



## **Oracle Acquires Sun: A First Look at the Road Map**

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On January 27, 2010, Oracle executives presented an overview of how the company would integrate Sun Microsystems' products and services into an expanded Oracle — a merged company that on Day One had more than 100,000 employees and a run rate of more than \$30 billion.

The acquisition closed on January 26, and the impact on product plans was not known until the [January 27 announcements](#). The announcements followed months of planning and preparation after the April 2009 announcement that Oracle intended to acquire Sun, with months of review by U.S. and European Union (EU) oversight agencies. Many of the plans had been anticipated:

- Oracle will provide integrated, and optimized, technology stacks based on Sun's server and storage products.
- These stacks will include hardware, operating systems, virtualization software, middleware, databases, and applications (inclusive of horizontal and vertical-market applications).
- Oracle will continue to provide what it terms "components" of the stack, which can be acquired as standalone products and mixed into customers' existing computing environments.
- Oracle plans to invest in Sun's Solaris and SPARC technologies to assure customers and "revitalize" Sun's hardware portfolio, as Sun's new announcements had slowed in 2008–2009.
- Oracle plans to design future SPARC CMT processors, to be fabricated by other companies, and to continue to partner with Fujitsu on SPARC64 processors for the M-Series servers.
- Oracle will sell server systems based on Solaris and Oracle Enterprise Linux (OEL) and based on SPARC and x86 architectures.

However, other elements of the announcement were new to the public discussion of the acquisition:

- Oracle will retain the Sun brand for its hardware products, shown as "Sun/Oracle" on hardware.
- Oracle will "go direct" in selling to the top 1,700 U.S. accounts and the top 4,000 accounts worldwide and implement changes to Sun's channel partner program — a very large channel through which more than 50% of all Sun's server and storage products were shipped.
- Oracle will reduce by approximately half the total number of server and storage product SKUs to reduce costs and reduce complexities associated with Sun's global supply chain.
- Oracle will simplify Sun's supply chain by implementing a build-to-order ODM model, leveraging Oracle's R12 SCM software, with a stated goal of achieving a 100% direct shipments from ODM factories to customers.
- Oracle plans to hire 2,000 specialized server and storage sales and support personnel aimed at growing the Sun infrastructure business, with a particular focus on Oracle's top 4,000 global accounts. However, about 1,000 jobs will be lost through an existing Sun reduction in force.

- At the same time, Oracle will increase its spend on core Sun technologies, including a stated goal of \$4.3 billion in R&D spending in fiscal-year 2011, an increase of \$1.5 billion from Oracle's fiscal-year 2009 R&D spending.
- Oracle also plans to retain the Sun Ray thin appliance and Storage Tek's tape automation products, both of which had been widely speculated to have been planned for end-of-life status.
- Oracle confirmed that it will protect Sun's open-source technologies, including the MySQL database. Oracle will manage MySQL through a separate business unit and will continue to invest in it according to agreements the company made with the European Union, following its review of the acquisition. It will manage other Sun open-source products, including GlassFish for developers and OpenOffice, through the Oracle middleware organization.

### **IDC Analysis**

Oracle has a well-established and proven track record for absorbing acquired companies quickly into the organization. Over the past five years, Oracle has averaged one large acquisition per year and approximately one small acquisition per month. In addition to the technology integration challenge posed by each of these acquisitions, staff and go-to-market considerations were also carefully evaluated in each case. Sun represents one of the most complicated companies yet for Oracle to absorb, but Oracle's strategy is quite clear: It is focusing on the tight integration of hardware and software from the component level, up through the system, all the way to the application layer. In doing so, Oracle believes that it can provide customers with additional value by creating platforms that are easier to deploy, manage, and support.

Oracle's vision is this: Going forward, the market will deliver performance, scalability, security, and capability using a much different model — one that requires extremely tight integration across hardware and software — than the speeds-and-feeds model that the industry has relied over the past few decades. To succeed with its strategy, Oracle will need to seamlessly extend this model beyond the technology and into the market through a high-touch and tightly integrated sales and channel model. This will be a challenge because this model will extend across multiple IT buyers and influencers in the enterprise datacenter, including core infrastructure (servers, storage networking, virtualization, systems management, and security) and application development (middleware, database, development tools, and packaged applications). Oracle will need to redefine who it's selling to within the enterprise — and how it's going to sell it. This is where the expanded, targeted direct sales force and the channel strategy will come into play.

IDC believes that the planned changes, as described, conform with merger and acquisition (M&A) activity plans seen from Oracle in recent years (e.g., PeopleSoft, JD Edwards, Siebel): clear communication to frame expectations on the part of employees from the acquired company — and on the part of longtime customers anticipating migrations. Specifically, Oracle presented an overview of the product road map — and plans to post a list of Sun hardware and software products, beginning in early February, on the Oracle website. Oracle's stated goal is for the Sun acquisition be net profitable in the first full quarter and first fiscal year. However, Oracle expects to make substantial savings in terms of how it manages products and distributes them. Oracle has said it intends to see Sun's operations grow revenue — and add \$1.5 billion to Oracle's revenue within the first full year of merged operations.

