

What Oracle's U.S. Price Increases Mean to Your Organization

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Oracle has increased the U.S. prices of technology and application software products by between 15% and 18.8%. Pricing in most of Europe remained steady, while some prices decreased, due to price adjustments in some parts of Asia. This research covers some of the U.S. price increases, offers examples of price decreases outside the U.S. (due to price adjustments based on the devaluation of the U.S. dollar), and examines how these price adjustments may affect future license negotiations and maintenance costs.

Key Findings

- Oracle has stated that it will maintain worldwide pricing, so prices paid for software should be relatively consistent, regardless of where the licenses are purchased. Because currency exchange rates vary daily, stable pricing requires regular adjustment.
- Due to the devaluation of the U.S. dollar against other currencies, Oracle has had to readjust pricing outside the U.S. to stay consistent with its goal of global pricing. Because most currencies have become stronger against the dollar, the effective price paid for software has been reduced in many countries.
- The U.S. price increases enable Oracle to reduce the effect that the devaluation of the U.S. dollar has had on the company's ability to capture revenue in local currency outside the U.S.
- Examples contained in this research are based on list prices and are subject to price negotiation.

Recommendations

- Review your discounts and set future negotiation discount expectations to absorb the uplift, wherever possible, because there is no general price increase trend in the software industry among alternative products. Use the precedent set by Oracle in your last negotiation as the baseline for minimum discounts you expect to receive.
- Oracle customers that have price protection on software products may want to purchase additional licenses before their price protection runs out if they expect to be able to use the licenses in a short time frame (12 months or less).

WHAT YOU NEED TO KNOW

Oracle is an international software vendor with worldwide pricing. Some countries have been paying less in local currency for Oracle software products due to the devaluation of the U.S. dollar.

Before purchasing the Standard Edition database, review Oracle's definition of how to count use, which now states that a processor is counted as an occupied socket. Even when it is a multicore processor chip, each chip only counts as one occupied socket to be licensed for Standard Edition.

ANALYSIS

These are Oracle's first U.S. price increases for processor-based licenses since it eliminated universal power unit pricing in June 2001. Because Oracle has been discounting heavily in deals for these same products, it appears that one of the primary reasons for these price increases is to handle worldwide pricing due to the devaluation of the U.S. dollar.

Oracle increased U.S. pricing for its infrastructure, database and application server products by between 15% and 18.8%, effective 16 June 2008. This research will focus primarily on the database licenses as examples of the effect of these changes. For the latest definitions of Standard Edition, Enterprise Edition and the Named User licenses, see the Oracle contract (at www.oracle.com/corporate/license/index.html).

Enterprise Edition Licenses

Oracle has changed license models in the past, using models such as Concurrent, Named User Single Server, Named User Multiserver and Universal Power Units. After June 2001, for Enterprise Edition database licenses, Oracle standardized on Named User licenses at \$750 per named user, and processor-based licenses at \$40,000 per processor.

Effective 16 June, Oracle increased its U.S. pricing from \$40,000 per Enterprise Edition processor license to \$47,500 per processor, which is an 18.8% increase and the first increase Oracle has put into effect for processor-based licenses since it eliminated Universal Power Units in June 2001. However, Oracle also modified how it charges for Enterprise Edition database processor licenses when it charged for licenses based on the multicore processor chips. After initially charging double for a dual-core chip, Oracle has redefined how license requirements will be counted as technology has changed. For example, Oracle charges .5 licenses per core for an Intel or AMD CPU, .25 licenses for each core in a Sun UltraSPARC T1 server, and .75 licenses for all other server hardware. Although multicore processors enable higher throughput, if the server is at low utilization anyway, then the customer may not receive the benefit of a multicore processor, and some customers have felt that this amounted to a price increase. However, the changes that Oracle has made to processor-based licensing based on cores has worked to the customer's favor, because Oracle has reduced the factor, rather than staying with a full-license requirement per core.

