial John Wookey with the more technical visionary and hard-charging Thomas Kurian as head of Oracle Fusion Applications.[9] Forrester's take is that these leadership styles directly correlate to the strategic priorities of each vendor.

Figure 2 Oracle's Applications Road Map
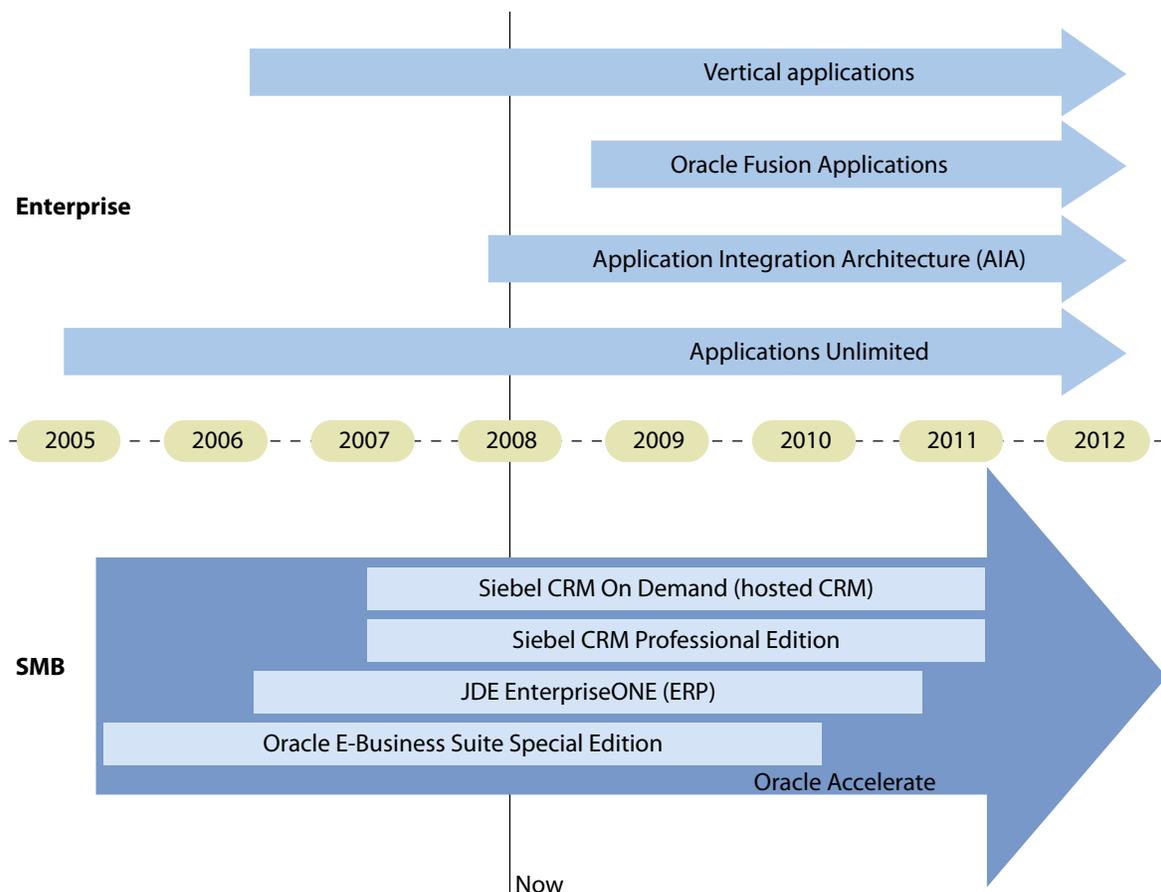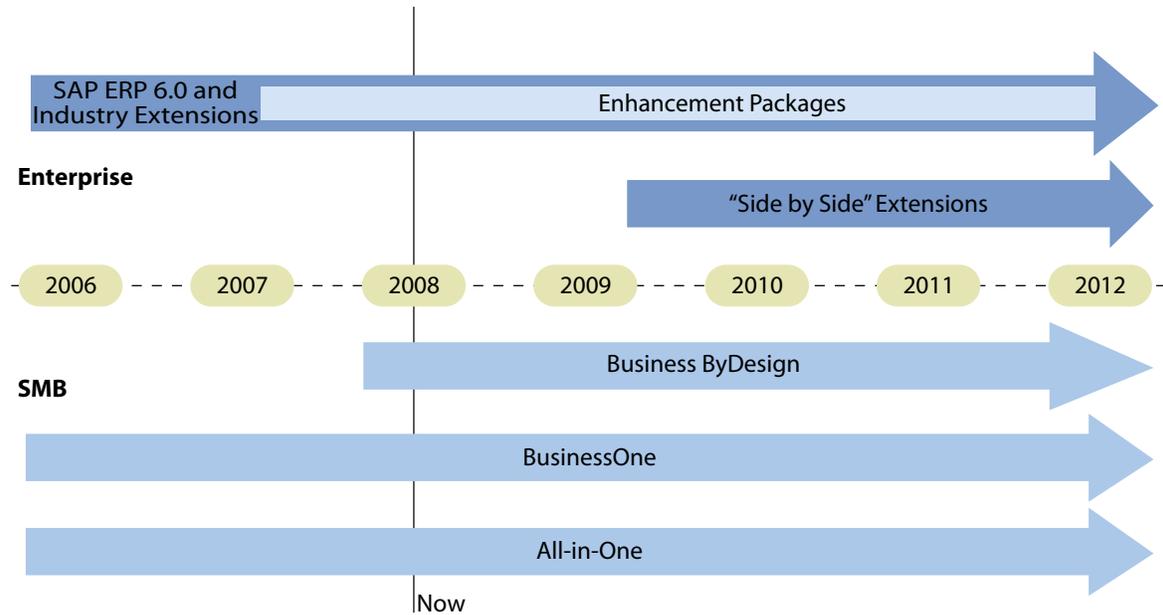

