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Sun Is The Center Of The New Oracle Universe

How Cisco, HP, And Oracle Are Shaping IT's Future

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EXECUTIVE SUMMARY

There are defining moments in IT where all the stars align to create a big bang. Twenty years ago, IT vendors faced clients wanting application and service value, not technology. The market dominance of IBM mainframes forced these smaller vendors to find a common ground. Open systems were thus born and changed the face of IT. This started a new technology cycle based on the declining cost of hardware and the availability of application software, which led to the emergence and then preeminence of left-field players such as HP and Sun Microsystems. This cycle, like the previous one, ended up with technology taking a backseat to business value. Meanwhile, a new cycle is about to start, where IT is just another business tool. To achieve this new status, IT has to improve its technology processes to reach a cost-to-value ratio that is compatible with business expectations. Eventually, Sun's acquisition by Oracle is about building this new IT model, which integrates application technologies with virtualization, cloud computing, and automation to reduce the labor cost associated with IT services. A new era is about to begin, and it will again transform the IT landscape.

THE EMERGENCE OF A NEW IT MODEL

Larry Ellison, chief executive officer of Oracle, recently said: "Oracle will be the only company that can engineer an integrated system — applications to disk — where all the pieces fit and work together so customers do not have to do it themselves." His statement summarizes what the future IT model will be: an industrial approach that uses integration, virtualization, and automation to optimize the manual labor costs associated with building, deploying, and operating IT business services.¹ This raises several questions:

- What is the new model that Oracle is striving for, and what evidence do we have that Oracle is going in that direction?
- What will the potential competition be, and in particular, how will this model complement or compete with the cloud-in-a-box models presented by Cisco UCS and HP BladeSystem Matrix?
- How will this new model affect the current IT market? Will it be changed forever?

The Oracle Buildup

Since the announcement of PeopleSoft's acquisition in June 2003, Oracle has conducted no fewer than 50 acquisitions (including PeopleSoft and Sun), an impressive list of companies that are seemingly all over the software map.² But this apparent chaos is simply a logistical buildup that has a clear end goal:

providing the next-generation IT model. Through these acquisitions and on top of its preeminence in databases, Oracle has accumulated the applications, system components, management components, and now hardware components that are necessary to create the ultimate application-oriented machine.³ That machine can be an appliance, a virtual container that is deployed on an internal or external cloud, and either a dedicated business service or a service on demand.

Beyond what Sun can offer today in terms of a customer base, the key to the business technology (BT) model is in the orchestration and provisioning elements existing at Sun as well as its innovation capability regarding hardware, systems, and open source software. There is no question that Sun can very quickly build a cloud in a box similar to what has been announced by Cisco Systems and HP.⁴ There is also no question that the configuration, testing, and management capabilities of Oracle's Enterprise Manager, combined with its leadership in packaged applications, will end up delivering ready-to-use application runtimes in virtual containers. Through this combination, we end up either with application-oriented systems that are ready to use and based on Sun's hardware or with applications that are ready to use on an in-house or external cloud, as a dedicated or an on-demand service. Oracle/Sun emerges as the winner in both situations.

The BT Model Foundation

In today's application projects, Forrester estimates that 60% of the budget is spent on development and testing, 20% on deployment and provisioning, and another 20% on operation management and maintenance. In the new BT model:

- **Development is replaced by flexible packaged applications.** These applications can be easily adapted to vertical market needs and require a minimal transformation of the business processes. Oracle has already captured a good part of this market.
- **Deployment and provisioning become automated.** Oracle has acquired companies such as mValent, which, when combined with Sun's orchestration capabilities, could provide a predeployed application adapted to the precise end user configuration for Oracle's packaged solutions. For example, rPath has been delivering similar runtime packages for custom and packaged applications.
- **Operation and maintenance use integrated solutions.** Oracle's Enterprise Manager can already integrate application management functions into these packages, thus providing an integrated management function ready to plug into an overall IT management suite. Integrating a configuration management database (CMDB) subset within the cloud to manage the virtual-to-physical relationships as well as integrating the monitoring and management with the application to complement what exists in the cloud eliminate most of the labor needed to operate the application. While Oracle has not formally announced any automation or CMDB solution, Sun will certainly serve as a catalyst for building these capabilities, which may be helped by judicious acquisitions.

