Oracle's Siebel buyout might stifle creativity

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Software group Oracle's bid for Siebel Systems for a cool $5.85 billion Monday was greeted by many Wall Street analysts as a signal of the return of mega-mergers and better still -- renewed confidence in the information technology sector.

After all, earlier in the day online auction house eBay announced it will be acquiring Internet telecommunications group Skype for $2.6 billion.

As the world's biggest database-software company, the Silicon Valley-based Oracle would be acquiring a group that is one of the biggest players in customer relation management software, tracking marketing data, client information and other data that helps companies be more efficient in their sales strategies. The deal is still subject to U.S. government regulations under the auspices of the Department of Justice, but while some industry analysts have high hopes for Oracle making the most of the acquisition, others are not so certain.

One thing, however, is certain. For Thomas Siebel himself, founder and chief executive of the company and once himself an Oracle executive, the deal is a very good one as Siebel Systems was faced with a growing number of rivals, while not many companies expressed interest in taking it over. Meanwhile, for Lawrence Ellison, Oracle's chief executive, it could well be that he finally would feel vanquished after years of bitter and public animosity with Siebel following his departure from Oracle.

"The combination of Siebel applications with the development capacity of Oracle to enhance our (client relation management) product set ... is a very beneficial business combination that will allow us to be even more effective in delivering high quality, leading edge solutions," Thomas Siebel said in a news release.

Ellison too was equally ebullient about the deal, stating that "in a single step, Oracle becomes the number one CRM applications company in the world. Siebel's 4,000 applications customers and 3,400,000 CRM users strengthen our number one position in applications in North America and move us closer to the number one position in applications globally."

Analysts, however, were less effusive about the planned buyout, even when they agreed it could be a mutually beneficial deal.

Credit raters Standard & Poor's, for instance, said the deal would have "no impact" on Oracle's rating or outlook, even as it pointed out that the acquisition "is expected to significantly strengthen Oracle's global market position, especially for customer relationship management software applications."

This is, of course, not Oracle's first major acquisition. The company finally got approval to buy out PeopleSoft in a hostile takeover bid earlier this year for $10 billion, after a long transatlantic dispute between the U.S. government and the European authorities on antitrust concerns.

While the bid for Siebel will certainly not be as controversial, some analysts including Janet White at Info-Tech Research Group of London, Ontario, argued that the purchase could actually stifle Oracle's longer-term prospects.

"By purchasing Siebel, Oracle has acquired an additional 3.4 million CRM users and the maintenance fees that go with that kind of installed base. However, where Oracle may be able to compete with (German rival) SAP on numbers in the short term, they may have trouble competing longer term on product innovation," White said.

She also argued that "Oracle is an applications company and it only makes sense that they will want to eventually move acquired customers over to their technology stack. But how much time will Oracle really have to integrate its existing portfolio, or create innovative new products, when it has to spend most of its time maintaining disparate, monolithic systems acquired through its recent acquisitions of PeopleSoft, JD Edwards and now Siebel," White said.

Oracle will be paying $10.66 per share for Siebel's stock, considerably above Siebel's Friday closing price of $9.13. Thomas Siebel owns about 55 million shares, or just over 10 percent of total shares. The deal is expected to go through by early next year.