Source: Forrester Research, based on Oracle data

41885   Source: Forrester Research, Inc.

Figure 3 SAP's Applications Road Map

Source: Forrester Research, based on SAP data

41885   Source: Forrester Research, Inc.

ORACLE'S STRATEGY TODAY: CONQUER, RETAIN, AND CROSS-SELL (REPEAT)

Oracle's path to the future for its applications customers was once as simple as, "We will support you until you decide to upgrade to Oracle Fusion Applications when they become available." Not anymore. Now, customers have lots of upgrade paths and integration strategies from which to choose. Oracle's strategy seeks to:

- **Drive commitment to the "red stack."** Oracle's goal is to get big enterprise customers (and partners) to commit to its applications, database, and middleware for the widest possible range of requirements. Running JD Edwards? Oracle will help you switch to its underlying middleware platform (and off of IBM's). Although Oracle has been careful to retain non-Oracle platform support in acquired apps like PeopleSoft, it is also working to make them more compatible with its own technology stack. In fact, AIA is an upsell for customers who own many Oracle applications and must integrate them. In Oracle's strategy, ERP is only one entry point for customers; the database, vertical applications, and middleware portfolio (second in breadth only to IBM's) are the others.

- **Expand the vertical applications portfolio.** Oracle now offers an array of applications to an expanding list of vertical industries — rivaled only by IBM and SAP.[10] Are you a retailer running PeopleSoft? Oracle also has Demantra for demand planning. Oracle has a two-pronged

strategy to create vertical solutions. The first prong of the strategy is acquisition.[11] The second is to provide, through the AIA, vertical business processes called Process Integration Packs (PIPs). PIPs provide new industry reference models that tie back to both Oracle's core applications and third-party applications, including SAP. For example, Oracle offers a PIP in retail that integrates its Oracle E-Business Suite (EBS) with Siebel for management of retail sales associates (see Figure 4).

- **Expand the core applications portfolio.** Oracle is expanding its core applications portfolio in three ways. First, Oracle continues to promise incremental, module-by-module delivery of Oracle Fusion Applications during its 2009 fiscal year, which began June 1, 2008. Oracle's vision for this product line hasn't changed much during the past two years, but the firm continues to be guarded about its initial release date. Forrester believes a complete product suite will be generally available in late 2010 at the earliest. Second, Oracle's recent acquisitions, including Hyperion and Cimmetry Systems, yielded additional core applications applicable to many industries — and Forrester expects more acquisitions. Third, Oracle indicates that it will build some new applications that plug into multiple existing product lines in areas like talent pool management, advanced analytics, and decision automation.

Figure 4 Oracle's Application Integration Architecture Will Add New Apps
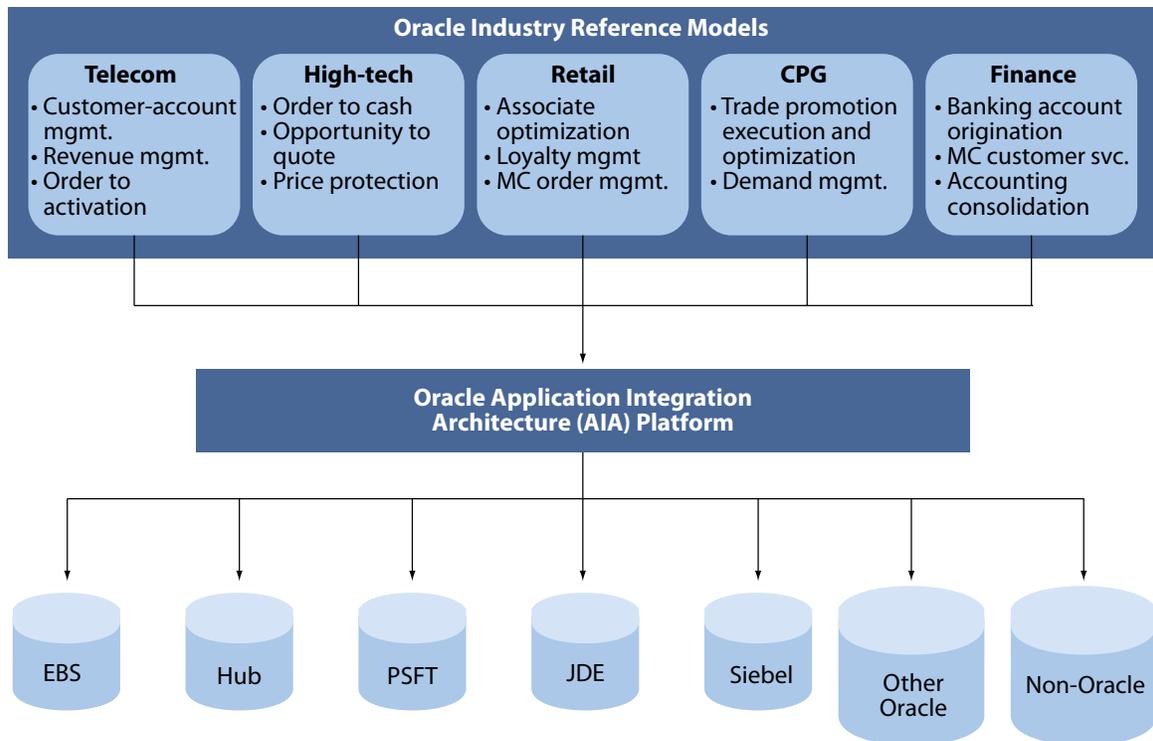
Oracle's Acquisitions Have Resulted In A Diverse Core Architecture