This approach represents a considerable saving in labor costs, which is the next challenge that faces IT, especially in this difficult economic context.

ORACLE'S COMPETITION

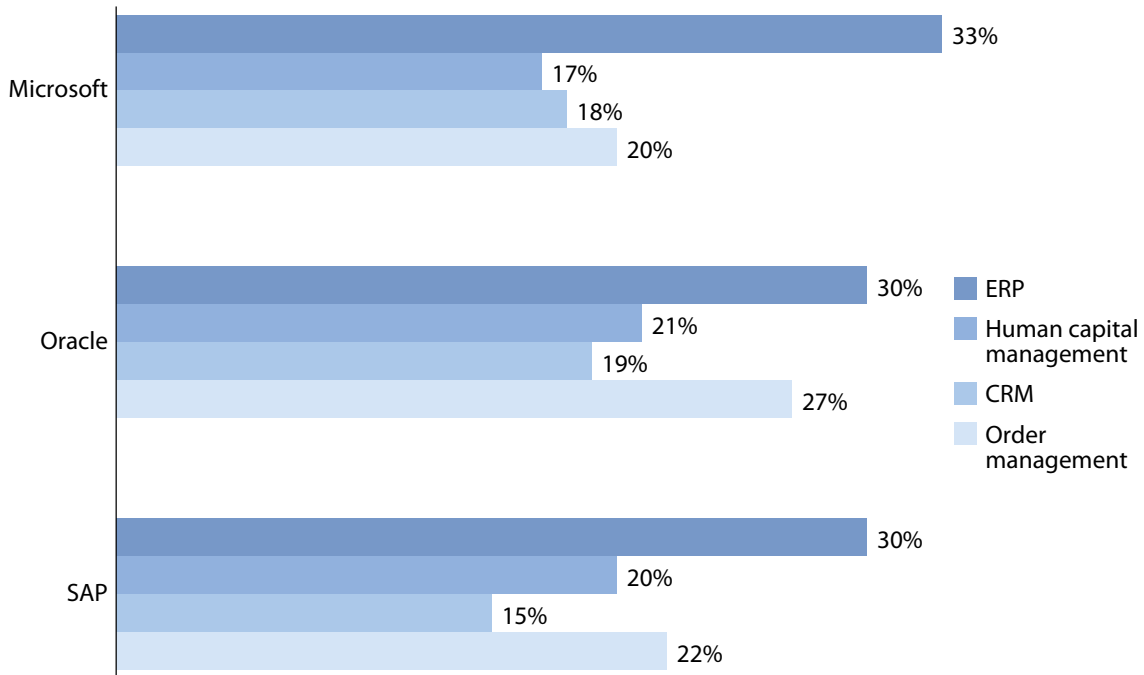
Oracle faces competition on the potential cloud side and on the packaged application side:

- **On the packaged application side, the main rivals are Microsoft and SAP.** Both have the clients' attention, and both could very rapidly play catch up (see Figure 1).
- **On the cloud-in-a-box front, HP and Cisco appear to be serious rivals.** Cisco UCS, built in cooperation with VMware, BMC Software, Intel, and others, is the typical example of how an ecosystem can be built around the cloud concept. HP BladeSystem Matrix is an example of a vertically integrated solution. Both exemplify the concept of the cloud in a box, but both lack the application dimension.

Alliances may allow competitors to be more on par with Oracle. But such alliances take time, and some of the technologies needed may not be readily available to Oracle's competitors, especially on the application deployment side.

Figure 1 Packaged Applications: 2009 Purchasing Intentions

“From which vendors is your firm likely to purchase packaged solutions in the following categories?”



Base: 2,227 respondents in North America and Europe (multiple responses accepted)

Source: SMB And Enterprise Software Survey, Q1 2009

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Source: Forrester Research, Inc.