### **Scale-Up and Scale-Out Products**

Based on the Oracle presentations, and on the comments by Oracle CEO Larry Ellison and John Fowler, EVP of Oracle's Sun systems hardware engineering, the Sun product line will include both "scale-up" and "scale-out" systems. On the scale-up side will be scalable systems, such as the M-Series of midrange and high-end servers, based on the SPARC64 processor and Solaris. And, from the viewpoint of capability, Oracle Exadata V2 could be viewed as a scalable system for OLTP and data warehouse, although it is built with multiple Sun x86 servers in an optimized architecture because it provides a single-system image view of multiterabyte databases. Also on the scale-out side would be a range of smaller SPARC CMT and x86 servers, which can be used standalone or in clusters or grids, leveraging Oracle Real Application

Clusters (RAC), Solaris Cluster software, or a Linux clustering configuration (e.g., for high performance computing).

### **Channel Partner Program Will Change**

Oracle said it will change the longstanding Sun channel partner program, which distributed approximately 50-60% of all Sun hardware products worldwide. It was not only midsize companies that bought through the Sun channel but also large companies accustomed to acquiring systems from partners. Given Oracle's strategy of integrating technology stacks and its ongoing partner strategy, there will be changes in the focus of Sun channel partner activity — with greater focus on added value through services, training, and support delivered by partners.

This change in the partner program or its requirements may be jarring to some channel partners. But it is in line with many suppliers in the IT market today and in line with Oracle's strategy with partners, which have historically driven 40% of Oracle sales and 80% of transactions worldwide. In recent years, there has been a transition from products to solutions, and this has brought about a focus on added value via services and training. Many partners prove their competency for providing specific services through a certification process. Partners that meet the certification requirements are typically rewarded with special pricing, programs, and products they can resell.

Oracle will be combining Oracle's ongoing partner strategy with a realigned channel partner program for the Sun products. For this reason, Oracle must be very clear in its messages to partners regarding where, and when, to engage on customer accounts. Otherwise, competitors in the server space might try to get Sun's channel partners to move to their program. One possible sweetener on Oracle's side would be to leverage the Oracle Accelerate program for the software channel, which customizes software stacks for specific vertical markets, regions, and use cases; the program is targeted to be delivered by channel partners. During this time of transition and the rollout of new products, Sun's enterprise customers are likely to want to have a direct relationship with Oracle, but some of them may want to retain a relationship with channel partners. That's why Oracle should lead in these accounts, but it should also consider leaving the door open to bring in partners, if customers request it.

### **Coopetition in the Marketplace**

As Oracle works to build optimized technology stacks, it will present customers with a choice: buying the preconfigured, pretuned systems with the software stack prepared for specific workloads or applications or buying standalone products, or "components," as Oracle calls them, to mix into already installed system technologies. Examples include Oracle database customers with Unix servers from HP or IBM or customers who already own x86 servers and are buying some of the components (e.g., middleware, database, applications).

Further, the trend toward converged infrastructure is gathering steam, although it will set off a round of "coopetition" in the marketplace, as technology companies alternate cooperating and competing on specific platforms. Importantly, converged infrastructure (CI) and integrated, optimized stacks attack a very important concern of IT managers: the cost and time it would otherwise take to for IT staffers to do systems integration in-house. Increasingly, vendors will be taking on this task, both because they have advanced skill sets inside their companies — and because the economic downturn placed a spotlight on IT projects and datacenter buildouts, many of which were delayed or deferred in 2009.

As the economy recovers, and IT organizations try to make up for lost time, converged infrastructure and preconfigured, optimized technology stacks will be highly attractive. Oracle said that it will provide comprehensive top-to-bottom stacks. In the words of the Oracle banners at the January 27 announcement: "Software. Hardware. Complete." Other companies are headed on similar paths: Cisco has partnered with VMware and EMC for converged infrastructure, and HP recently announced a program with Microsoft to provide converged infrastructure with Microsoft software stacks for database, email, and applications. IDC would expect that most major systems vendors will join this trend.

### **Conclusion**

IDC believes that Oracle has already done an in-depth review of Sun's business; operations; and portfolio of servers, storage and software products, and associated services (support and professional services). Although the nine months that elapsed from the initial announcement of Oracle's intent to acquire Sun was unusually lengthy for a high-tech acquisition, it provided more time for preparation also. This should speed implementation of Oracle's plans to integrate Sun. Many of the action items could not be carried out prior to the January 26 close of the deal — such as communicating forward-looking plans, including the technology road map. Oracle is off to a fast start and will work quickly to reassure key constituencies, including customers and business partners. However, much work remains to be done — with one of the toughest tasks relating to changing Sun/Oracle's channel partner relationships. IDC will continue to provide analysis and commentary about Oracle's acquisition of Sun — one of the biggest IT company acquisitions in recent years, and the largest since HP acquired Compaq in 2002.

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