



Flash

Oracle Cloud Analyst Summit, March 2014: Getting Closer to "Complete"

Michael Fauscette
Robert P. Mahowald
Melanie Posey

Al Hilwa
Carl W. Olofson

IN THIS FLASH

This IDC Flash discusses the Oracle Cloud Analyst Summit, held on March 6, 2014, in Palm Springs, California. At this exclusive analyst summit event, Oracle discussed its progress and plans for cloud computing. The full-day event was kicked off by Thomas Kurian, Oracle's head of product development, and forked into two parallel tracks where various teams discussed their plans for public and private cloud offerings. The decision to organize the event along the private/public split was driven by scheduling and time constraints, though it emphasized the current differences in the capabilities available through the two delivery modalities. The result was a more complete picture of Oracle's strengths, and aspirations, in the cloud.

SITUATION OVERVIEW

Oracle's Traditional Business Model Challenge

Like many traditional software vendors, Oracle generates most of its annual revenue through software and maintenance sales based on a perpetual-license model. Oracle is a premium player with many market-leading products that the company positions, with a few exceptions, in the high end of the market. Oracle's elephant-hunting sales teams have long had an industry reputation for competitive approaches to customer acquisition and retention, although this may be changing (compare the recent *InformationWeek* article "Oracle Becomes 'Kinder, Gentler,' President Hurd Claims"). Oracle has accumulated considerable success with this approach, parlaying its technology and sales prowess into a market leadership position as the second-largest software vendor in the world. Cloud, however, is a disruptive provider service model and has the potential to upset the software status quo. IDC has predicted that transition to the 3rd Platform, mostly driven by trends toward cloud, mobile, social, and big data, will be characterized by self-service software sold in volume and requiring sales approaches that shift away from a big-deals approach toward granular and modular volume services sold incrementally. IDC has also predicted that traditional software vendors will struggle to make additional inroads as end-user organizations undergo the transition to cloud infrastructure and the consumption of as-a-service capabilities. A taste of the economics of cloud computing is likely to make most enterprises reluctant to spend big dollars on perpetually licensed software in the long run. We are in fact seeing the major traditional software vendors struggling to maintain a strong pace of growth in their software businesses. Oracle's most recent quarterly results released on March 18 did show moderate software license revenue growth, but even Oracle highlighted its faster-growing cloud

business, which now accounts for almost 3% of its revenue. Smaller, more agile players, such as Workday, salesforce.com, and Amazon Web Services (AWS), with offering portfolios focused on cloud services, have been able to achieve much higher rates of growth.

Oracle's Brief Cloud History

This analyst meeting was not Oracle's first to focus on the company's cloud efforts. Oracle began to discuss its cloud transition approximately three years ago after a phase during which Oracle's CEO publicly questioned the hype around cloud computing – while aggressively investing in both NetSuite and salesforce.com.

A lot has happened in the past few years in cloud computing; most notably, we have seen Amazon Web Services gain considerable traction and establish itself as the largest IaaS player, and we have witnessed new entrants of all sizes accelerate their investments in datacenters and enter the IaaS, PaaS, and SaaS space. Microsoft made a pivot in mid-2012 to invest in IaaS capabilities in addition to the PaaS it was offering prior with its Azure cloud and has since been gaining considerable momentum and a great deal of mindshare in the process. Most recently, we have seen IBM acquire SoftLayer and use it to relaunch its cloud efforts after a few weak starts anchoring it around the recently announced BlueMix PaaS, which IDC covered. Thus early concerns over how to be profitable in the cloud have turned to a much healthier "adapt to survive" sentiment at Oracle. At this analyst summit, a vision of a broad set of services spanning SaaS, PaaS, and IaaS began to crystallize. The transition is vast in its scope, however, as Oracle seeks to move its entire portfolio to a dual delivery approach where the same technology is offered in both public and private clouds. This dual strategy is aimed at being minimally disruptive to Oracle's enterprise customer base.

