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Larry Ellison and Mark Hurd: Oracle's 10-Point Plan To Be In the Cloud

BY BOB EVANS

Highlighting the accelerating growth of Oracle's $2 billion cloud business, founder Larry Ellison and CEO Mark Hurd recently shared their vision for why Oracle will surpass Salesforce.com and Amazon to become the #1 player in the dynamic cloud market that's rapidly becoming the new model for enterprise computing.

During Oracle's second-quarter earnings call on December 17, Ellison, Hurd, and CEO Safra Catz revealed some impressive accomplishments:

> Total cloud revenue for the quarter of $519 million, up 47% from Q2 a year earlier.
> Cloud revenue growth in EMEA of 80% during that same period.
> 860 new SaaS customers during the quarter, with
> 230 of those subscribing to more than one set of apps.
> In Customer Experience (CX), more than 460 new SaaS customers.
> In ERP and EPM (Enterprise Performance Management), 250 new SaaS customers.
> In Human Capital Management (HCM), 230 new customers.
> For Oracle's Fusion products, triple-digit revenue growth, and triple-digit bookings growth.
> For Oracle's four-month-old platform as a service (PaaS) business, 150 new customers in the quarter.

> First-half bookings growth exceeded expectations, and the growth rate for Q3 bookings could reach 100%.

In the Q&A session of the call, the questions from analysts focused on what's behind this significant growth, why it's happening now, whether it's isolated to certain segments, and whether the cloud subscription model can support the type of profit margins that have been generated over time by Oracle's traditional on-premises license model.

Those questions made perfect sense because the analyst community has been wondering for some time if huge IT vendors like Oracle can pivot their technology-development models from traditional on-premises to the cloud, and flip their revenue models from license to subscription.

And while the jury may still be out for other companies, the answers that Ellison, Hurd, and Catz provided to the analysts left no doubt that Oracle is well on its way to completing an end-to-end transition to the cloud in its product portfolio,

its sales organization and approach, and its core business model.

To give you more detail and context on that claim, I've extracted from the earnings call transcript 10 core themes from Ellison and Hurd that articulate precisely how one of the world's largest and most successful enterprise IT companies has transformed itself on the fly into a full-fledged provider of cloud-based solutions while also continuing to fully support its traditional on-premises customers and products. So, from Larry Ellison and Mark Hurd, here's a 10-point plan on how Oracle intends to become the #1 cloud computing vendor in the world.

1. Oracle's already large cloud business is growing faster than competitors'. In his opening remarks on the earnings call, Ellison said, "As Oracle's cloud business gets bigger, our growth rate is going up. As our competitors' cloud businesses get bigger, their growth rates are going down…. In Q4 of this fiscal year, we expect to sell more

than $250 million of new annual SaaS and PaaS subscriptions. That means during our next fiscal year, we will sell well over $1 billion of new SaaS and PaaS annual subscriptions. What makes this particularly interesting is that next year, Oracle will sell about the same total dollar amount of new SaaS and PaaS business as cloud market leader Salesforce.com. Stay tuned! It's going to be close—we're catching up to them, and we're catching up very quickly."

Later, in response to a question from analyst Jason Maynard of Wells Fargo, Ellison touched on the power of momentum in a game of big numbers: "Salesforce is slowing down, we're speeding up. They're only twice as big as us. In round numbers, they're $4 billion, we're $2 billion. But we're growing a lot faster and we have a lot more products and we have a large installed base to sell into. So we think—and again, I know that right now it's just words—we think we can become #1 in the cloud. We think we will be #1 in the cloud, and we think we'll be #1 in the cloud very quickly."

When Maynard asked for clarification that the $1 billion in projected SaaS and PaaS revenue for fiscal 2016 would be "incremental on top of your current $2 billion-plus run rate," Hurd replied: "Of course. And it should be a lot more than $2 billion, by the way, because that's next fiscal year. So we're not going to end this fiscal year still with $2 billion—that will grow. We have bookings that have been booked that have yet to be provisioned. Therefore, you will have a bigger base on which those bookings will go. At the same time, the bookings we get in the future will take time to provision as they go forward. So it's a layered model as you build up on the revenue."

2. Customers are sick and tired of the cost and time involved in endless integration. Hurd, in response to a question about how Oracle has been able to generate double-digit growth with its Engineered Systems while competitors are watching their hardware revenues plummet, said, "This whole strategy of aligning hardware and software together is what customers want. I can make an argument to you that it's the same market trend you see in the cloud. We just do more work for the customer. We integrate the products for the customer so the customer doesn't have to do it. We optimize the software for the solution, and it's delivered us strong growth."

That's an indispensable point that Hurd and Ellison have been making over the past few years as Oracle has reshaped its entire product portfolio to reduce the burden of integration that the traditional IT model has foisted upon customers. In fact, in an earlier earnings call in March 2014, Ellison revealed the strategic priority Oracle has placed on simplifying IT for customers by opening his prepared remarks with this comment: "Customers want us to

integrate the hardware and software and make it work together so that they don't have to. As customers shift to pre-integrated hardware and cloud computing, in search of lower costs and more rapid implementations, Oracle is presented with new opportunities for leadership in a number of market categories."

