The Hidden Costs of Oracle Applications: The Return on Investment that Doesn’t Add Up

Joshua Greenbaum, Principal
Enterprise Applications Consulting
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Executive Summary

Enterprise applications customers are facing unprecedented pressure to better manage costs associated with their applications, infrastructure software, and hardware, as the twin effects of recessionary economics and rapidly expanding global business opportunities take hold.

It is essential that enterprises critically evaluate the long-term total cost of ownership (TCO) of their enterprise software portfolios to lower on-going costs and better direct spending towards innovation. With this in mind, Enterprise Applications Consulting has taken a critical look at the TCO of Oracle Applications with an eye towards providing existing and prospective customers a sense of not just the absolute cost of Oracle’s Applications, but also the relative cost vis-à-vis the competition.

This analysis is based on looking at a 5-10 year time frame, from initial acquisition through at least two technical and/or functional upgrades. Within this framework, EAC has identified a number of key areas where hidden costs may unfavorably impact the TCO of Oracle Applications:

- Customers looking to use their enterprise software as a platform for business growth often have to choose between using an existing business process in an Oracle suite product that has been effectively sidelined by the acquisition of a best of breed product or go through a migration to a wholly new product.

- Customers must take responsibility for – and bear the cost of – wiring up their Oracle Applications and associated business processes.

- Oracle’s M&A strategy means that innovation results primarily from acquisition, and, because of SEC regulations and market dynamics, Oracle is unable to provide an accurate innovation roadmap to customers.

- Customers are locked in to the Oracle DBMS and middleware, and are subject to frequent price increases.

- Oracle prohibits customers from streamlining their database environments by imposing maintenance cost escalators on customers that try to decommission or collapse their database licenses.

- Oracle customers are frequently forced to turn an upgrade project into a reimplementation, at a cost many times greater than what an upgrade would cost. This is true for Oracle’s legacy applications as well Fusion Applications.

- Fusion Applications customers looking for industry-specific functionality must integrate their new applications with the existing Oracle or non-Oracle applications that support the required industry functionality.
Oracle’s plans for migrating its customers from older, non-Oracle hardware to the company’s new Exadata and Exalogic systems do not provide net savings on license and maintenance for those customers.

While there are certainly customers who are able to obtain considerable value from their Oracle Applications environments, that value comes at a price that may be excessive, in particular when viewed through the lens of competing, integrated products that don’t require the customer to pay for and manage the integration of key business processes across the enterprise software environment.

Oracle’s attempts to dial back to a monopolistic vision of enterprise applications deployments need not be the only option. There are numerous ways in which Oracle customers can lower their TCO and support their innovation requirements without having to run the gauntlet of Oracle’s hidden costs. This can be done through the adoption of non-Oracle applications that have a more predictable roadmap that supports pre-integrated innovation, a much simpler and less onerous upgrade strategy, and that do not require a significant investment in one vendor’s hardware and database vision and cost structure. The options are there for Oracle customers, and the threat to the total cost of ownership of their enterprise applications and business processes makes it imperative that they consider these alternatives.
Table of Contents

Introduction: Oracle’s Applications Strategy and the Challenges of Business and IT Today ............................................................... Page 1

Applications Complexity, Integration Costs, and the Hidden Applications Roadmap ............... Page 2

Hidden DBMS, Middleware, and Other Costs .............................................................................. Page 4

Hidden Migration and Upgrade Costs ..................................................................................... Page 5

Conclusion: Avoiding the Oracle Complexity Tax ................................................................ Page 7
Introduction: Oracle’s Applications Strategy and the Challenges of Business and IT Today

Enterprise applications customers are facing unprecedented pressure to better manage costs associated with their applications, infrastructure software, and hardware, as the twin effects of recessionary economics and rapidly expanding global business opportunities take hold. These two forces are pushing IT organizations and line of business management to find ways in which they can simultaneously lower day to day IT costs while increasing spending on innovative software and business processes as never before.