Oracle's Fusion Middleware provides the foundation for both Oracle Fusion Applications and AIA. During the past 12 months, Oracle has added many features to Oracle Fusion Middleware, making it more complex and more challenging to manage.[12] Specifically:

- **Oracle must weave many different products into a unified stack.** Through acquisitions, Oracle has expanded and deepened its middleware products into business intelligence (BI) and business performance management (BPM) (e.g., Hyperion), and content management (e.g., Stellent). These acquisitions have given Oracle not only a broad portfolio of middleware products and development tools but also a big technical challenge *and* a financial incentive to weave this collection of separate products into a unified platform. In 2006, Oracle employed a simpler stack and therefore faced a more limited platform integration challenge.

- **Oracle's acquisition of BEA Systems adds to the stack integration challenge.** Oracle's acquisition of BEA Systems and its plans to integrate much of its middleware complicated its stack integration plans. At the time of the announcement, Oracle's Fusion Middleware teams were in the late stages of developing their next major middleware release, called Oracle 11g, and they now must also integrate most of BEA Systems' products.[13]

- **AIA and Oracle Fusion Applications introduce new services layers.** Both AIA and Oracle Fusion Applications employ common SOA layers (although not the same SOA layer) to support applications.[14] SOA layers are a new and, as of today, unfamiliar approach for Oracle, its partners, and its customers in delivering solutions. Key to success will be Oracle's own management of each layer's evolution and its management of customizations done by individual accounts.

Oracle Now Offers Four Paths To Dynamic Business Applications

Based on our analysis, Forrester believes Oracle Fusion Applications is now just one of four paths to the future for Oracle's applications customers. Oracle Fusion Applications more closely tracks to Forrester's concept of Dynamic Business Applications than the other paths, but the migration to this new suite will be disruptive for many customers. In addition, Forrester believes that Oracle's other paths also carry the potential risks of any project that mixes and integrates separate code bases. The potential risks for Oracle's four paths include software configuration complexities, performance uncertainties, flexibility limitations, and unpredictable migration costs. Thus, Oracle's approach deserves careful evaluation by customers.

The four paths are:

- **Upgrade existing applications via Oracle Applications Unlimited.** Oracle Applications Unlimited is a customer-retention initiative for Oracle's existing application products (such as Oracle EBS, JD Edwards, and PeopleSoft). Under this program, Oracle will continue to support

and enhance existing products for the foreseeable future, provided that customers abide by release support guidelines and sustain their maintenance agreements. Forrester expects future releases to incorporate more Oracle Fusion Middleware components within their technical infrastructures.

· **Transition to AIA.** AIA's PIPs are packaged integrations that save customers (and their agents) from having to build integration code from scratch. As such, PIPs are applications themselves and so represent a new set of investments for Oracle's Application Unlimited customers. Moreover, AIA has at its core a set of common application services, business semantics, and a programming model that Oracle hopes will one day be comprehensive enough to support a wide range of business processes. Forrester believes AIA gives Oracle customers who are running older applications the option of delaying migration to Oracle Fusion Applications.

· **Migrate to Oracle Fusion Applications.** Forrester expects the first release of Oracle Fusion Applications to include finance/accounting, basic CRM, inventory, asset management, procurement, costing, and other applications.[15] Due to the scale and complexity of this effort, we believe most customers will delay adoption until the product is stable. Customers on Oracle's existing EBS applications can expect the easiest migration path, as Oracle Fusion Applications bears close similarity to the product they use today. However, migration from any of Oracle's other ERP applications to Oracle Fusion Applications will be more disruptive, due to sizeable technical differences and the difficulty of migrating customized ERP instances.

· **Extend and integrate existing applications.** Custom extensions and integration using Oracle Fusion Middleware tools for existing Oracle applications is another option, but it is unlikely to be of serious interest to business process and applications professionals, who primarily focus on deploying packaged solutions. Custom development using middleware is primarily of interest to enterprise architects and application development managers building SOAs to link multiple packaged applications.

SAP'S STRATEGY TODAY: EVOLVE WITH MINIMAL DISRUPTION

As with Oracle, SAP's path to the future has evolved. Back in 2005, SAP outlined a course for its customers to a major new applications release that would not just be enabled for SOA but be *based on* SOA. That vision was known as SOA By Evolution for enterprise customers and SOA By Design for the midmarket. Since that time, SAP has discussed the notion of innovation without disruption in the context of ERP enhancement packages, but it stopped short of articulating a comprehensive technology vision as it encouraged customers to upgrade to its current release (SAP ERP 6.0). Recognizing that customers are now looking for a clearer strategy, SAP introduced a new long-term vision called "Timeless Software" during fall 2008. SAP's goal is to deliver software for a diversity of roles and business needs that can evolve and assimilate new technologies and application features over time. SAP's strategy seeks to:

· **Coax customers to the latest releases of SAP ERP, SAP Business Suite, and NetWeaver.** As of August 2008, approximately 30% of the 27,000 SAP enterprise applications customers had adopted the applications suite now known as SAP ERP 6.0 (previously known as mySAP ERP 2005).[16] A key company priority is to convince the remainder of its customers to upgrade to the current version and sign up for its new enterprise support plan.