THE CURRENT BUSINESS MODEL MAY SOON BE OBSOLETE

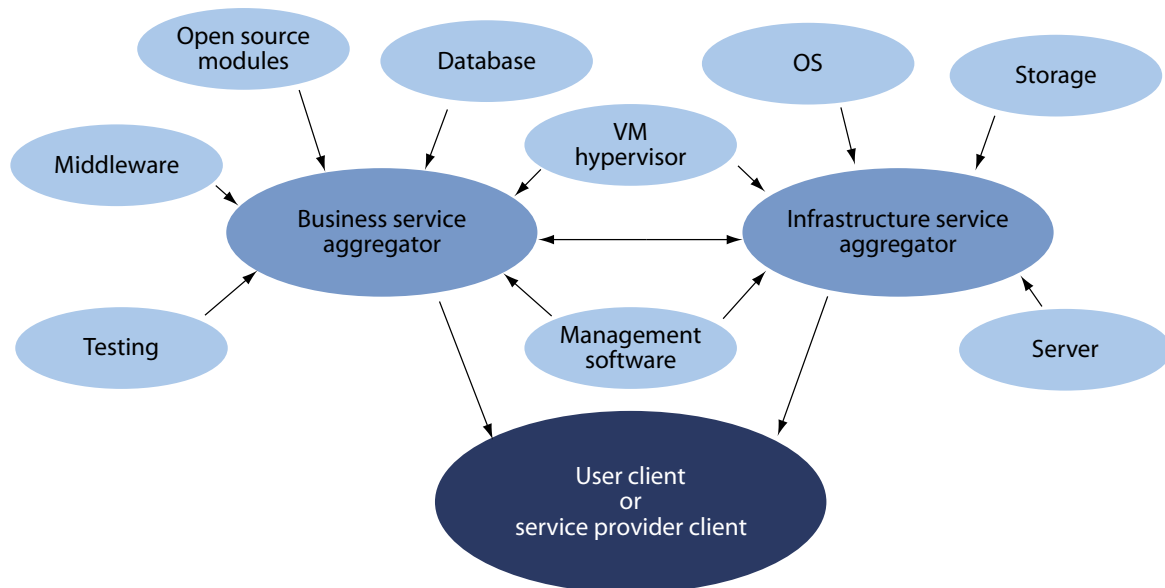
Those who ignore history are doomed to repeat it. In the 1980s, the competition between the major IT vendors shifted from technology to business services. In other words, clients no longer asked about million of instructions per second (MIPS), but about packaged applications that were ready to run. The dominance of IBM in the market meant that independent software vendors (ISVs) wrote their applications to IBM and forced Burroughs, Univac, NCR, Control Data, and Honeywell (BUNCH) to find a solution. Open systems were thus born. The consequence, however, was that a new business model was needed to which none of these companies could adapt. The sharp decline of the mainframe vendors, including IBM, in the early 1990s opened the door to the success of then-marginal players like Sun and HP. Today, none of the BUNCH has survived as a serious IT technology competitor — not because they could not produce open systems, but because they did not know how to transform their business model.

The technology buildup of Oracle over the past few years provided technology pieces that could be used as-is and eventually integrated into a bigger picture of the future computing model. This was limited until today to packaged applications and their dependencies, such as data and management, and had the possibility of delivering a predeployed application in a box. The acquisition of Sun adds another dimension. If Sun develops a solution that can effectively compete with HP BladeSystem Matrix and Cisco UCS, then another cycle is about to emerge in IT. In this cycle, the issue would no longer be about the availability of applications or the performance of the technology, but about the reduction of labor costs and the full automation of the business service life cycle. It would be about providing IT organizations with business services that were ready to deploy and operate in-house, externally, or as a service with minimal overhead.

This potentially changes the business model again. In this model, we believe that only the cloud vendor or the application vendor would have direct access to the client as an aggregating vendor. All other vendors would become part of the aggregating vendor partner system, as is the case today in most industries where an aggregator interfaces with the client, selling a finished product that is built using parts from multiple partnerships (see Figure 2).