Faced with a complex set of issues, it is essential that enterprises critically evaluate the long-term total cost of ownership (TCO) of their enterprise software portfolios to lower ongoing costs and better direct spending towards innovation. With this in mind, Enterprise Applications Consulting has taken a critical look at the TCO of Oracle Applications with an eye towards providing existing and prospective customers a sense of not just the absolute cost of Oracle’s Applications, but also the relative cost vis-à-vis the competition.

The result of this effort showcases a number of key areas where Oracle technology, applications, and business strategy result in excessive cost and complexity by driving up IT spending, promoting expensive upgrade options, and otherwise potentially saddling the customer with a host of hidden costs. Not every customer will find his or her company confronting every potential hidden cost. For many Oracle customers, however, following Oracle’s product strategy can lead to at best an overly complex TCO model rigged very much in Oracle’s favor, and at worst, a budget-draining TCO model that is completely at odds with the business and technical requirements of today’s enterprise.

Importantly, customers and prospects trying to understand the hidden costs of Oracle’s application strategy need to look at the long-term costs of buying into not just the specific applications that Oracle is offering, but also at the underlying middleware and hardware technologies, as well as other key strategic issues that can have a significant impact on long-term TCO. As Oracle is increasingly locking its customers into its particular software and hardware vision, the long-term impact of such a lock-in must be taken into consideration in any comprehensive analysis of the TCO of Oracle Applications.

As such, this analysis is based on looking at a 5-10 year time frame, from initial acquisition through at least two technical and/or functional upgrades. Within this framework, EAC has identified three key areas where hidden costs may unfavorably impact the TCO of Oracle Applications:

- The built-in complexity of the Oracle applications portfolio and roadmap, and the do-it-yourself integration burden.
- Hidden costs of database and middleware.
Hidden complexity and costs of migration and upgrade.

Taken together, these three issues should be weighed carefully by any company looking at either acquiring Oracle Applications or considering an upgrade to an existing Oracle Applications instance.

Applications Complexity, Integration Costs, and the Hidden Applications Roadmap

The complexity of the Oracle Applications stack can be a major impediment to controlling costs, due primarily to the existence of multiple different code bases and data models across the company’s product portfolio. This complexity is compounded by the extraordinary overlap between the major products in terms of data models and business processes.

Common data objects such as “customer” are found in multiple versions across the Oracle portfolio – both in core products such as eBusiness Suite (EBS), PeopleSoft, Siebel, Oracle CRM, and Fusion CRM – as well as in industry-specific products like Agile and Retek. The same is true with key business processes. Core financial processes are offered as part of EBS, JDE, PeopleSoft, and Fusion, as well as Siebel and Retek, with specific financial planning software provided by best of breed application Hyperion. Similarly, project management exists as a process supported by several products in the Oracle portfolio, including EBS, JDE, and PeopleSoft, as well as in best of breed portfolio applications such as Primavera.

While presented as part of a strategy to bring best of breed applications to market, Oracle’s product overlap complicates implementation, life-cycle maintenance, and overall business process excellence. Customers looking to use their enterprise software as a platform for business growth often have to choose between using an existing business process in an Oracle suite product – such as project management – that has been effectively sidelined by the acquisition of a best of breed product like Primavera or go through a migration to a wholly new product. While these orphaned business processes are maintained and supported by Oracle as legacy solutions, customers looking to upgrade the project management function in, say, EBS, are forced to license a net-new product from Oracle, as opposed to getting a free upgrade through their maintenance contract.

