LARRY ELLISON AND ORACLE CORPORATION

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CASE DESCRIPTION

This case makes a contribution to the field of entrepreneurship by focusing on one of the most successful entrepreneurs and companies of our generation. The case can be used in undergraduate entrepreneurship, small business management, or strategic management courses. Students will find the case study informative for several reasons. They will learn about the personality and background of Larry Ellison. What were his motivations and experience before he became an entrepreneur? Students will also learn about how Ellison founded and grew Oracle Corporation. Finally, students will examine the current problems and opportunities that confront Oracle in 2011 and they will be required to make recommendations to Ellison and Oracle.

CASE SYNOPSIS

The case examines the background, personality and rise of Larry Ellison, one of the most prolific entrepreneurs of our generation. Ellison, who co-founded Oracle Corporation, was the third wealthiest man in the United States in 2011 with an estimated net worth of $33 billion. The case further documents the startup, growth and current problems and opportunities confronting Oracle Corporation, the world's largest multi-faceted software company.

Ellison got his start by working on a database project for the Central Intelligence Agency (CIA). Codename: Oracle. In 1977, Ellison went into the database business for himself and founded Oracle with Robert Miner and Edward Oates. Over the last 33 years the mogul grew Oracle into a dominant player in the database, software, and server industries. The current market cap was $150 billion and Ellison owns more than 20% of the company.

LAWRENCE JOSEPH ELLISON

Lawrence Joseph Ellison was born in the Bronx, New York on August 17, 1944 to a 19 year old unwed Jewish mother, Florence Spellman. Ellison's childhood began with a bout of pneumonia, at nine months of age, which drove his mother to relinquish custody to her aunt and uncle hoping to provide him with a better upbringing. Ellison was adopted by his great aunt Lillian and her husband Louis Ellison, who lived on the South Side of Chicago. Ellison did not know until he was 12 years old that he was adopted, and would not meet or reunite with his birth mother until he was 48 (Encyclopedia of World Biography, 2004).

As a boy, Larry Ellison showed an independent, rebellious streak and often clashed with his adoptive father, Louis Ellison (Academy of Achievement, 2010). His father had very little faith in Larry and saw failure around every corner for him. According to Ellison, "My father

would regularly tell me that I would never amount to anything. Oh, it was a powerful motivation. I think my dad had a wonderful effect on me. If fire does not destroy you, you are tempered by it. Thanks, Dad" (Wilson, 2002). In high school Ellison was quiet and withdrawn, an average student, but very intelligent.

After high school, Ellison enrolled at the University of Illinois in Champaign-Urbana with aspirations of becoming a medical doctor. However, he was uninterested in the subjects and found math and science stimulating. He dropped out of school his sophomore year when his adoptive mother died from kidney cancer. That fall, he enrolled at the University of Chicago. It was around this time that Ellison got into the computer business. Ellison learned how to program an IBM computer as part of a physics class assignment. He quickly realized that he had a natural talent for computer programming. He started working part-time programming for the university to earn extra spending cash. Ellison realized that he could make more money writing programs than a tenured professor made at the University of Chicago (Academy of Achievement, 1997). Ellison stated, "It was like a big game, it was like working on puzzles. So I enjoyed it. It paid extremely well, I could work at home, and I could work my own hours" (Academy of Achievement, 1997).

Unfortunately, Ellison dropped out of the University of Chicago after the first semester. His adoptive father was convinced that Ellison would not become successful. However, Ellison had learned the rudiments of computer programming in Chicago. He took this skill, headed out to California in1966, ending up in Berkeley. Ellison stated, "I thought I would just figure out what I would be when I got there" (Wilson, 2002). Over the next few years, Ellison hopped from job to job doing computer-related work at companies like Wells Fargo and Fireman's Fund. Ellison married, however, over time his wife had low expectations for Ellison's future. During their marriage of seven years, he switched jobs constantly. What compounded problems for Ellison were his lavish spending sprees. In 1974, his wife filed for divorce. According to Wilson (2002) it was at a session with a marriage counselor while Ellison and his wife were breaking up that he decided to become a millionaire. He had never talked about money or any concrete success before. His wife advised him to go make his million for his own sake; she was leaving anyway.