The key "carrot" for customers is SAP's enhancement packages, which it introduced in late 2006 for SAP ERP 6.0. Enhancement packages are scheduled for availability for NetWeaver as well by 2009, with the release of SAP Business Suite 7.0.[17] With enhancement packages, customers can choose to selectively adopt new features, including core application functions, vertical-industry content, and new user interfaces.[18] The "stick": Customers on older releases like SAP R/3 4.6C and 4.7 must upgrade to SAP ERP 6.0 and SAP NetWeaver 7.0 to get enhancement packages or face more costly support fees.[19]

· **Improve usability to drive expanded adoption.** While driving adoption of its current release, SAP is also trying to expand the reach of its enterprise applications to more business users. The key to this goal is improved usability, which has long been an issue for users of SAP's ERP suite. SAP is adopting the same look and feel (borrowed from SAP CRM) for NetWeaver Portal, NetWeaver Business Client, SAP GUI for Windows client, and SAP CRM. In addition, SAP will continue to offer third-party user interfaces using the Duet bridge to Microsoft Office, a similar bridge to IBM Lotus Notes ("Project Atlantic"), Interactive Forms by Adobe, and Adobe Acrobat Connect (for eLearning). Most customers will welcome better UIs, but the added choices also add to the complexity.

· **Expand in small and medium-sized businesses (SMBs) and SaaS.** SAP's midmarket strategy addresses three customer segments with three different offerings: 1) SAP Business One for small companies; 2) SAP Business ByDesign for customers with 100 to 500 employees; and 3) SAP Business All-in-One for midsize companies. While SAP Business One and SAP Business All-in-One have seen substantial adoption (20,000 customers and 12,200 customers, respectively), SAP Business ByDesign is a new SaaS offering that has been slow getting out of the gate. SAP Business ByDesign is in limited release currently as SAP addresses rollout challenges related to efficiently automating application life-cycle management.[20]

· **Draw new revenues from business intelligence.** SAP's acquisition of Business Objects expanded its arsenal, but the firm now faces the task of integrating its new BI products with its application suites and NetWeaver for custom-developed applications. SAP aims to drive higher and deeper levels of Business Objects adoption among its applications customers, many of whom use other BI products from Cognos (now part of IBM), Hyperion (now part of Oracle), MicroStrategy, and SAS Institute.[21] To do so, SAP plans to create a new centralized information management environment that will operate side by side with SAP ERP to provide analytics, reporting, and collaboration about information. The initiative features an expanded "semantic layer" that will make diverse information available through tools built for businesspeople.

- **Extend the ecosystem, acquiring as needed.** SAP is relying on more than organic development and acquisitions to build new features and applications; it is relying heavily on partners. For example, when business process and applications professionals seek solutions in pricing management, they can turn to Vendavo; for incentive compensation solutions in high-tech, they can turn to Callidus Software; and those seeking run-time SOA governance can choose SOA Software or AmberPoint. These SAP-endorsed and reseller partners meet certification requirements, including upgrade-supported integrations and internal SAP development standards, and SAP provides full customer support for the partner solutions. SAP has also taken financial stakes in some partners, increasing the likelihood of acquisitions.

SAP Now Splits Its Core Architecture Into Three Parts

Along with its shift in focus to SAP ERP 6.0, SAP launched a second version of NetWeaver for its enterprise customers. SAP now provides two NetWeaver platforms, one to support SAP ERP 6.0 and another to support its Composition Environment, master data management, and (we expect) related tools and solutions outside of the ERP suite. SAP's platform now looks like this:

- **SAP NetWeaver 7.0 is the foundation of SAP ERP 6.0.** SAP ERP 6.0 runs on the SAP NetWeaver 7.0 stack, which is a new name for NetWeaver 2004s. This product has undergone little change from its initial release.[22] Its role in SAP's architecture is to support a "stable core" of business applications (SAP ERP 6.0) and provide supplemental portal, application integration, and data warehousing services.

- **SAP NetWeaver 7.1 is a new platform to extend core applications.** To meet customer needs and extend functionality and business processes beyond the existing ERP systems without having to customize them, SAP introduced NetWeaver 7.1 during mid-2007.[23] The product provides BPM tools (called the Composition Environment), mobile access, and application integration outside of the ERP core. For example, a customer can use SAP NetWeaver 7.1 to build a new marketing process that feeds SAP ERP's core order management module rather than customizing the order management module itself to create the new marketing process.

- **BusinessObjects XI is the information foundation.** SAP portrays its ERP and its Business Objects portfolio as occupying parallel spheres, cooperating and integrating using the facilities that NetWeaver provides. The base of Business Objects' sphere is BusinessObjects XI 3.x, which SAP hopes to expand into a new information management architecture that's not just for traditional BI functions but also for master data management, corporate performance management, and compliance.