Exacerbating this overlap and lifecycle management problem is the problem of the lack of transparency with regards to Oracle’s product roadmap and its impact on their customers’ ability to plan for innovation. Oracle’s seven year, multi-billion dollar M&A strategy has made it clear that innovation results primarily from acquisition, and, due to the dual requirements of SEC regulations and market dynamics, Oracle is simply unable to provide an innovation roadmap that would include likely future functionality or industry support. These acquisitions are closely held secrets until they have been locked down, and no company, Oracle included, would ever tip its hand regarding its M&A strategy. This omission on Oracle’s part makes it largely impossible for customers to plan their own innovation roadmaps.
The Planning Burden

Taken together, the combination of M&A-driven innovation, overlapping business processes, and multiple data, architectures, and languages adds considerable cost and complexity to the long-term TCO of an Oracle customer’s portfolio for two important reasons. The first is that customers are hamstrung in planning for innovation. A good example comes from the PeopleSoft customer base: Customers using PeopleSoft talent management who pay their 22 percent maintenance fee are not currently expected to be in line for a free upgrade to the most innovative talent management product in the Oracle portfolio. That prize can only be had by licensing the newly available Oracle Fusion Talent Management module, and then paying not only the license fee, but an additional 22 percent maintenance fee based on the list price of the Fusion Talent Management product.

A similar problem was faced by EBS and J.D. Edwards customers using those applications’ native transportation management module. That module was doomed to mediocrity when Oracle bought G-Log in 2005: EBS and JDE customers looking for the most innovative transportation management solution from Oracle were required to license the new product instead and re-engineer the processes in a new, non-integrated, and unfamiliar application.

The Integration Burden

The second cost multiplier that results from this strategy comes from the requirement that customers take responsibility – and bear the cost – of wiring up these applications and their associated business processes. Oracle does provide a considerable amount of technology for doing this work, but at a cost: according to Oracle’s Applications Licensing Table\(^1\) customers are required to separately purchase all applications integration technology from Oracle, and if they wish to extend their integration scenarios to non-Oracle products, they must pay an additional full-use license fee.

That buy-as-you-integrate policy has an additional hidden cost: Oracle has less than 50 pre-built integrations for a software applications portfolio of some 40 products. That means that for many common and no-so-common integration requirements, customers are forced to buy Oracle’s Fusion Middleware tools and build the integration themselves, at their own cost. This requirement can be the source of many hidden costs: One customer EAC spoke with at the most recent Oracle Open World was, at that time, two years into an integration project linking Agile to a process manufacturing instance of eBusiness Suite, with no success and no end to the project in sight.

Taken together, these issues can wreak havoc with a customer’s attempts at both controlling costs and planning for strategic innovation. With no guarantees that customers’ maintenance payments assure access to innovation, with the company’s innovation by M&A limiting visibility into Oracle’s innovation roadmap, and with best of breed innovation replete with hidden integration costs, Oracle customers need

to carefully consider whether these issues outweigh the benefits of initiating or increasing an investment in Oracle Applications.

**Hidden DBMS, Middleware, and Other Costs**

One of the other sources of hidden cost and complexity comes from the database lock-in forced on Oracle’s customers. This requirement force-fits an extremely performant but very expensive database on all Oracle Applications customers, regardless of whether they need this level of DBMS complexity and cost. And, with only a single database available to run Oracle Applications, when Oracle increases prices, as it did in 2009 when the prices of key components of the Oracle DBMS were increased by 40 percent, customers have no choice but to comply, even if, in the case of the 2009 price increase, it follows quickly on a 2008 increase in a number of key middleware technologies.

This lock-in and the constant threat of price increases, alongside the above-mentioned buy-as-you-integrate requirement, add additional cost burden and complicates the ability of customers to predict a stable, long-term cost structure for their Oracle Applications implementations. Even if some of these price increases are “wiped out” by aggressive discounting – a common practice in Oracle contracting – the customer pays the full 22 percent maintenance on the list price, inclusive of the price increase.

Oracle’s database licensing regime is also exceptionally complex, and comes with serious contractual limitations that effectively impede the customers’ ability to rationalize their applications portfolio and ensure that the cost savings in applications rationalizations are matched by cost savings in database maintenance costs. Oracle effectively prohibits customers from streamlining their database environments by imposing maintenance cost escalators on customers that try to decommission or collapse their database licenses.