3. SaaS applications are growing steeply across all segments of the industry's broadest portfolio. As noted in the bullet points above, 860 new customers picked Oracle's SaaS apps in the quarter with bookings growth of more than 50% in HCM Cloud, Customer Experience, and ERP/EPM. So what's driving that steep growth? "One reason is that we have such a broad set of applications," Ellison explained. "If you look at our product line versus our competitors, we're Salesforce's only real competitor in sales automation. In marketing automation, we're the leader. We're fighting hard to be the leader in service automation, where our competitor is Salesforce.com.

"We're Workday's only real competitor in HCM and we think we've passed them in HCM but you can make an argument. We're both fighting hard in HCM. But we're killing Workday in ERP. If you include ERP and EPM together—that's planning, budgeting, performance management and the classic ERP, all of that—we've sold to 2.5 times more customers in just this past quarter than they've done in the life of their company…. So we're very strong in HCM. We're very strong in ERP—we're the leader in ERP. We're the leader in marketing. We're the leader in EPM. We're contending for leadership in service automation and in HCM. And we're the guys in second place behind Salesforce in sales force automation. But every place else, except for that one segment, that one niche, we're the leader or fighting

to be the leader. So we have incredible breadth of SaaS products."

4. The PaaS opportunity for Oracle could be even bigger than the SaaS opportunity. Hurd said that of the 150 customers who subscribed to the new PaaS offering in the quarter, about 75% subscribed to multiple PaaS services. "This PaaS opportunity is big, given the size of our installed base. And you might argue that it's as big as or even bigger than the SaaS opportunity."

Ellison, responding to a question from Rick Sherlund of Nomura Securities about the steep growth across all of Oracle's SaaS categories, emphasized that Oracle differentiates itself from competitors not only by the breadth of its SaaS portfolio, but also by being the only cloud vendor playing at all three layers: SaaS, PaaS, and IaaS. Ellison: "As Mark said, you guys take it pillar by pillar. You also have to take it layer by layer in the cloud. So where a lot of our SaaS business—our brand-new logos—are people who have never done business with Oracle before [in applications…."], you would expect that in PaaS it's virtually all our installed base. And the reason being is almost every large or medium-size company in the world is already an Oracle user."

Ellison went on to describe how Oracle's revenue and profit model for PaaS will be significantly different than that for its 8-month-old IaaS business. "We're pushing very hard at PaaS as we give you so much more automation in terms of database tuning and installation and backup and recovery and logging and security. So our big push is into PaaS. But, we are also in infrastructure as a service, which is a low-cost commodity business where we have the same pricing as Amazon and Google and the rest."

Ellison later echoed Hurd's assertion that for Oracle, the PaaS

business could outgrow the SaaS business because PaaS is instantly relevant to the vast majority of Oracle's 400,000 customers. "Our SaaS products are built on top of Java and the Oracle Database—that's the platform. And companies want to make extensions to the applications. They want to link the applications to their existing applications and so on. Using our platform makes a lot more sense than using a proprietary platform from Salesforce.com. By the way, Salesforce.com uses our platform to build their applications. They just can't sell our platform as a part of their service offering to their customers because they have no license to do so…. But we sell the same platform that we build on to our customers.

"So we've seen a huge amount of interest both from our SaaS customers using our platform, and also this enormous installed base we have in the database business that wants to try PaaS for test and development, and to move certain aspects of their database work to the cloud. Not everything, but a part of it—a bit of a hybrid at this stage, and we're seeing these customers now experimenting. They're at the experiment level. But the potential for this, as Mark said, is probably bigger than our SaaS business."

5. Complete SaaS suites will win— because applications suites always win. For many years—even before Oracle's move into the cloud—Ellison has repeatedly stated that history shows that software vendors that offer integrated and consistent suites of products will always win out over individual point solutions that the customers must string together. Asked by analyst Kash Rangan of Merrill Lynch to explain why Oracle's SaaS business is growing so rapidly, Ellison cited the company's success with its HCM, Marketing, and ERP clouds; the attractiveness of having a proven and optimized platform for the apps

AT A GLANCE

Oracle's 10-Point Cloud Plan

"We think we will be number one in the cloud,"
Larry Ellison
Founder, Executive Chairman, and CTO

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HERE'S HOW:

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2. Customers are sick and tired of the cost and time involved in endless integration.
3. SaaS applications are growing steeply across all segments of the industry's broadest portfolio.
4. The PaaS opportunity for Oracle could be even bigger than the SaaS opportunity.
5. Complete SaaS suites will win—because applications suites always win.
6. Oracle Database 12c is optimized for the cloud.
7. Massive investments in cloud computing over the past decade are paying off.
8. Oracle is bringing unmatched levels of security to the cloud.
9. Oracle has the same pricing as Amazon in IaaS.
10. Oracle continues to invest in its on-premises application business, which keeps growing.