  SAP recommends that customers create applications representing "radical business innovation" on SAP NetWeaver 7.1 using the Composition Environment development tools, and that they deploy those applications alongside their "stable core" SAP ERP 6.0 instances. SAP advocates

the same configuration for SAP ERP 6.0/SAP NetWeaver 7.0 and Business Objects. While this idea is pragmatic given that SAP has three different platforms, parallel configurations will demand careful management (see Figure 5).

- **NetWeaver is a server for Business Objects' client tools.** For Business Objects tools, NetWeaver (both the 7.0 and the 7.1 versions) is a platform that helps access the data managed in SAP's applications.[24] Integration of most of these tools with NetWeaver will be straightforward, but the road maps are still evolving.

SAP's Path To Dynamic Business Applications: Gradual Evolution

As SAP extends enhancement packages beyond SAP ERP 6.0 to encompass SAP NetWeaver and its broader SAP Business Suite, customers will be able to adopt new functionality and platform technologies incrementally, potentially providing a path to Dynamic Business Applications. Based on its vision of Timeless Software, SAP proposes introducing new features into the core itself, including new application modules, versions of existing modules, and new runtime technologies. While SAP characterizes this approach as "innovation without disruption," Forrester believes that it poses certain potential risks, including software configuration complexities, performance uncertainties, flexibility limitations, and unpredictable migration costs. Thus, SAP's approach deserves careful evaluation by customers.

Considering SAP's long-term strategies and current offerings, the vendor provides two paths to Dynamic Business Applications. For each of these scenarios, customers must make the prerequisite upgrades to SAP ERP 6.0 and SAP NetWeaver 7.0. From there, customers will be able to:

- **Evolve both SAP applications and architecture via incremental updates.** SAP is, in essence, promising customers that if they upgrade to SAP ERP 6.0, SAP NetWeaver 7.0, and SAP Business Suite 7.0, they will not face painful migrations to future SAP offerings for the foreseeable future. Customer will just have to install enhancement packages, which will not require a major upgrade. SAP uses SOA design principles to integrate these packages of features. SAP Business Suite scenarios embrace both enhancement packages and extensions built on SAP NetWeaver 7.1. Under this plan, by 2013, SAP will have transformed SAP ERP 6.0 into a SOA-based suite that provides a wider range of new core modules, industry modules, business processes, UIs, and analytics.

- **Build SOA extensions and composite applications side by side with SAP ERP 6.0.** If customers need flexibility beyond the capabilities delivered within enhancement packages, they can rely primarily on SAP NetWeaver 7.1 and BusinessObjects XI to build new business processes and user environments on top of the ERP core and other applications as well. In this approach, new workflows and business processes, integration to hosted applications like SAP Business ByDesign and non-SAP solutions, new role-based workplaces, new portals, etc. execute outside of the ERP core on SAP middleware platforms. The Microsoft-SAP Duet

middleware to integrate SAP ERP with Microsoft Office also falls within this category. This path would consist of custom-developed extensions using SAP middleware and associated tools and composite applications, but customers may also see SAP partners developing packages that they can add to their environments.

Both paths start with migration to SAP ERP 6.0 and SAP NetWeaver 7.0 for customers that are not already on those releases. Customers who want to retain earlier SAP ERP releases have no alternative paths to an SOA future from SAP itself.

COMPARATIVE ANALYSIS: THE ADVANTAGE SWINGS TO ORACLE

When we net out the differences between these two enterprise applications leaders, we find that Oracle now has a more compelling overall strategy than SAP. We describe the major findings of our comparison of the vendor strategies below (see Figure 6):

Figure 5 SAP's Side-By-Side Configurations

41885   Source: Forrester Research, Inc.
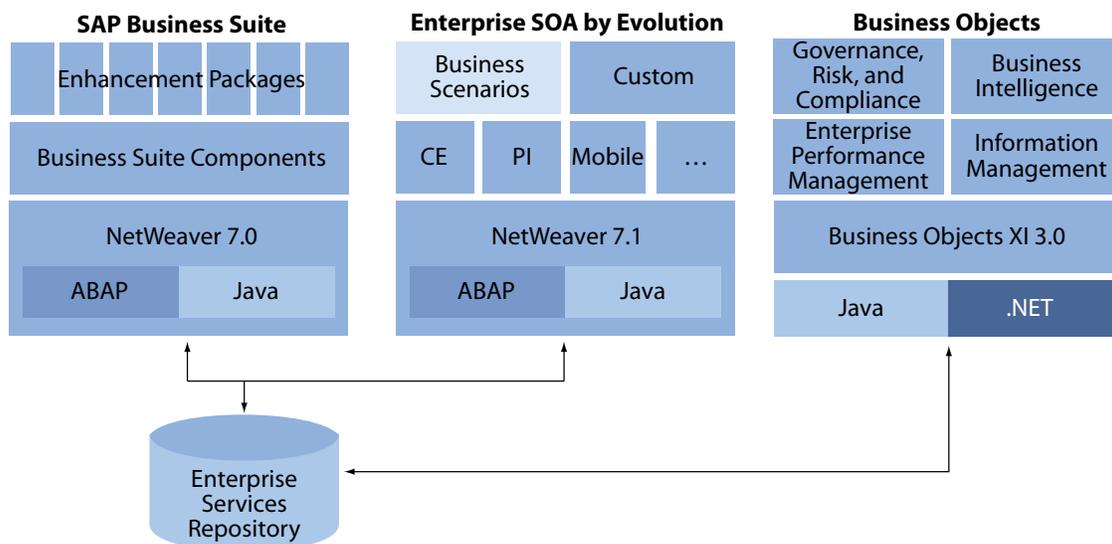
If Oracle Fusion Applications Fall Flat, SAP Wins By Forfeit

In conversations with Forrester, Oracle executives usually downplay the stakes of the new line of applications, but Forrester's conversations with Oracle customers suggest that the stakes are high. Oracle Fusion Applications will demonstrate to customers whether or not Oracle can break through the limits of today's ERP apps to adapt quickly to business change and provide powerful user experiences — what Forrester calls Dynamic Business Applications. The unattractive alternative for both customers and Oracle? Surround and integrate older applications with custom-built business processes and portals.