Customers who attempt to “give back” unused licenses – a common request following a rationalization process – are often subject to a reassessment of the cost basis of their 22 percent maintenance, particularly those who purchased the licenses a number of years ago, when discounts were applied to maintenance as well as licensing fees. This reassessment often results in the customer “losing” the discount that kept its maintenance fees down, resulting in an increase in maintenance that can seriously impact, or even wipe out, the cost savings from the rationalization project.

Oracle’s licensing regimes for virtualization technologies have similar gotchas, with severe costs penalties if customers fail to license their virtual machine instances in the most advantageous way. In one

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excellent example licensing Oracle DBMS under VMWare the “wrong” way can cost 10 times what a more optimal VMWare configuration would cost.

It’s important to note that Oracle has every reason to view virtualization warily: The benefits from using virtualization in an Oracle DBMS environment accrue precisely because of the inherent under-utilization of the Oracle DBMS for many customers. The fact that Oracle DBMS customers are using virtualization at all speaks to the twin issues of under-utilization and high license and maintenance cost.

Hidden Migration and Upgrade Costs

The above issues make it clear that Oracle provides a number of barriers to low TCO and ROI, endemic to the company’s business strategy. These barriers become even more acute when looking at the issue of upgrading an Oracle Applications environment.

The first problem with upgrades and migration is noted above: A customer wanting to upgrade functionality in a business process like Project Management or Transportation Management is required to purchase and implement a new product such as Primavera or G-Log, and then retrain its staff and other collaborators in its use. The customer bears the responsibility for any attendant requirements for data transformation and migration, as well as maintaining and or/replacing any custom-built integrations between the new Oracle application and the existing IT environment. This effectively turns an upgrade into a reimplementation, at a cost many times greater than what an upgrade would cost in an already-integrated suite.

This re-implementation requirement is an essential part of Oracle’s Fusion Applications strategy as well: any customer wishing to move an existing business process – whether it’s in finance, human resources, or customer relationship management – must engage in a full reimplementation, including data model and process transformation, process integration, custom development, and lifecycle management across multiple architectures. While Fusion is now officially a GA product, Oracle has no current plans to offer migration tools that help facilitate this upgrade process. And, as noted above, the Fusion migration for many customers will require a net-new license, regardless of what was licensed in the pre-Fusion Oracle portfolio.

Further complicating the migration to Fusion Applications is the lack of industry-specific functionality across the Fusion Applications portfolio. Customers that need to retain specific industry functionality in their business processes must engage in a complex integration project between new Fusion Applications modules and the existing Oracle or non-Oracle applications that support the required industry functionality. This adds an even larger integration burden to the Oracle customer.

5 http://weinshenker.net/blog/2010/05/28/oracle-licensing-under-vmware-and-how-to-get-the-best-bang-for-your-buck/
Re-implementation is also a major problem in the PeopleSoft customer base, due to the fact that, in the past, PeopleSoft customers built a tremendous amount of customization into their PeopleSoft implementations using PeopleTools. These customizations are expensive to maintain from version to version, and until this year (seven years and two versions since the acquisition), Oracle provided no tools that helped automate the migration of customizations from one version to the next.

The result is that many PeopleSoft customers who have avoided upgrades for fear of breaking their customizations are now faced with using a version that is on the verge of moving from extended support (for products from five to eight years old) to sustaining support, a level of support that is unacceptable to many for whom PeopleSoft HR or Finance provide mission-critical functionality. This threat has pushed a number of customers to look at what has now become a full re-implementation at considerable cost and disruption.