Source: Oracle

ORACLE

(PaaS); and, the power of the suite. "Look at our product portfolio. Kash, who wins in all of these battles? The suite vendors always beat the point-solution guys! It's happened in every generation of computing where the end user, the customer, doesn't want to be the integrator of 30 separate applications from 30 separate vendors. It's no different now—it's just all in the cloud now—but for customers, it's the same issue: they don't want to integrate a lot of different stuff. Well, we have all the stuff pre-integrated, and we think we're in a great position. We're seeing hypergrowth in SaaS, and we're seeing hyper-growth in PaaS. We're getting bigger and our growth rates are getting higher. That's unlike anyone else in the cloud business."

6. Oracle Database 12c is optimized for the cloud. Asked by Wells Fargo's Maynard to comment on strong database numbers, Ellison replied, "So there are two major pieces of our new database release. One as you

mentioned is the In-Memory option, but that's not the only driving factor of people upgrading their database version. The other is multitenancy, the Multitenant option, which is appropriate for the cloud. It allows them to, again, convert all of their existing Oracle applications and make them multitenant applications while preserving security and reliability, a better way than do multitenancy at the application layer. Anyway, we think those two features in concert will drive a much more rapid adoption of the Oracle Database over the next couple of years. So we think our database business is going to have a very strong 24 months coming up."

7. Massive investments in cloud computing over the past decade are paying off. Hurd, responding to another question about what's driving Oracle's cloud growth, said, "I don't think anything changed from what we had been seeing for a while. The only difference is we saw it in pipeline, we saw it in proposal, and now it's

turned into actual numbers and performance. So I don't think this is an event. I think this is a set of activities that have occurred over a long period of time as I tried to reference in my previous question. I would not take some short term improvement in the U.S. macro and turn that into, 'that's why Oracle had great cloud bookings in Q2.' I think our performance was driven by exactly the phenomena that I described. Better—great products, more mature products, better references, lots of capacity

in our sales force, it's better trained, it's out in the market and winning deals. That's what I think drove it."

Ellison added some additional context about Oracle's long-term cloud commitment, during which it has spent billions on both internal development of its Fusion applications and Fusion Middleware and the integrations of acquired cloud companies—all of which gives lie to the puzzling notion that Oracle is somehow "late" to the cloud. Said Ellison: "I'd like to second what Mark said: We're just further up the learning curve on everything. Our sales-management team is terrific. We've realigned our sales force against our secular competitors, so we have an HCM sales force that goes up against Workday, we have a sales-automation sales force that goes up against Salesforce.com, and we have a service-automation sales force that goes up against a different part of Salesforce.com. We have a marketing-automation sales force. We have an ERP sales force. We have an EPM sales force. We have all of these specialized sales teams, which Mark created several years ago, and we've been staffing and they're much more mature.

"A lot of these products, we built them internally— we started about 10 years ago…. As Mark said, we're in Release 9 and they're getting really good. The user interface is getting good. We're getting lots of good customer feedback, and again, that's over a period of

years. We've improved the UIs, we've improved that multinational capability, we've improved everything."

8. Oracle is bringing unmatched levels of security to the cloud. A major differentiator between Oracle's cloud architecture and that of many of its competitors is that Oracle deploys multitenancy technology at the database layer of the cloud, rather than at the application layer, which creates a more secure environment for customers. Plus, Oracle's unique status as the only cloud vendor playing at all three layers of the cloud—SaaS, PaaS, and IaaS—gives it the ability to optimize security capabilities across all of those layers. "Some of our customers in the cloud will buy a few SaaS applications, and they'll buy some PaaS, and then they'll buy some infrastructure as a service because they want to have a unified security model in a PaaS network to interconnect all of those pieces."

9. Oracle has the same pricing as Amazon in IaaS. Ellison noted that while Oracle's major emphases will be on SaaS and PaaS, "We're in infrastructure as a service, which is a low-cost commodity business, where we have the same pricing as Amazon and Google and the rest." Hurd also stated that some customers are buying Oracle's IaaS because they want a fully integrated and optimized cloud model, which includes the enhanced security approach noted above by Ellison.

10. Oracle continues to invest in its on-premises application business, which keeps growing. While many customers are rapidly turning to SaaS applications, some on-premises apps are and will continue to be the preferred approach for many big organizations. And to ensure that Oracle's customers continue to have as much choice as possible in consumption models, Oracle's continuing to invest heavily in its traditional applications. Plus, as Ellison described a few months ago at Oracle OpenWorld, Oracle's database technology allows customers to move apps and data from on-premises to the cloud, or from the cloud to on-premises, without any rewriting of code. In so doing, Oracle continues to keep its 30-year-old promise to customers to protect the investments they've made in existing technology, even as new computing paradigms emerge. So the continued growth of Oracle's on-premises apps business demonstrates to customers that Oracle is uniquely positioned to fulfill whatever mix of cloud and on-premises those customers might choose. Referring to Q2 results, Hurd said, "On-premises software sales grew 6% in constant currency. I continue to expect this business to grow nicely while our cloud business continues to maintain hypergrowth." ∎

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