The revenue potential for both Oracle Fusion Applications and AIA is limited during the next two to three years, but Oracle's longer-term ability to grow its apps business faster than that of SAP depends on growth through development rather than acquisitions, especially with fewer merger and acquisition targets being available.

SAP's vast install base evolves its ERP software slowly, allowing the company to take a "wait and see" approach and make incremental innovations. And, in fact, should Oracle fail to deliver Oracle Fusion Applications in a timely manner or in way that falls short of the requirements for Dynamic Business Applications, SAP will remain the dominant apps vendor — with a significantly weakened competitor. Should Oracle deliver on both fronts, Forrester expects that SAP customers who are struggling to innovate on their legacy systems will defect to Oracle or other vendors.

Figure 6 Oracle Versus SAP: 2008 Assessment

Criteria for success	Oracle	SAP	Comments
Enterprise applications market penetration		Advantage	Oracle is unlikely to make big dents in SAP's overall lead in applications revenues and the larger enterprises. Forrester expects Oracle to lead in newer greenfield accounts in service- and project-centric businesses, including telecommunications, utilities, healthcare, and construction. SAP will continue to dominate energy and manufacturing and battle Oracle for supremacy in retail, financial services, insurance, education, and public sector.
Vision for next generation	Advantage		Oracle has a clear vision in the Oracle Fusion Applications suite and a timetable to deliver it. Forrester has seen working versions of the new Oracle Fusion Applications that represented major steps forward in flexibility. SAP's "Timeless Software" vision is very appealing to customers tired of difficult upgrades, but it is too risky for commitment without more evidence that SAP can deliver innovation in a timely manner.
Partnership strategy		Advantage	SAP has fewer applications partners than Oracle but works more closely with its partners on product planning delivery and delivering a solutions-centric ecosystem. Overall, SAP's partners have provided more application solutions per partner than Oracle's. Oracle has treated most partners as pure channels rather than as collaborators on innovation, but Forrester is beginning to see some positive developments in this strategy.
Middleware and tools	Advantage		Oracle has a broader and more broadly competitive set of tools in its Fusion Middleware portfolio than SAP does in its NetWeaver product line. Inclusion of BEA Systems as the core app server takes Oracle into high-end Web applications as well. Most SAP customers employ NetWeaver to interconnect their SAP instances or to provide integration points into those instances.
Support for openness and standards	Advantage		Oracle embraces more standards than SAP, though it still insists on a single database for its applications. SAP allows database choice, including options such as IBM DB2 optimized for SAP and MaxDB. SAP insists on use of its proprietary ABAP platform for more core application functionality.
Industry applications strategy	Toss up	Toss up	SAP attacks industries primarily through internally developed extensions of its core ERP product and provides thought leadership via The SAP Industry Value Network program. Oracle buys and seeks to integrate industry-specific applications. SAP's strategy results in less complexity for customers. Oracle's produces richer features faster that will require integration pain down the line or strong process integration packs that must be purchased.
Midmarket strategy		Advantage	SAP goes all the way down the market to small businesses; Oracle has little to offer to SMB companies with fewer than 500 employees other than Oracle Accelerate, which is a repackaging of Oracle E-Business Suite and JD Edwards that includes "rapid implementation" methodologies, new deployment options, and favorable pricing.
Path to Dynamic Business Applications	Advantage		Oracle Fusion Applications incorporate key concepts like role-based workplaces, embedded BI, customization through configuration, and business services at the core. SAP's Business ByDesign embodies several characteristics of Dynamic Business Applications but is best suited to SMBs. SAP's path for enterprises based on its timeless software vision is still evolving.

41885   Source: Forrester Research, Inc.

R E C O M M E N D A T I O N S

MAKE YOUR FUTURE APPLICATIONS MOVES BASED ON CLEAR BUSINESS DRIVERS

Both Oracle and SAP now have lots of products for their worldwide sales forces to sell to enterprise applications customers. The choices for business process and applications professionals are complex, so the risk of wasteful spending is high. Before making any move with one of these vendors, Forrester recommends the following:

- **Get back to building a business case.** Before you buy any new release or add-on product, make sure you have built your business case for that purchase. This sounds obvious, but Forrester has seen too many companies relax their diligence on Oracle and SAP based on nonsensical statements like, "[Oracle or SAP] is our strategic vendor." Both vendors must earn revenues by providing value to you. Focus on business drivers such as growth, efficiency, compliance, or strategic alignment.