The second problem in upgrading Oracle environments is that upgrades in the Oracle environment typically require taking into account a complex web of dependencies: not only does the individual application need to be upgraded, but the customer must also ensure that all integrations to other Oracle applications – built primarily as custom integrations – do not get broken as a result of the upgrade. Further requirements of upgrading or migrating to Oracle database and middleware – due to Oracle de-supporting the use of non-Oracle technology with Oracle Applications – are common for an applications upgrade, and further proof of the hidden cost of vendor lock-in. While middleware upgrades can be a requirement of all heterogeneous IT environments, the fact that Oracle Applications have a built-in, enforced heterogeneity makes this requirement all the more complex. The result is that Oracle Applications’ upgrades are more complex in nature – due to the lack of tools or upgrade technologies that mitigate upgrade complexity – making the overall cost of upgrades expensive, hard to predict, and excessive relative to what vendors with fully integrated suites are able to offer.

Others problems with upgrades are more contractual in nature. As noted above, upgrades that result in the lower consumption of Oracle technical resources do not inherently produce cost-savings, as those upgrades often force a license reassessment that effectively boosts total maintenance costs even if less Oracle software is used.

On a similar note, Oracle’s plans for migrating its customers from older, non-Oracle hardware to the company’s new Exadata and Exalogic systems also do not provide net savings on license and maintenance for those customers, even if the effect of a migration to Exadata or Exalogic reduces the quantity of core CPU resources needed by the software – which is how most Oracle software is licensed.

Instead of offering a discount due to a reduced hardware profile, Oracle requires that customers continue to pay the same software maintenance costs on the new hardware even though those systems are almost by definition beyond what is required to run the Oracle applications and associated middleware. Oracle defends this pricing regime by suggesting that customers should migrate other applications to the new
Exadata/Exalogic platform in order to leverage the total cost of the new system. Of course, the customer must incur further migration costs in order to realize its ROI on Exadata/Exalogic. This lack of license and maintenance savings, combined with the high cost of Exadata and Exalogic hardware, makes migrating to these new Oracle platforms expensive relative to the possible return on investment.

**Conclusion: Avoiding the Oracle Complexity Tax**

While there are certainly customers who are able to obtain considerable value from their Oracle Applications environments, that value comes at a price that may be excessive, in particular when viewed through the lens of competing, integrated products that don’t require the customer to pay for and manage the integration of key business processes across the enterprise software environment.

This means that Oracle’s vision of a best-of-breed “suite” of disparate products, held together by a significant customer investment in middleware, comes with a number of hidden and not-so-hidden costs that, over a five to ten year period, can become a serious impediment to a low total cost of ownership.

The moving target that Oracle presents regarding its roadmap and how it upgrades specific business processes through acquisition and integration also wreaks havoc on innovation planning. This again is more an artifact of the company’s M&A strategy than it is the result of any particular malevolence towards customers. But, insofar as Oracle’s innovation strategy is drawn largely from acquisitions, the lack of malevolence does not compensate for the reality of what the company’s innovation strategy means to customers’ total cost of ownership.

Finally, the lock-in at both the middleware level, as well as the de facto lock-in Oracle is attempting to enforce at the hardware level, seriously limit customer choice and damage TCO further. This same lock-in also impacts long-range planning. It is axiomatic that vendor monopolies tend to result in higher prices and less choice for customers, a fact that is the foundation of 130 years of anti-trust laws in the United States. Ironically, the same vendor lock-in that Oracle is now proposing to the market is identical to the one that IBM held in the 1970s and 1980s, which helped spawn Unix and the open systems movement, of which Oracle was a prime supporter and beneficiary.

Oracle’s attempts to dial back thirty years to a monopolistic vision of enterprise applications deployments need not be the only option, even for Oracle’s customers. While ‘rip and replace’ strategies can also be excessively costly, there are numerous ways in which Oracle customers can lower their TCO and support their innovation requirements without having to run the gauntlet of Oracle’s hidden costs. This can be done through the adoption of non-Oracle applications that have a more predictable roadmap that supports pre-integrated innovation, a much simpler and less onerous upgrade strategy, and that do not require a significant investment in one vendor’s hardware and database vision and cost structure. The options are there for Oracle customers, and the threat to the total cost of ownership of their enterprise applications and business processes makes it imperative that they consider these alternatives.