Ellison continued to work with computers. While working at a small company called Ampex, Ellison met Robert (Bob) Miner and Edward Oates, who along with himself eventually became the founding partners of Oracle. At Ampex the three worked on writing a database program for the Central Intelligence Agency (CIA). In that era, computers stored lots of information, but managing it and recalling it was difficult. Ampex was working on a way to maintain a database of information on videotape as opposed to traditional magnetic tape. The Ampex machine could search and rewind videotape at high speed. Miner, Oates, and Ellison wrote the program for the Ampex video database, which was called Oracle (Encyclopedia of World Biography, 2004).

Ellison left Ampex for a vice president position of a small firm called Precision Instruments Company. Precision Instruments was working on a project similar to that of Ampex, trying to find a way to store and retrieve masses of data, this time on microfilm. Precision Instruments needed to hire a contract company to program its software. Even though he did not have a business plan, Ellison decided to create his own company. He had a strong motivation and

desire to be his own boss. According to Ellison, "I knew that I could never really survive in a conventional corporation" (Wilson, 2002).

BACKGROUND OF ORACLE CORPORATION

Ellison convinced Miner and Oates to go into business with him, and the three formed Software Development Laboratories, Inc. in 1977. Ellison, who had instigated the venture, took 60 percent of the shares, with Oates and Miner each taking 20 percent (Encyclopedia of World Biography, 2004).

The company was one of the first businesses to provide a relational database for business and governmental information management. The name was changed to Relational Software, Inc. (RSI) in 1979 and later to Oracle after its flagship database product. The name was also meant to differentiate Oracle from one of its main competitors at the time, Relational Technology, Inc. (RTI). From the beginning the company was aggressive in sales, pushing to capture market share and eliminate competition (Wilson, 2002).

In 1980, Oracle had eight employees and revenues of less than $1 million. A year after developing it, Oracle became the first company to start selling a relational database management system, two years before IBM introduced its own program. Oracle rapidly became profitable and by 1982 the company, with only 24 employees, reported annual revenues of nearly $2.5 million. IBM itself adopted Oracle for its mainframe systems, and Oracle's sales doubled every year for the next seven years. The million dollar company was becoming a billion dollar company (Academy of Achievement, 2010).

Over the next 12-15 years, Oracle experienced rapid growth, exceeding 100% revenue increases in many of those years. This was largely the result of a highly competitive culture and aggressive sales techniques, sometimes even promising features that were still in development and gaining a reputation for under-delivering or delivering upgrades late. However, because Oracle was based on the original IBM concept and technical language, industry standardization helped Oracle by reducing competition that was based on other (and some would say superior) technology (Wilson, 2002).

In March 1983, RSI changed the name of the company to Oracle to align itself better with its primary product, Oracle Version 3. On March 12, 1986, Oracle went public. The company experienced 100% or better growth in earnings in eight out of nine total years. During Oracle's first decade of existence, its relational database system was developed for use on approximately 80 separate hardware systems.

Oracle's growth was more behind the scenes. Its database program made possible such things as computerized hotel and airline reservation systems, inventory tracking for chain stores, and management of supplier and client databases for large manufacturers. By 1986, Ellison was a millionaire several times over, as were many of the top people at Oracle. Oracle's revenue that year was more than $55 million, and Ellison's stake in the company was valued at $90 million (Encyclopedia of World Biography, 2004).

By 1990 Oracle posted its first losses. The company's market capitalization fell by 80 percent and the company appeared to be on the verge of bankruptcy. Accepting the need for drastic change, Ellison replaced much of the original senior staff with more experienced

managers. For the first time, he delegated the management side of the business to professionals, and channeled his own energies into product development. A new version of the database program Oracle 7 was released in 1992 and swept the field, making Oracle the industry leader in database management software. In only two years the company's stock had regained much of its previous value (Academy of Achievement, 2010).

As Oracle's internet business applications continued to take major corporations by storm, they saw rapid raises in their net worth during the 1990s, as more and more companies became reliant on the company's database applications. With the growth of electronic commerce in 2000, Oracle saw net profits jump by 76 percent in a single, quarterly, reporting period. According to the Academy of Achievement web site; as success and net worth continued to rise from Oracle's advancements in database management, Ellison began engaging in strategic acquisitions of large and small companies that also developed software for "managing data, identity, retail inventory and logistics", until they had invested over $25 billion during the first 36 months alone. Oracle's "first major acquisition was PeopleSoft, purchased at the end of 2004 for $10.3 billion".