In September 2002, Oracle changed the Named User license to a Named User Plus license and increased the U.S. price from \$750 to \$800 per user, a 6.7% increase. Oracle also changed the license minimums from 10 Named User licenses per CPU to 25 Named User Plus licenses per CPU, which could be considered a price increase for customers needing fewer than the 25 Named User Plus license minimum per processor. In addition, to help clarify the batch processing and multiplexing front-end definitions, Oracle also provided examples in its Software Investment Guide on how multiplexing could be handled via the Named User (and older Concurrent)

licenses. The currency adjustment of 16 June raises the U.S. price from \$800 per Named User Plus license to \$950, which is an 18.8% increase.

Because Oracle has been heavily discounting new orders in the face of stiff competition in most markets, theoretically, it could increase the average end-user price simply by reducing its discounts. Due to Oracle's global pricing and the devaluation of the U.S. dollar, it has had to make significant reductions in pricing outside the U.S. to match the U.S. dollar price. This has sometimes also created situations where customers outside the U.S. who purchased Oracle licenses based on higher price lists several years ago are now paying more in maintenance and support than they would have paid based on their current country list pricing. With these new price adjustments, Oracle was able to reduce the effect that the devaluation of the dollar was having on certain currencies; this led to higher pricing after the adjustment than would have resulted if Oracle had continued to use U.S. currency as its baseline for conversion. The price adjustments also help to protect Oracle's profitable revenue stream of maintenance and support, which, in some countries, was exceeding Oracle's list prices for that country based on prior currency reductions.

Even U.S. customers were finding that maintenance and support were sometimes at full list price, especially for licenses that had been converted from concurrent user to CPU licenses. Before September 2005, Oracle initially offered a standard conversion factor of 75 concurrent user licenses converted to one Enterprise Edition CPU license. When Oracle did the conversion, it retained the original revenue stream for support at the full list price for each converted license. Another reason a customer may be paying more than full list price is due to the year-to-year increases of generally 3% to 5% that Oracle has been charging for maintenance and support.

Oracle's conversion factor, in effect, converts licenses at a 25 concurrent licenses to one CPU license ratio. Although this conversion factor is more favorable to customers because it converts to more CPU licenses, it also enables Oracle to retain more of the maintenance and support payment stream from the older converted licenses, because Oracle generally expects customers to pay all of the older support payment stream, in addition to paying for maintenance and support on additional licenses needed at the standard 22% of the discounted price of the software for the new licenses.

Example of Pricing Outside the U.S.

An example using Australian pricing:

Enterprise Edition Database Processor License

2002 price in Australian Dollars: \$72,365 (Maintenance and support at 22% of list: \$15,920)

16 June 2008 price in Australian Dollars: \$49,600 (Maintenance and support at 22% of list: \$10,912)

This is just one example, showing the effect of the devaluation of the U.S. dollar on local pricing. Customers in some countries have realized significant savings in their local currencies. From this example, you can also see that an Australian customer that purchased licenses in 2002 at the Australian price list may find that it is paying more for maintenance and support than Oracle's current full list price. Review your invoices for maintenance and support costs to ensure that your company is not paying more than full list price. Although Oracle may state that it has a right to increase support based on contract provisions, it is not in the spirit of any agreement that a customer should have to pay more than full list price.

Standard Edition Pricing

Oracle has increased Standard Edition database licenses in the U.S. from \$15,000 to \$17,500, a 16.7% increase. However, Oracle also made a change in how it counts cores for multicore chips. In January 2007, yielding to pricing pressure from Microsoft competition, Oracle stated that it would no longer count per core, and it started counting per occupied socket. In December 2007, Oracle changed the definition again to state that each processor is counted equivalent to an occupied socket, but that for multicore chips, each chip would be counted as an occupied socket. This remains the definition that Oracle uses.

