

# San Mateo County Times

## Takeover may sap sales

German firm SAP campaigns to lure PeopleSoft customers

By Marc Albert

**BUSINESS WRITER**

**Thursday, June 12, 2003** - In the battle between Oracle and PeopleSoft, the biggest winner could easily be outside competition.

SAP, the Germany-based leader in application software jumped into the fray Wednesday, launching an advertising campaign to lure PeopleSoft customers fearing chaos should Oracle's hostile takeover bid succeed.

Also on Wednesday, Oracle had its credit outlook lowered to negative from stable by Moody's Investors Service because Oracle may have to raise its offer for rival PeopleSoft Inc.

Moody's affirmed its A3 ratings on about \$300 million of Oracle debt, Moody's said in a statement. Moody's would consider lowering its ratings if Oracle "substantially" increases its offer for PeopleSoft and if Oracle doesn't reduce costs enough to make up for lower revenue as it stops selling PeopleSoft products.

PeopleSoft shares fell 28 cents to \$17.62, or 10 percent above Oracle's \$16-a-share offer on the Nasdaq Stock Market. Oracle rose 25 cents to \$13.27.

Oracle has said that if the merger is successful, it will cease updating PeopleSoft's software and concentrate on its competing Oracle products.

That's a cause for concern among PeopleSoft's 5,100 customers.

"What Oracle is saying they will do is ultimately phase out PeopleSoft software and transfer all the data and processes into the Oracle eBusiness Suite," said David Creelman, chief of content and research at HR.Com, a Toronto-based human resources trade publication.

"Oracle's product may be very good, but it's a huge process to transfer from one system to another,"

Creelman said forced migration from one firm's product to another, could have some unintended consequences. "People have invested an awful lot in PeopleSoft and switching from that is not something that these companies will want to do. I think there will be something of a rebellion," he said.

That may be especially so, analysts said as most of PeopleSoft's clients likely chose the firm's software over Oracle's in the first place.

Lorraine Segil, a corporate consultant, said that Oracle's offer of free software upgrades for PeopleSoft customers may not cut it.

Buying or upgrading the software "is unfortunately just a small part of the cost of software -- it's the

application implementation and training that costs as well as the opportunity cost of the time involved to change over," she said.

The California State University system for example, paid \$39 million for PeopleSoft software to automate certain functions throughout its 23 campus system, according to spokeswoman Colleen Bentley-Adler. "This merger could have a big impact on us," she said. Bentley-Adler said it was still too early to draw conclusions about fallout from the merger.

Integration may not be impossible.

The Western Farmers Electric Cooperative in Anadarko, Okla., runs products from both firms simultaneously and integration hasn't been much of an issue, according to Carl Liles, director of customer relationship management. That said, as an Oracle customer, the firm had a choice when it shopped for new software.

"Having looked at both products, if I was Oracle I'd do away with my Oracle applications and stick with PeopleSoft," Liles said.

Ellison is counting on keeping PeopleSoft's 5,100 customers, which include Ford Motor Co. and Hewlett-Packard Co. They represent an opportunity for Oracle to sell database software and other programs and collect about \$600 million in annual technical-support revenue, Wells Fargo Securities analyst Eric Upin said.

"It's totally in their interest to keep those customers on board," said Upin.

That means Oracle has to make them happy, something the company has had problems doing in the past, analysts said. Oracle angered customers last year by changing the terms of existing license agreements to make them pay more, Meta Group analyst Mark Shainman said.

He said some clients called him to complain, and others said they have trouble getting their calls returned.

PeopleSoft, based in Pleasanton, built its reputation on customer service. Ellison a year and a half ago derided his rival's marketing strategy as "our software isn't very good, but we're really very nice."

Oracle's hard-sell tactics may alienate some PeopleSoft clients, said Kay Doremus, an analyst at Banc of America Capital Management, which oversees \$297 billion that included 881,200 PeopleSoft shares and 16.5 million Oracle shares as of March.

"The customer base for Oracle seems to be a little more aggressive and ready to push back," Doremus said. "PeopleSoft customers really don't like that kind of pressure."

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