A Rolling Rollout

Oracle set to work building its Fusion applications nearly seven years ago and looked to aggressively acquire SaaS and middleware vendors, including Taleo and RightNow, while building application and middleware services organically, to bring together a more complete portfolio. Some are already available in production, such as many of its SaaS services, while only a few PaaS cloud services are available in production (e.g., database and middleware). Oracle's IaaS portfolio is the least developed, with only its object cloud storage cloud service available in production. It is important that Oracle will be entering the compute cloud service space, as almost all PaaS players operating at scale have found the side-by-side delivery of PaaS and IaaS compute capability essential. Oracle's IaaS services (excluding object storage, which is production) are likely to be in preview until the fall, when they are likely to be launched with fanfare at Oracle OpenWorld 2014.

Oracle emphasized that its IaaS focus, at least in the initial phases, will center on supporting its own technology stack for customers that want Oracle to run the infrastructure for them. IaaS capabilities are essential in supporting hybrid on-premises/off-premises deployments of varied and sundry versions of Oracle products that Oracle customers currently deploy on-premises. Other IaaS scenarios include customers looking at infrastructure consolidation (i.e., archiving long-tail databases to the cloud), custom workload migration, and development/testing. Oracle, like other software and hardware vendors, must offer IaaS to retain influence over public cloud-bound enterprise workloads that might otherwise migrate to AWS and Microsoft. Oracle's IaaS service, scheduled for general availability during the first half of 2014, will initially be offered from two regions each in the United States and Europe.

However, Oracle currently has partnerships with Amazon and Microsoft to run its products in their clouds and teamed up with Verizon earlier this year to support hourly subscription on the network provider's managed hosting and cloud platforms. These arrangements are now essential in keeping customers in the fold as they seek off-premise cloud infrastructure arrangements and while Oracle ramps up its IaaS deployment. Like other large cloud vendors, Oracle is building a large network of datacenters (some Oracle owned, some collocated in third-party facilities) and will soon have to face the battle for keeping these datacenters operating at capacity and offering them at attractive prices. Nevertheless, Oracle states that it wants to give its customers choice; therefore, it will both compete and partner with the likes of AWS, Microsoft, and Verizon.

Multitenancy Differentiator

A few years ago, Oracle also decried salesforce.com's implementation of multitenancy. At OpenWorld 2012, Oracle announced it had built a multitenant database with native ability to store and isolate multiple tenants in a single database server by creating and maintaining discrete "pluggable databases" under the control of a common "container database." Pluggable databases can also be moved around between container databases without server reconfiguration. Also at this analyst summit, we learned that Oracle's investment in compute multitenancy is getting nearer to production status. Such a capability will allow Oracle to run multiple user workloads on a single WebLogic instance, without having to use separate virtual machines. Compute multitenancy has become an important enabler in PaaS cloud services because it allows service providers to operate their infrastructure at much higher levels of utilization. Workload density is understood and accepted to be the gateway to cost controls in a high-scale PaaS offering. If Oracle can beat its competitors to the punch with enterprise Java application server multitenancy, it will provide the company with a significant competitive advantage as it battles its traditional application server archrivals to bring installed workloads to the cloud.

Oracle's Database Cloud Strategy

Oracle is just beginning previews for a mid-2014 launch of an explicit self-service database-as-a-service (DBaaS) offering in the public cloud, but it was early to market with a database technology in Oracle Database 12c, which supports multiple virtually isolated database (i.e., multitenant) instances running in the same container. SaaS vendors like salesforce.com have publicly stated their desire to leverage it because it provides complete isolation for their customers and improves manageability. Oracle positions the multitenant option (including its support for pluggable databases) as its technology for enabling customers to offer database services in their private clouds. This is because Oracle's multitenant option enables users to spin up, move around, and maintain databases on a highly virtualized basis while providing self-service provisioning to development groups and end users. Of course, PaaS and SaaS offered in the public cloud will be backed by Oracle Database, and the multitenancy will be persisted to Oracle's DBaaS, a significant advantage for supporting enterprise customers that feel they need the elasticity of operating one or many tenants in the same database but require physical or virtual isolation.