Oracle will continue to be challenged in handling new server technology. Microsoft, for example, has stated that multicore technology and multithreading is nothing more than an extension to Moore's Law, and that the price-per-socket concept is the same as greater core speeds. We believe that other database management system vendors (and Oracle for other editions, such as Standard Edition One) will also yield to this approach, especially now that Oracle is moving in this direction with Standard Edition. In fact, the next step is to price by server, regardless of the number of sockets, as Sun's MySQL Enterprise is priced. For data warehousing, we also see a movement toward pricing by the terabyte of source system extracted (or "raw") data (for example, Vertica Systems). Precedent has been set for years by Teradata, as it prices by a unit of work measurement called a "Tperf." Most vendors will have to phase in these new pricing models, to prevent major erosion of the maintenance revenue stream. Maintain diligence in defining license models used by Oracle and other vendors, and watch for changes that may increase pricing.

Consider purchasing Standard Edition licenses when Standard Edition will meet your requirements, because this is a less-expensive alternative to Enterprise Edition. However, if you need the database options (for example, the Tuning Pack and the Diagnostic Pack), you will need to stay with Enterprise Edition.

Negotiators will need to work with their technical personnel to understand the licensing requirements based on the type of server that the organization is purchasing and the type of chips that are in the server.

E-Business Suite Application User

Oracle increased the standard application user license based on U.S. pricing from \$3,995 to \$4,595, a 15% increase. However, there have also been licensing changes that may or may not have resulted in some other price changes for customers, depending on what was purchased and what was put into production.

The original E-Business Suite user license was \$4,000 in 2002, but in March 2003, Oracle started selling the E-Business Suite 2003 user license at \$3,995 with a slightly different "market basket" of products included. Starting in April 2007, Oracle was no longer selling the E-Business Suite 2003 license, but started selling "custom bundles" based on an organization's specific application technology requirements.

Oracle also increased U.S. prices for its other major application sets, such as for Siebel, PeopleSoft and JD Edwards products, by 15%, apart from some discrepancies due to rounding. Because Gartner is not seeing significant market price increases from other vendors, there is no reason for customers to absorb this price hit from Oracle. With the ongoing competition, especially from SAP, and Oracle's target to gain market share, customers in the U.S. and other countries with currency conversions stable against the U.S. dollar may negotiate for higher discounts, and should calculate a relative increase in discounts of approximately 13% to compensate for the U.S. price increases. Seeking aggressive discounting also avoids paying higher maintenance fees.

Recommendations

Organizations with substantial price holds should exercise them for licenses needed in the near future. Be aware that maintenance and support starts immediately, so be cautious about purchasing additional licenses based on price holds for licenses that will not be needed in a 12-month time frame.

When negotiating new deals with Oracle, push back against price increases by attempting to maximize discounts for new purchases.

Check Oracle maintenance and support invoices by each line item, to ensure that you are not paying more than current list price for support.

Tactical Guidelines

- Review all invoices for ongoing maintenance and support to ensure that it is based on a license price at or below the list price for U.S. pricing, as well as the pricing for each country.
- Review current Oracle pricing available by many individual countries, located on the Oracle Web site (<http://www.oracle.com/products/buy/>).
- For latest U.S. pricing, see Note 1.

RECOMMENDED READING

"Toolkit: Checking Oracle Invoices for Maintenance and Support"

"Prevent Oracle Technology License Compliance Issues"

"Gartner's 2008 Guide to Options for Upgrading Oracle Applications"

"The Top Client Issues for Oracle Business Applications in 2008"

Note 1

Oracle's Latest U.S. Price Lists

- Oracle's commercial price list, with U.S. pricing for technology and middleware products: www.oracle.com/corporate/pricing/technology-price-list.pdf
- Oracle's application price list with U.S. pricing: www.oracle.com/corporate/pricing/applications-price-list.pdf
- Oracle's PeopleSoft application price list: www.oracle.com/corporate/pricing/peoplesoft-price-list.pdf
- Oracle's Siebel price list: www.oracle.com/corporate/pricing/siebel-price-list.pdf
- Oracle's JD Edwards price list: www.oracle.com/corporate/pricing/jd-edwards-price-list.pdf

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