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Third-Party Companies Jolting Software Field

Large Firms Respond

Concept could be both threat and opportunity for Oracle and rival SAP

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Lots of new car buyers drive away from their authorized dealers and never go back.

They simply hire an independent mechanic to do all their car maintenance at an outside garage.

But buyers of business software often don't have this option. Whenever they need a bug fixed or routine support, they must return to the firm that sold them the software.

That's starting to change. Third-party software firms look to challenge the standard business model by performing software maintenance tasks at half the cost as the original vendors. "Until now, software vendors had a monopoly on support," said Paul Hamerman, an analyst at Forrester Research. "Now they have competition."

The trend presents challenges and opportunities to the industry's established firms. It could put a big dent in sales, since they get the bulk of their business from maintenance fees. But some software giants are embracing the trend — at least when it comes to supporting the products of competitors.

Germany's **SAP**^{SAP}, the largest business software seller, bought a software-support firm last year. That business, called TomorrowNow, supports software from PeopleSoft, J.D. Edwards and Siebel Systems — three companies acquired by SAP's archrival **Oracle**^{ORCL}.

Oracle looks to offer its own third-party support as well.

Third-party support is generally much cheaper because its providers don't have to worry about developing new software, analysts say.

If a lot of customers switch to outside support, software companies could be forced to change their ways.

In many cases, software vendors have charged little or nothing for software in exchange for "steady and high-margin maintenance revenue" to support their product upgrades and bug fixes, said Citigroup analyst Brent Thill.

"Vendors' answer to slowing growth has been to milk their installed base through maintenance contracts of questionable value," Thill wrote in a note to investors.

Third-party support really took off when SAP bought Bryan, Texas-based TomorrowNow in January 2005. The acquisition was part of a plan to pull customers away from Oracle, which is busy digesting a number of acquisitions.

Oracle first reacted to the

move by downplaying the impact of third-party support. But last month, the firm countered with its own attack.

Oracle is joining forces with Systime to support customers who run the SAP's older R/3 version of business software. Systime is a unit of **CMS Computers**, an Indian tech services firm.

Another notable third-party firm is **NetCustomer** of San Jose, Calif., which supports software from PeopleSoft and J.D. Edwards.

Privately held **Rimini Street** of Las Vegas has hung out its own shingle for third-party support. Rimini Street maintains Oracle's PeopleSoft and Siebel products.

Rimini Street founder Seth Ravin was a vice president of services for PeopleSoft before he helped launch TomorrowNow in 2002.

There were skeptics of the concept at the time, he recalls. But as TomorrowNow flourished, it quieted the critics.

"When we signed up 15 of the Fortune 500, suddenly nobody (at PeopleSoft and Oracle) was laughing," Ravin said.

After SAP bought TomorrowNow, Ravin struck out on his own. He launched Rimini Street last August to provide support for Siebel customers. He says he'll consider supporting SAP's products when his noncom-



Andrew Nelson,
CEO, TomorrowNow

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pete contract expires late next year.

Ravin admits that all the combined customers of Rimini Street and TomorrowNow are less than "a rounding error on Oracle's balance sheet." But the new third-party model is disrupting the status quo, he says.

"We're a much bigger threat because of the ideas we represent," Ravin said. "In the old days, the vendor could just (stop supporting) their products on a certain date and allow no room for dialogue. We're changing that dynamic now in favor of the customer."

Third-party support clearly gives customers more power, agrees Andrew Nelson, chief executive of TomorrowNow.

"This trend threatens Oracle because it puts customers in control," Nelson said. "The low price also gives our customers a better negotiating stance when they bargain for future deals."