In 1997 Ellison took a new tack, pushing Oracle to get more involved in so-called applications software. Applications run on top of existing programs, doing things like billing. While the market for database programs was shrinking, the applications market was expected to continue to grow well into the 2000s. Oracle's new applications software, 11i, debuted in 2000 but was full of problems. The company's stock price fell, and 2001 also turned out to be a poor year for Oracle (Encyclopedia of World Biography, 2004).

In 2003, Oracle's revenue had risen to $9 billion, and the company was still profitable despite an overall downturn in the technology industry. Ellison repeatedly predicted that the personal computer was dead, and that the network computer would surpass it. He seemed determined to keep Oracle growing, and in 2003 he launched a hostile bid to take over a rival company called PeopleSoft. PeopleSoft was run by a former Oracle executive, Craig Conway. Ellison and Conway displayed a lot of personal animosity over the deal (Encyclopedia of World Biography, 2004).

Since its inception, Oracle Corporation has been a major component in several industries, including those outside of software and programming. Its vast list of products offered to customers in a multitude of industries includes: database and file management software, computer hardware, servers and mainframes, mass storage systems, and magnetic disk storage.

Oracle was able to establish itself in all major markets by developing software applications for an assorted number of industries. The Oracle Database's main function was to consolidate business applications onto fast, reliable, and scalable grids. Its ability to lower IT costs, and the high quality of service offered at Oracle, were what has made the company superior to competitors. Oracle Fusion Middleware is an application infrastructure foundation that enables enterprises to create and run comprehensive business applications and maximize IT efficiency by making the most of modern hardware and software structures.

Oracle also offered a complete and integrated set of tools for developing applications and databases which supported a variety of approaches, technologies and operating systems. Additionally they sold a business application suite, The Oracle E-Business Suite, which included financial, manufacturing, and human resource related software. One distinctive feature offered was Oracle on Demand, which allowed customers to choose how they utilized their software

based on their organization's individual needs and budget allowances. This added value to customers by lowering costs and reducing risk, as well as by offering flexibility and choice. Oracle Corporation also offered a wide range of services to its customers. Oracle Advanced Customer Service was a global business unit within Oracle Support. It focused exclusively on facilitating the continual operational improvement of customers' products throughout the life of their use.

Consulting was another major service offered by Oracle. These consultants helped customers define their businesses strategies and goals, and implement solutions using Oracle products. Consulting also managed systems for clients and helped identify business-streamlining improvements and any cost savings.

Oracle also offered its customers financing support. The financing department helped customers acquire IT products from Oracle and its partners, by working with them in providing individual plans such as leasing, or long-term financing. Oracle's main competitors were: SAP, Microsoft SQL Server, IBM with DB2 and Informix, and Sybase with their Sybase System.

INDUSTRY ANALYSIS

The software industry was a labor-intensive industry with relatively few capital requirements. Because the computer hardware industry was mature, and many of the supplying industries had strong competition with multiple competent suppliers, they did not have strong bargaining power. In addition to hardware requirements, Oracle required substantial input from labor. Software and computer engineers were not only employees, but also suppliers of the knowledge that Oracle required in order to compete. With so many potential employers, the bargaining power of suppliers of the labor and knowledge (employees or independent contractors) was medium in a strong economic environment, but currently lower considering the continued weak economy and strong demand for jobs.

Oracle stated that "substantially all of our customers, including customers from acquired companies, renew their support contracts when eligible for renewal" (Oracle Annual Report, 2010). Many of Oracle's customers depended on its solutions for day to day operations in their businesses, and even if they wanted to switch, the barriers to replace Oracle's products were very high because changing a information management system can be very time consuming and prohibitively expensive. In addition, Oracle was a leader in innovation, so new buyers would often look to them for potential solutions.

In today's global economy, computers are necessary to compete. Although the software and applications may be delivered in a variety of ways, there was no real substitute for the solutions offered by Oracle and its competitors.

The threat of new entrants was medium. New companies faced a competitive environment where both branding and knowledge-base requirements posed significant barriers. However, small companies did have the ability to provide customer service, which might pull some market share away from Oracle and other established companies.

