

## MIDDLEWARE COMMITMENT

# PeopleSoft Anchors Itself To IBM

BY CAROLYN A. APRIL

**I**T'S NEVER A DULL MOMENT AT PEOPLESOFT. The latest chapter in the beleaguered enterprise applications giant's history—the unexpected firing of chairman and CEO Craig Conway—appears to have tipped the scales in favor of Oracle's bid to buy its rival. Conway had been fighting tooth and

nail to resist Larry Ellison's bold land grab, but the PeopleSoft board dispatched him last month, citing a "loss of confidence" to lead the company. Conway has been replaced by Dave Duffield, the original founder of the company.

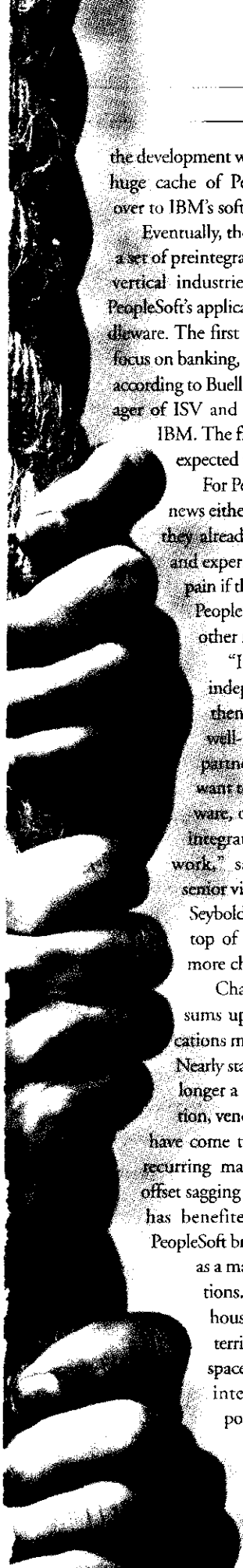
Where this puts the Oracle deal—and PeopleSoft's future—is uncertain, but given Conway's defiance against Oracle, it looks on face value as if the board is clearing the way for the Oracle bid to go through. And if that happens, there are many other loose ends to tie up. A primary one is PeopleSoft's new alliance with IBM. When that deal was inked, just a week prior to Conway's ousting, PeopleSoft appeared to have found a knight in shining blue armor to help bolster its sagging new license sales and assuage partners and customers nervous about the company's viability in the face of the Oracle aggression.

The strategic alliance is fairly sweeping, though not exclusive, and spans technology development and joint sales/marketing efforts. It's not a marriage in the official sense (remember, IBM is adamantly not in the applications business), but it's pretty close to a civil union. Conway hailed the deal at the time. "This is not just the Kodak moment with an obligatory press release about a strategic relationship," he said. "You will see deliverable after deliverable from these companies."

IBM's appearance on the scene should breathe some new life and focus into the folks at PeopleSoft's Pleasanton, Calif., head-

quarters—depending on the outcome of the Oracle maneuvers. Here's the deal, which assures that IBM middleware is the foundation for PeopleSoft applications, at a glance: The company has agreed, with IBM's ample assistance, to re-engineer its extensive applications portfolio so that it is standardized on the vast WebSphere platform, including IBM's application server, integration hub and portal, and also is optimized for IBM's DB2 database. That means PeopleSoft evolves from a proprietary applications vendor to one that embraces open-standards-based J2EE code with a front-entry point that is portal-based. The company has already made the move to Linux support, so this completes the picture in a sense.

The multiyear engagement will begin in earnest this fall, according to Steve Mills, senior vice president and general manager of IBM Software Group. The joint deliverables first appear as an OEM arrangement, with PeopleSoft reselling IBM middleware products in tandem with its applications. But the deal is much broader in scope. An estimated \$1 billion is being jointly invested in



the development work needed to port the huge cache of PeopleSoft applications over to IBM's software stack.

Eventually, the companies anticipate a set of preintegrated solutions aimed at vertical industries, blending facets of PeopleSoft's applications with IBM's middleware. The first of these solutions will focus on banking, insurance and telecom, according to Buell Duncan, general manager of ISV and developer relations at IBM. The first of these products is expected to roll out in Q1 2005.