Private Cloud Symmetry

Oracle is also revamping its existing software stack by adding manageability and self-service enhancements designed to support private cloud implementations. Oracle's plan is to evolve its traditional software so that it is able to support its customers running their own internal clouds. Additionally, Oracle offers managed cloud services, which is akin to Oracle running a customer's

private cloud for the customer (where the customer owns the software license) as an intermediate level of service between private cloud software and public cloud services. Finally, Oracle will offer hybrid capabilities to allow enterprises to take advantage of multiple delivery models. Oracle's key challenge will be to evolve its technology so that its private and public software stack is essentially one and the same. Such symmetry will allow its customers the needed flexibility to move workloads into the cloud with less friction. Oracle indicated that this is the direction it is taking, but IDC estimates that Oracle is at least two years away from this symmetry.

Public Cloud Applications (SaaS)

The Oracle Public Cloud SaaS portfolio is the most evolved part of Oracle Cloud, including Oracle Fusion Applications along with a multitude of acquired public cloud-based products like Oracle Talent Management (formerly Taleo) and Eloqua. While the portfolio is still in transition post-acquisition, the long-term plan is to harmonize and create a common look and feel as well as deepen the integration across the entire product set over time. Across the set of products, there are common services that are being surfaced throughout, including the social capabilities of Oracle Social Network (OSN) and embedded analytics. While the services are not currently in all public cloud applications, the core Oracle Fusion Applications already include them, and the rest of the suite will gain increasing capabilities over time.

FUTURE OUTLOOK

Oracle started late, but the size of the opportunity remains very large, especially for a huge incumbent player like Oracle. IDC sees that all provider-based (public and private) cloud services combined are forecast to reach \$115 billion by 2017, and the "components supply" end of the cloud opportunity – selling gear and services for public cloud, enterprise private cloud, and hosted private cloud – will reach \$65 billion in the same period. Oracle has decided advantages over its archrival SAP – it owns in the former Sun Microsystems a vertically integrated business that gives it great visibility into the Java community and the ability to understand volume hardware sales in a way that software-only firms cannot. About 70% of SAP Business One or All-in-One suites are built on Oracle databases, and Oracle's expanded OS and expansive applications portfolio will give customers a compelling reason to consolidate on Oracle applications.

IDC is finally seeing a clearer and more complete vision of overall cloud computing emerge out of Oracle, with a high level of investment backing it. Given the size of Oracle's business and the range of products Oracle offers, a shift to the cloud has to be conducted in a gradual but also comprehensive manner. Oracle will find that it has to compete for IaaS, PaaS, and SaaS workloads to win a critical mass of its customers' workloads. Oracle has the opportunity to be the one-stop shop in cloud that it has become in traditional software if it executes well, with the breadth of its SaaS portfolio being one of Oracle's key differentiators.

Oracle's main challenge, as is the case for other traditional software providers like Microsoft, IBM, and SAP, is the ability to replace its massive revenue base of perpetually licensed software it has long sold at premium prices – with renewable cloud subscriptions. Oracle is helped in this respect by the fact that almost 97% of its customers retain maintenance subscriptions to its software, and some 60% of its software revenue is already derived from maintenance renewals. IDC believes that Oracle is about 18-

24 months away from operating on all cylinders as a high-scale end-to-end cloud powerhouse. To Oracle's credit, the majority of net-new Oracle Cloud showcased at this analyst summit will be GA by the end of this year; Oracle has in Fusion and the acquired SaaS pieces a very powerful portfolio – and is now in a position to offer significant workflows that matter most to its customers on cloud – to meet customer choice. Oracle's March 2014 analyst summit provided a clearer picture into this future than at any point prior.

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

Global Headquarters

5 Speen Street
Framingham, MA 01701
USA
508.872.8200
Twitter: @IDC
idc-insights-community.com
www.idc.com

Copyright Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit www.idc.com to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit www.idc.com/offices. Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or Web rights.

Copyright 2014 IDC. Reproduction is forbidden unless authorized. All rights reserved.