- **Consolidate the core.** Define a two-part, long-term apps strategy, identifying the core (slow-changing) and the specialized products you have and will need. Consolidate and/or optimize your current application installations — particularly ERP — so that you can invest more in high-value specialized applications. Focus on reducing the cost of the core to free up budget for innovation and new projects. Identify where to use best-of-breed solutions and/or custom development to supplement core ERP. Large companies with many ERP instances will have to create plans for multiyear consolidation projects, but those with simpler application landscapes should consolidate now.[25]

- **Be open to best-of-breed applications outside the core.** When considering front-office and vertical applications from Oracle and/or SAP, subject their offerings to the same deep scrutiny you would use for any vendor. For front-office and vertical applications, you have many best-of-breed choices from both software vendors and systems integrators — and these options will often be better than the products that Oracle and/or SAP offer. Maintaining a mix of application suppliers will also help preserve your freedom of choice as you evolve your applications portfolio.

- **Re-evaluate your upgrade options.** Both Oracle and SAP shops now have multiple "upgrade" choices, and users should re-evaluate their upgrade strategies based on product road maps.

- **Oracle shops: Favor "in place" upgrades . . .** Upgrade within your current product line under Oracle Applications Unlimited rather than risk uncertain delivery dates associated with Oracle Fusion Applications. Also, consider adopting Oracle Fusion Middleware in order to be able to extend your applications using BPM, portal, and integration tools. This will allow you to accumulate and hone the skills required to eventually move to Oracle Fusion Applications.

- **. . . and investigate AIA for integration between Oracle applications.** Oracle shops that need business processes that span Oracle applications (e.g., Siebel and Oracle E-Business

Suite) should consider AIA instead of custom development using Oracle Fusion Middleware. AIA gives you an "integration architecture in a box," holding the potential to save time and money in maintaining your integrations, as well as developing them.

- **SAP customers: Rationalize before moving to SAP ERP 6.0 or use the upgrade as a catalyst.** Large customers with multiple instances should either consider the SAP ERP 6.0 upgrade as a catalyst for consolidating instances or delay the upgrade until the installations can be rationalized. Assess the SAP ERP 6.0 upgrade business value carefully because you are likely to be on it for a long time. If your environment is highly customized and very difficult to upgrade, consider ERP alternatives from other vendors, including the emerging SaaS providers or specialized software providers in your industry.

- **SAP ERP 6.0 shops: Consider SAP NetWeaver 7.1.** SAP's side-by-side configuration employing SAP NetWeaver 7.1 and SAP ERP 6.0 is a good idea. Customers can leave the core apps alone but still innovate in the separate environment that SAP NetWeaver 7.1 provides. Unfortunately, SAP NetWeaver 7.1 doesn't yet support portal scenarios — SAP needs to fill this gap. SAP shops adopting SAP NetWeaver 7.1 must have Java skills at a minimum to succeed.

- **Separate your SOA from your apps decisions.** Both Oracle and SAP will be happy to provide the middleware for your overall SOA architecture. Of the two, Oracle has middleware products that have the greatest maturity in this role (for example, BEA WebLogic), while SAP has less experience supporting broad SOA initiatives. If your SOA will interconnect a broad range of applications, SAP is a more risky choice than Oracle. In addition to Oracle and SAP, consider IBM, Microsoft, Progress Software, Software AG, Sun Microsystems, and TIBCO Software as providers of SOA architectures.

ENDNOTES

[1] The two largest vendors of enterprise apps are pursuing different paths to their next generation of apps, giving prospective customers a real choice. The differences are stark. Oracle will continue to build through acquisition; SAP will rely more on internal development and partnerships. Oracle's next-generation apps will run only on its own database; SAP's applications will run only on its own middleware. See the March 31, 2006, "Oracle Versus SAP In Enterprise Applications: Let The Battle Of Architectures Begin!" report.

[2] Oracle was and remains the larger of the two vendors (Oracle and SAP) overall, drawing more than two-thirds of its revenues from database software and middleware.

[3] At a special January 18, 2006 promotional event called "Halfway to Fusion," Oracle President Charles Phillips cautioned customers that the first release of Oracle Fusion Applications technology would be targeted at reporting, Web services, and BPM functions for its existing applications product lines. Oracle's John Wookey (former head of Oracle Fusion Applications) and Steve Miranda have said on many occasions that the first release of Oracle Fusion Applications would provide basic ERP features but would not be functionally equivalent to Oracle's older ERP products.

[4] Oracle's results for its fiscal Q1 2009 (ended August 31, 2008) reflect a decline in applications license revenues

of 12% versus the same quarter a year ago, likely affected by the faltering economy. SAP's preliminary results for its Q3 2008 (ended September 30, 2008) also reflect the adverse impact of the economy, with a sudden drop at the end of the quarter. The company's preliminary results for software revenues reflected an increase of 4% to 5%, which was below expectations. These latest quarterly results are not reflected in Figure 1, because SAP's Q3 2008 figures were not finalized in time to be included in this report.

[5] Dynamic Business Applications emphasize close alignment with business processes and work (design for people) and adaptability to business change (build for change). See the September 24, 2007, "The Dynamic Business Applications Imperative" report.

[6] What Oracle calls Oracle Applications Unlimited includes Oracle E-Business Suite, PeopleSoft Enterprise, JD Edwards EnterpriseOne and World, and Siebel. Oracle's vertical industry applications include products originally known as LODESTAR, Retek, SPL WorldGroup (SPL), Agile, and i-flex.

[7] SAP All-in-One is a preconfigured version of its enterprise ERP offering. Although it often appears to be positioned as a separate product, it is in fact the same code base as the flagship ERP solution.

[8] SAP announced its intention to acquire Business Objects in October 2007, saying it expected to cash in on increased interest in business intelligence products as part of its growth strategy. See the November 5, 2007, "SAP Changes Course With Major Acquisition" report.