Among companies that could enter the larger enterprise applications market in the future are Intuit, which currently offered small business solutions, and Google, which may expand its product offering in the future to become more of a competitor to Oracle. Both Intuit and Google

have the history and resources to compete on a larger scale against Oracle in some segments. Many other companies in various segments of the technology industry may also provide increasing competition to Oracle. The risk of new entrants into the database market was low.

The high profit potential of technology firms attracts many new entrants, and many startups are acquired by industry leaders before they become serious competition. Oracle has acquired 71 companies since 2005. It has purchased companies that will expand its product and service offering, and allow the company to diversify (Oracle.com, 2011). Although the threat of new entrants does exist, Oracle's acquisition strategy provided the company with many opportunities to expand, rather than surrender market share. In this way, the threat of new entrants was partially controlled. So what might have been a high threat was reduced to medium.

Industry rivalry in the enterprise software industry was of medium strength. Microsoft and IBM were Oracle's two main competitors in business software solutions, with SAP AG (Germany) and CA Technologies also providing significant competition. Salesforce.com was an example of a newer company that provides a Customer Relationship Management (CRM) platform to companies ranging from a few employees to major banks and corporations. Oracle's industry leadership and customized solutions help the company maintain its leadership position in relational database management. Competition from smaller companies has created some pricing pressure and risk of market share loss for Oracle (Datamonitor, 2010). Many companies offer solutions that competed with Oracle, although few could offer the comprehensive variety that Oracle had.

Because switching costs were high for customers, competition was focused more on new customers that were entering the market for enterprise software solutions. Once a relationship had been established, companies generally stayed with their current provider. This reduced the strength of industry rivalry from strong to medium. Rivalry was higher in growing areas than in established markets, although there were some companies who did switch to new providers. Rivalry was intense in some areas of Oracle's operations, but because it was such a strong industry leader, rivalry was lessened for Oracle than it was for smaller competitors.

INDUSTRY LIFE-CYCLE

The technology industry was relatively mature, but with many areas of the world still developing, there was still much room for growth. Although both Oracle and Microsoft were major global corporations with market caps of $166 billion and $246 billion, they still maintained gross margins of 78.5% and 80.2% respectively. The strong margins suggested that competition was not yet too strong, and that a growing customer base provides sufficient demand to maintain solid margins.

The software industry was still experiencing significant growth both domestically and worldwide. It was also an innovation-driven industry where start-up companies could succeed if they were able to develop the right technology. Because of the drive for constant innovation and the remaining opportunity for growth, the industry acted much more embryonic than many established industries. While rivalry was of medium strength and strong enough to deter new entrants into some areas, there were many niche opportunities that led to increased competition over time.

Because of the costs of switching enterprise software providers, customers were also fairly stable. Oracle did especially well with its technological leadership and strong focus on service. Software license updates and product support accounted for nearly 50% of all revenue, which showed Oracle's ability to retain customers.

ORACLE CORPORATION

Oracle's main industry was enterprise software, and it was the leader in relational database management solutions (RDBMS). Oracle provided custom, in-house database solutions to companies of all sizes. In the RDBMS space, Oracle held 48% of the market share, more than the combined total of its next four largest competitors (Graham, Sood, Sommer, and Horiuchi, 2009).

Oracle's in-house database solutions provided companies with powerful computing and customizable service. Although new competitors were entering the database market, Oracle's established practice still held considerable strength. Facebook CIO Tim Campos' felt that Oracle would hold its position in the market. He stated, "I do not really see a replacement for Oracle. The only reason Oracle exists in-house was for companies that want on-premise databases (Lynley, 2010)."

As the original first-mover and strong current leader in the relational database market, Oracle held a strong competitive advantage with the history, technology, and resources to continue its leadership role in RDBMS.

COMPANY SEGMENTATION

Oracle focused on providing the best and most complete enterprise technology package available. That technology was offered to business and governmental customers worldwide. There were two ways that Oracle segmented its market: by product category and geographically.