For PeopleSoft's partners, the news either comes as welcome (if they already have IBM expertise and experience) or as a potential pain if they deploy and support PeopleSoft predominantly on other middleware platforms.

"If PeopleSoft remains independent [from Oracle], then this alliance will be well-favored by IBM-savvy partners or those who don't want to worry about middleware, or who do middleware integration as part of their work," says David Marshak, senior vice president at Patricia Seybold Group. "If they are on top of other stacks, then it's more challenging."

Challenging pretty much sums up the enterprise applications market in general today. Nearly stagnant saleswise and no longer a real hotbed of innovation, vendors, including Oracle, have come to rely increasingly on recurring maintenance revenue to offset sagging new license sales. SAP has benefited from the Oracle/PeopleSoft brouhaha to anchor itself as a market leader in applications. The German powerhouse is staking out some territory in the middleware space with its NetWeaver integration platform, a point not lost on IBM.

IBM might count SAP as a strategic ISV part-

ner, but the two companies also compete on NetWeaver and SAP's portal. One can't help but wonder if SAP's infrastructure push and recent acquisition talks with Microsoft aren't fueling IBM's flame for PeopleSoft just a bit.

"We have customers clamoring to do SAP as a hedge against PeopleSoft right now," says Steve Pace, senior vice president of sales and marketing at NaviSite, a major PeopleSoft hosting partner.

Pace says his PeopleSoft business has been steady in terms of installed base support, but new customers are hard to find in the wake of the Oracle announcement. He views the IBM deal as positive news for PeopleSoft, but questions the chance of it ever really coming to fruition.

"We look at it as a political move, but wonder [if PeopleSoft is] going to be able to make an architectural move at this path to stop Oracle," Pace says.

From a technical perspective, the key to long-term survival in the enterprise-apps space is likely to be the transition to a software component model, where bits and pieces of large applications can be easily fused together in longer business processes; this is the nirvana of a services-oriented architecture (SOA). Smaller ISVs have been more nimble at this because they are building Web apps and services from the ground up. For a company like PeopleSoft, this is like tearing down the Taj Mahal and starting over again. But that's exactly what IBM and PeopleSoft aim to do: to make parts and functions within PeopleSoft's application juggernaut more digestible portions that are wrapped in open Web standards, available via a portal front end and able to become part of an SOA.

With Conway out and the specter of an Oracle takeover more real, PeopleSoft's future and the deal with IBM clearly becomes more tenuous, with partners on both sides bound to be affected. It could also greatly affect Oracle. "A lot of this depends on how tight the contract is [between IBM and PeopleSoft], vis-a-vis any acquisition by Oracle," Marshak says. "The deal could be onerous to Oracle if it's a tight contract with respect to putting applications on top of WebSphere." ■

UNBELIEVABLE BUT TRUE

## Charged With Fraud? Go Ahead, Keep Your Bonus!

**W**HEN FORMER Computer Associates CEO Sanjay Kumar was charged with securities fraud and obstruction of justice, it was another chapter in the scandal-plagued epic for the Islandia, N.Y.-based software maker, which recently announced 800 layoffs. Other execs, such as former global sales chief Stephen Richards and former chief general counsel Stephen Woghin, were also charged for their parts in inflating earnings by \$2.2 billion between 2000 and 2001 and then impeding the government investigation. CA, meanwhile, settled by paying \$225 million to shareholders.



The unbelievable part of the story is that just weeks before the charges were announced, and while CA and its former executives were diligently working on a settlement, an overwhelming majority of CA shareholders—76 percent—voted against a proposed measure that would have forced senior executives, including Kumar, to return their bonuses for the 2000 and 2001 fiscal years, which the software maker has had to restate. The proposal was put forth by Amalgamated Bank's Longview Collective Investment Fund earlier this year and was shot down despite the fact that Kumar, who pled not guilty to the criminal charges, received 80,000 shares of CA stock and \$3.2 million in cash for 2000.

If CA shareholders won't demand the return of inappropriate bonuses, then who will? Did the shareholders hold back on the bonus issue and hope the \$225 million settlement with CA would cure all ills? Nobody knows, but whichever way Kumar's case goes, he's got plenty of cash—\$3.2 million—to help pay for legal fees. —Rob Wright