## Aragon Research

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### Topics: Collaboration, Social HCM, Social CRM

Issue: Who are the collaboration providers and how will they

evolve?

Issue: How will the social HCM market evolve?

# The Oracle and Salesforce Alliance: A Partnership of Convenience

**Summary**: Oracle and Salesforce announced a partnership that has Salesforce committed to using Oracle Database and Exadata hardware for 9 years. Oracle indicated that Salesforce agreed to use Oracle Fusion HCM and ERP internally.

**Event**: Salesforce and Oracle announced the partnership on June 25<sup>th</sup> via a joint press release.

### **Analysis**

The Oracle-Salesforce partnership appears to be more tactical than strategic. It solves challenges for both firms, and both appear to win: Oracle locked Salesforce into a nine-year hardware and software contract, while Salesforce cut its database costs in half.

Oracle plans to integrate Oracle Fusion HCM and Financial Cloud with Salesforce.com. There was no clear statement on distribution other than that Salesforce agrees to use Oracle Fusion HCM and ERP internally.

## **Cloud Costs Start with the Database**

One common discussion in Silicon Valley is the cost of running software applications in the cloud. Oracle Database is one factor that can impact profitability and – at least until recently – scalability.

Apparently, Oracle made an offer that Salesforce couldn't refuse, one that will substantially lower the amount of money that Salesforce pays to Oracle. We also believe that Salesforce was seriously considering a move away from Oracle Database, since cloud costs can be up to 50% of the overall cost of a solution. Salesforce CEO

Marc Benioff confirmed that this deal would cut their current database cost in half.

This makes for an interesting dilemma for other cloud-based SaaS offerings. Should they stay on Oracle Database with its high cost, or switch to lower-cost open source databases, or ones that are not SQL-based? This move by Salesforce will put pressure on others to act, since Salesforce will have lower costs. However, we have seen no intent by Salesforce to act on its advantage, other than offer cursory price discounts at the end of the month or quarter.

#### **Hardware Sales Boost for Oracle**

Getting a great deal on software comes at a price. For Salesforce, it seems that the quid pro quo for the discount on Oracle Database was agreeing to use Oracle Exadata hardware in Salesforce data centers, which will help to bolster Oracle's hardware sales numbers.

Oracle has proven itself over the years as being quite capable of making the right offers to its prospects at the right time. To us, it looks like this was the right time for Salesforce.

## **CRM: Oracle Stays with Oracle Sales Cloud**

Oracle clarified its position with regard to CRM, saying it has no plans to use Salesforce.com internally. In a clarification provided to analysts, Oracle indicated that Eloqua, which it acquired earlier this year, is now using Salesforce.com, but will transition to Oracle Sales Cloud in 2014.

#### **Oracle Targets Workday**

Oracle also said that Salesforce has agreed to use Oracle Fusion Human Capital Management (HCM) software and Oracle ERP internally. In our

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opinion, this appears to put Workday's deployment within Salesforce at risk.

Finally, the agreement to integrate Salesforce with Oracle Fusion HCM and ERP, combined with Oracle's ability to sell Oracle Fusion HCM and ERP into Salesforce accounts, appears to give Oracle an edge over Workday in the race to be the preferred partner with Salesforce.com.

## **Market Implications**

When combined with Oracle's announcements with NetSuite and also with Microsoft, it is clear that Oracle is taking the shift to the cloud seriously. The reverberations of these alliances will put pressure on SaaS providers to evaluate what alliances and partnerships will benefit them going forward.

With these new alliances, Oracle will have more channels to sell its Oracle Fusion HCM and ERP offerings than it ever has. This puts other software vendors on notice. Best-of-breed SaaS providers will have a tougher time winning in the marketplace.

## **Aragon Advisory**

- Enterprises need to ask for clear roadmaps from both Oracle and Salesforce for HCM and CRM.
- Enterprises should ask Oracle and Salesforce for specifics on who will resell what products, if any.
- Vendors that license Oracle Database need to look at negotiating better licensing terms from Oracle.
- Enterprises should evaluate their CRM and HCM requirements to ensure that their current provider is meeting their needs.

#### **Bottom Line**

The Oracle and Salesforce partnership is a tactical one of convenience. On balance, it looks more favorable to Oracle than to Salesforce, whose main benefit is lower prices for Oracle hardware and software. This alliance will increase pressure on SaaS players to seek strategic partnerships that provide broader distribution.