This has important consequences because most of the current software vendors still derive a good share of their revenue from direct sales, even if they participate in channel sales and ecosystem partnerships. In the new model, as they become technology providers to the aggregator, they will see reduced revenue, which is compensated by a potential increase in sales volume and a reduction in their cost of sales.

Figure 2 The New BT Supply Chain



RECOMMENDATIONS

IS THIS THE BEGINNING OF A NEW IT ERA?

IT today is plagued by high costs of application development, deployment, and operation that are the consequence of processes that are mostly manual. Virtualization, combined with blade servers, orchestration, provisioning, CMDB, and management functions, provides capabilities similar to cloud computing infrastructures in a modular and extensible package for internal or external IT consumption. Through the Sun acquisition, Oracle has the potential, after HP and Cisco, to become another player in this emerging market. What makes Oracle different, however, is its capability of also delivering applications that are ready to use and consume in virtual containers. This, combined with a cloud computing platform, potentially changes the face of IT because the clients, whether service providers or end users, now have a single interface for all of their IT needs. This thus changes the current IT business model, where the client, as technology aggregator, interfaces with all vendors.

- **Vendors must consider where they stand in the new IT business landscape.** For example, many IT management software vendors are building their own direct and channel sales force. This is usually the biggest burden on a young company. In the new IT model, they should consider becoming technology providers to larger vendors or to technology aggregators.
- **Large IT management software vendors should consider their position in a new landscape.** There are two roles that larger vendors can play: They can participate in a partnership with an aggregator, and/or they can provide the overall management solutions that will be needed to integrate all of the cloud infrastructure pieces. But they should prepare for it by adapting their management portfolio to the future IT model. Of course, this does not apply to IBM, HP, or Oracle.
- **Vendors must start thinking about their organizational changes.** The new business model is very different, and adapting to it will certainly impact the vendor sales and marketing groups because it will impact revenue. This was the major vendor trap in the transition from mainframe to open systems. It is worth starting to think about what the organization would look like in a new era, how the organization would transition from current practices to new ones, and what the organization would use as signals to trigger the transition.

ENDNOTES

- ¹ In the present era of IT, hardware's ever-decreasing costs make it an enabler of software functions. In the BT era, we predict that managing the third part of the equation — people — will emerge as the dominant focus. As software applications become business services, the cost of human resources producing, operating, and managing software will soon be prohibitive and the new focal point. In this regard, the current economic downturn, if it persists, may prove to be a driver that accelerates the shift toward the BT era. The idea is to

actually: 1) standardize the options available in packaged applications; and 2) predeploy the application on a physical or virtual appliance. This will allow the BT organization to actually deploy an application in-house at minimum cost by bundling hardware and software again. See the March 9, 2009, "[Future Trends In The Enterprise Software Market](#)" report.

- ² The PeopleSoft acquisition was announced in June 2003 but was effectively completed on July 1, 2005.
- ³ The availability of a service-in-a-box solution is getting closer: Oracle has been stealthily putting this model together. After acquiring packaged app producers, middleware vendors, and a Linux and virtual platform and testing solutions, it has acquired the ability to manage the end user experience (Moniforce), the application core (ClearApp), and, with the acquisition of mValent, the ability to automatically collect configuration data for deployment. Last summer, Oracle announced its "database and storage in a box" with HP. As a result, Oracle may only be missing a process automation solution to tie everything together. This puts a relatively small number of companies in the acquisition crosshairs. Once completed, this approach may well dramatically change the way we think about enterprise IT. See the March 13, 2009, "[Market Overview: The IT Management Software Market In 2009](#)" report.
- ⁴ The Cisco Webcast regarding its Unified Computing System announcement provides additional information, as does HP's BladeSystem Matrix and Adaptive Infrastructure announcement. Source: "Cisco Hosts Investor Webcast: Unified Computing System for Next Generation Data Center Transformation," Cisco press release, March 16, 2009 (http://newsroom.cisco.com/dlls/2009/prod_031609i.html); and "HP Introduces Industry's First Business-ready Infrastructure for Automated Service Delivery in Data Centers," HP press release, April 20, 2009 (<http://www.hp.com/hpinfo/newsroom/press/2009/090420c.html>).