[9] At Oracle, Ed Abbo heads Oracle Applications Unlimited and Application Integration Architecture.

[10] Oracle, SAP, and IBM target their solutions and services at banking, telecommunications, financial markets, insurance, healthcare, high-tech manufacturing, public sector, retail, utilities, aerospace and defense, automotive, chemicals, consumer manufacturing, education, industrial manufacturing, media and entertainment, oil and gas, and travel and transport. In addition, IBM and SAP have a vertical industry practice for wholesale distribution, while Oracle and SAP have practices for natural resources (e.g., mining), engineering and construction, and professional services (e.g., accounting service providers). SAP has a practice in life sciences.

[11] Oracle has acquired Retek, 360Commerce, ProfitLogic, G-Log, and TempoSoft in retail; SPL and LODESTAR in utilities; HotSip AB, MetaSolv Software, Net4Call, Portal Software, and Netsure Telecom in telecommunications; Demantra, G-Log, and Agile in manufacturing; i-flex in financial services; and Skywire Software and AdminServer in insurance.

[12] Forrester has no specific data that describes the experience of Oracle's product management and engineering groups in managing the Oracle Fusion Middleware portfolio and stacks. Rather, Forrester makes this comment based on observations of many software companies over many years of managing portfolios such as Oracle Fusion Middleware.

[13] Oracle plans to substitute BEA WebLogic Server as its strategic Java 2 Enterprise Edition (J2EE)/Java EE server, but it otherwise plans to incorporate features of various BEA Systems and Oracle products into new releases during the next two years — all while delivering Oracle Fusion Middleware 11g. See the July 30, 2008, "Oracle Absorbs BEA's Middleware: The Impact On Application Development Managers" report.

[14] Each SOA layer defines canonical business objects (data), business messages, and business services

(functions) that Oracle's applications use instead of directly accessing the underlying database and code. And the SOA layers for AIA and Oracle Fusion Applications are loosely related but not the same, according to Oracle itself. Bottom line: There is a lot of real-world proving of this concept still to be done.

[15] The underlying technology for Oracle Fusion Applications includes implementations on PL/SQL, Java, and Groovy with common core service definitions. Oracle has also introduced a new data model known as TCA 2, which incorporates the vertical data models of Siebel and recent acquisitions, as well as signature PeopleSoft features, such as effective dating, trees, and sets.

[16] SAP's ERP 6.0 adoption tracking data indicates that approximately 8,000 of 27,000 ERP customers have adopted the release as of August 2008.

[17] One of the key changes in SAP's upgrade program is enhancement packages, a mechanism that provides for more frequent software updates in smaller doses. Enhancement packages allow SAP ERP 6.0 customers to selectively adopt new functionality with less disruption. SAP released its first enhancement packages for SAP ERP 6.0 only (not the rest of the suite) during 2007. See the May 29, 2008, "Enhancement Packages Improve SAP Upgrade Value" report.

[18] By 2009, the majority of SAP customers will face the end of standard support and extended support arrangements. To take advantage of service-oriented architecture and SAP ERP 6.0, customers will have to move on to SAP NetWeaver 7.0, SAP's new technical foundation. However, business process and applications professionals often struggle to find business drivers beyond relief from vendor-imposed deadlines, build a case for upgrades, and overcome ERP upgrade fatigue. One of the key changes in SAP's upgrade program is enhancement packages, a mechanism that provides for more frequent software updates in smaller doses. Enhancement packages allow SAP ERP 6.0 customers to selectively adopt new functionality with less disruption. See the May 29, 2008, "Enhancement Packages Improve SAP Upgrade Value" report.]

[19] SAP's decision in July 2008 to raise maintenance fees from 17% of net price to 22% of net price makes these upgrade decisions more difficult as customers contemplate the increased ownership costs across the board.

[20] SAP Business ByDesign will not meet SAP's initial ramp-up projections due to difficulties encountered in operational support and system performance. See the July 1, 2008, "SAP's Business ByDesign Faces Delayed Ramp-Up" report.

[21] At SAP TechEd 2008 in September 2008, John Schwarz, CEO of Business Objects, reported that about 30% of its customers were also SAP customers before the acquisition. Since the acquisition, Business Objects has doubled this percentage.

[22] SAP's low relative scores in Forrester's 2007 Forrester Wave evaluation of application server platforms reflect its position within the planning cycle for the next release of its NetWeaver platform. SAP did well in the 2004 Forrester Wave evaluation because it had a new release of NetWeaver and not as well in 2007 because it did not. See the July 11, 2007, "The Forrester Wave™: Application Server Platforms, Q3 2007" report.

[23] SAP also built SAP Business ByDesign on SAP NetWeaver 7.1.

[24] BusinessObjects XI is not dependent on NetWeaver; it can run on other server platforms as well.

[25] Successful packaged apps strategies require business process and applications professionals to align with corporate business drivers. But because business drivers for individual IT projects often shift with time, the portfolio of apps initiatives requires organization and alignment by economic state and project risk. Once alignment is achieved, business process and applications professionals should identify the high-priority initiatives that best align with current business drivers and create a business technology value plan that connects the dots between corporate strategy and application tactics. Forrester recommends regular assessment of progress using tools such as Forrester's long-term packaged apps strategy best practices self-assessment. See the March 20, 2008, "Does Your Apps Strategy Support Your Corporate Business Drivers?" report.

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