Oracle's three major product lines were software, hardware systems, and services. The segments were further divided into sub areas. Oracle's software business was divided into new software licenses and software license updates and support. Software generated 67.5% of Oracle's 2011 revenue. Hardware was divided into hardware systems products, and hardware systems support. Hardware systems sales tripled year-over-year, generating 19.5% of Oracle's 2011 revenue. The services business includes consulting, On Demand, and education. Services generated 13.0% of Oracle's 2010 revenue. All three segments showed revenue growth in 2011. Although Hardware data was not included prior to the acquisition of Sun, every product segment and sub-segment reported by Oracle has produced positive margin in each of the years from 2009 to 2011 (Oracle Annual Report, 2010-2011). For a review of Oracle's financial statements see Exhibits 1-3.

Exhibit 1: Oracle Corporation
Income Statement
Years ended May 31, 2009-2011
(in millions, except per share data)

	2011		2010		2009	
Revenues:						
New software licenses	$9,235	*26%*	$7,533	*28%*	$7,123	*31%*
Software license updates and product support	14,796	*42%*	13,092	*49%*	11,754	*51%*
Software revenues	**24,031**	***67%***	**20,625**	***77%***	**18,877**	***81%***
Hardware systems products	4,382	*12%*	1,506	*6%*		
Hardware systems support	2,562	*7%*	784	*3%*		
Hardware systems revenues	**6,944**	***19%***	**2,290**	***9%***		
Services	**4,647**	***13%***	**3,905**	***15%***	**4,375**	***19%***
Total revenues	**35,622**	***100%***	**26,820**	***100%***	**23,252**	***100%***
Operating expenses:						
Sales and marketing	6,579	*18%*	5,080	*19%*	4,638	*20%*
Software license updates and product support	1,264	*4%*	1,063	*4%*	1,088	*5%*
Hardware systems products & support	3,316	*9%*	1,303	*5%*		
Services	3,818	*11%*	3,398	*13%*	3,706	*16%*
Research and development	4,519	*13%*	3,254	*12%*	2,767	*12%*
General and administrative	970	*3%*	911	*3%*	785	*3%*
Amortization of intangible assets	2,428	*7%*	1,973	*7%*	1,713	*7%*
Other expenses	695	*2%*	776	*3%*	234	*1%*
Total operating expenses	23,589	*66%*	17,758	*66%*	14,931	*64%*
Operating income	12,033	*34%*	9,062	*34%*	8,321	*36%*
Interest expense	(808)	*-2%*	(754)	*-3%*	(630)	*-3%*
Non-operating income (expense), net	186	*1%*	(65)	*0%*	143	*1%*
Income before provision for income taxes	11,411	*32%*	8,243	*31%*	7,834	*34%*
Provision for income taxes	2,864	*8%*	2,108	*8%*	2,241	*10%*
Net income	**$8,547**	***24%***	**$6,135**	***23%***	**$5,593**	***24%***
Earnings per share:	$1.69		$1.22		$1.10	
Shares outstanding	5,048		5,014		5,070	
Dividends declared per common share	$0.21		$0.20		$0.05	

Exhibit 2: Oracle Corporation
Balance Sheet
May 31, 2009-2011
(in millions)

ASSETS	**2011**		**2010**		**2009**	
Current assets:						
Cash and cash equivalents	$16,163	*22%*	$9,914	*16%*	$8,995	*19%*
Marketable securities	12,685	*17%*	8,555	*14%*	3,629	*8%*
Receivables	6,628	*9%*	5,585	*9%*	4,430	*9%*
Other current assets	3,698	*5%*	2,950	*5%*	1,527	*3%*
Total current assets	**39,174**	***53%***	**27,004**	***44%***	**18,581**	***39%***
Non-current assets:						
Property, plant and equipment, net	2,857	*4%*	2,763	*4%*	1,922	*4%*
Intangible assets, net	7,860	*11%*	9,321	*15%*	3,411	*7%*
Goodwill	21,553	*29%*	20,425	*33%*	3,858	*8%*
Other non-current assets	2,091	*3%*	2,065	*3%*	19,644	*41%*
Total non-current assets	**34,361**	***47%***	**34,574**	***56%***	**28,835**	***61%***
Total assets	**$73,535**	***100%***	**$61,578**	***100%***	**$47,416**	***100%***
LIABILITIES AND EQUITY						
Current liabilities:						
Payables	$1,851	*3%*	$3,920	*6%*	$1,272	*3%*
Accrued compensation and related benefits	2,320	*3%*	1,895	*3%*	1,409	*3%*
Deferred revenues	6,802	*9%*	5,900	*10%*	4,592	*10%*
Other current liabilities	3,219	*4%*	2,976	*5%*	1,876	*4%*
Total current liabilities	**14,192**	***19%***	**14,691**	***24%***	**9,149**	***19%***
Non-current liabilities:						
Notes payable and other borrowings	14,772	*20%*	11,510	*19%*	9,237	*19%*
Income taxes payable	3,169	*4%*	2,695	*4%*	2,423	*5%*
Other non-current liabilities	1,157	*2%*	1,483	*2%*	1,162	*2%*
Total non-current liabilities	**19,098**	***26%***	**15,688**	***25%***	**12,822**	***27%***
Total liabilities	**33,290**	***45%***	**30,379**	***49%***	**21,971**	***46%***
Total equity	**40,245**	***55%***	**31,199**	***51%***	**25,445**	***54%***
Total liabilities and equity	**$73,535**	***100%***	**$61,578**	***100%***	**$47,416**	***100%***

Exhibit 3: Oracle Corporation
Cash Flows
Years ended May 31, 2009-2011
(in millions)

	2011		2010		2009	
Cash Flows From Operating Activities:						
Net income	$8,547	*100%*	$6,135	*100%*	$5,593	*100%*
Depreciation and amortization	2,796	*33%*	2,271	*37%*	1,976	*35%*
Allowances for doubtful accounts receivable	164	*2%*	143	*2%*	118	*2%*
Deferred income taxes	(253)	*-3%*	(511)	*-8%*	(395)	*-7%*
Stock-based compensation	510	*6%*	436	*7%*	355	*6%*
Tax effects of stock compensation	110	*1%*	93	*2%*	58	*1%*
(Increase) decrease in assets	(728)	*-9%*	101	*2%*	365	*7%*
Other, net	68	*1%*	13	*0%*	185	*3%*
Net cash provided by operating activities	**11,214**	***131%***	**8,681**	***141%***	**8,255**	***148%***
Cash Flows From Investing Activities:						
Purchases of securities and other investments	(31,009)	*-363%*	(15,703)	*-256%*	(9,315)	*-167%*
Proceeds from securities and other investments	27,120	*317%*	11,220	*183%*	8,404	*150%*
Acquisitions, net of cash acquired	(1,847)	*-22%*	(5,606)	*-91%*	(1,159)	*-21%*
Capital expenditures	(450)	*-5%*	(230)	*-4%*	(529)	*-9%*
Proceeds from sale of property	105	*1%*				
Net cash used for investing activities	**(6,081)**	***-71%***	**(10,319)**	***-168%***	**(2,599)**	***-46%***
Cash Flows From Financing Activities:						
Payments for repurchases of common stock	(1,160)	*-14%*	(992)	*-16%*	(3,972)	*-71%*
Proceeds from issuances of common stock	1,376	*16%*	874	*14%*	760	*14%*
Payments of dividends to stockholders	(1,061)	*-12%*	(1,004)	*-16%*	(250)	*-4%*
Proceeds from borrowings	4,354	*51%*	7,220	*118%*		
Repayments of borrowings	(3,143)	*-37%*	(3,582)	*-58%*	(1,004)	*-18%*
Other, net	150		148	*2%*	44	*1%*
Net cash from financing activities	**516**	***6%***	**2,664**	***43%***	**(4,422)**	***-79%***
Effect of exchange rate changes on cash	600	*7%*	(107)	*-2%*	(501)	*-9%*
Net increase in cash and cash equivalents	6,249	*73%*	919	*15%*	733	*13%*
Beginning cash and cash equivalents	9,914	*116%*	8,995	*147%*	8,262	*148%*
Ending cash and cash equivalents	**$16,163**	***189%***	**$9,914**	***162%***	**$8,995**	***161%***
Supplemental schedule of cash flow data:						
Cash paid for income taxes	$2,931		$2,488		$2,170	
Cash paid for interest	$770		$652		$627	

COMPANY STRUCTURE

As of November 1, 2011, Oracle employed 108,500 workers globally. Because Oracle has made so many acquisitions over the last 15 years, and continued to operate many of them as separate businesses, it used permanent teams at each subsidiary with integrative roles as necessary. Some acquisitions led to fully integrated technologies, with previous operations assimilated into Oracle's existing operations, so not all acquisitions did become subsidiaries with separate operations.

DISTINCTIVE COMPETENCIES

Oracle's distinctive competencies included its innovation and ability to acquire and assimilate other companies. In fiscal year 2010, Oracle spent approximately $4.5 billion on research and development to develop new technologies and enhance existing products. This investment continued a three year trend of approximately 12-13% of Oracle's annual revenue being invested in R&D. It was also a reason that Oracle was one of the top 50 ranking companies for patents in 2010.

Since 1994, Oracle also invested billions of dollars in recent years to acquire and assimilate companies, technologies, and products that support and expand its existing offerings. This investment has supported the company's growth through knowledge, resource, and customer acquisition (Oracle.com, 2011).

The two main barriers to imitating Oracle's competencies was the ability to develop software on a major scale, and the financial strength that allowed Oracle to acquire new entrants into the market. With its vast array of enterprise solutions, the development necessary to compete broadly with Oracle would be very difficult due to the resources required to develop so many solutions. However, many companies have developed solutions that competed with Oracle in a narrower scope. Many of these competing products have ended up as Oracle acquisitions.

The other main barrier to Oracle's strategy was the ability to acquire and assimilate technologies and companies. Unless a company had significant financial strength, it would not be able to acquire as easily. Also, without sufficient research and development capability, it might not be able to assimilate new technology into its own product line.

RESOURCES

Between cash and marketable securities, Oracle had $28.8 billion in liquid assets that it could use for acquisitions and other strategic uses. That balance was greater than the total of Oracle's operating expenses in 2011 (Oracle Annual Report, 2011). In short, Oracle had the cash to weather almost any storm or make any strategic move that the company chose.

In addition to assets held by the company, Oracle had a portfolio of customers that included all 100 companies from the Fortune 100 list. That client list led to more than $13 billion in 2010 revenue from software license updates and other client support, nearly half Oracle's total

revenue for 2010 (Oracle Annual Report, 2010). Because it was difficult for database clients to switch service providers, Oracle held a strong position that continued to generate revenue for the foreseeable future. This continuing revenue stream helped Oracle weather economic downturns and other misfortune that may face the company or the software industry.

OPPORTUNITIES AND CHALLENGES FOR ORACLE IN 2011

Some conditions in the current technology market provided opportunities for Oracle to expand its market share. Current opportunities for Oracle included internet technology, increasing IT spending, an expanding market for software-as-a-service (SaaS), and the recent acquisition of Sun Microsystems (Datamonitor, 2010). SaaS is a software delivery method that provide access to software and its functions remotely as a Web-based service, usually through cloud computing (Webopedia, 2011). When a person searches for a book on Amazon, posts an item for sale on Ebay, or makes any online purchase using a credit card, the technology used in the transaction was likely to be from Oracle. While the internet has made products, services, and information provided by companies available to consumers in their own living rooms, that data has to be stored somewhere, and Oracle's databases provided the perfect solution. Growing internet use increased companies' needs for Oracle's systems and provided a major opportunity for Oracle to expand its market share. Particularly with Oracle's processing and cost reducing potential as demonstrated by the Transaction Processing Performance Council (TPC), Oracle had the capability of providing both the highest quality and lowest-cost solution for companies doing business online (SearchSOA.com, 2011).

In 2010 it was estimated that 240 million people, or 77% of the US population, regularly used the internet. This represented 152% growth over the number of people using the internet in 2000, and still had room to expand. Among the top 20 countries ranked by the number of internet users, the US was in second place behind China, which had 420 million internet users, which was just 32% of its population. With Chinese internet users expanding by 1,767% from 2000 to 2010, it was estimated that the China market would experience significant growth for years to come. Ten of the top 20 internet-using countries experienced greater than 1,000% internet use growth over that decade. Also, among the top 20 countries, the total growth was 417%, but has still reached just one third of the combined population of those countries. Worldwide, internet use expanded by 448% and has only reached 29% of the total world population (InternetWorldStats.com, 2010).

If the growth of the internet were to increase 100% over the next 10 years, the total number of internet users would be approximately four billion people, just over 50% of the world population. As Oracle continues to improve its offerings, it will have a massive opportunity to provide the technology necessary to run those systems. The technology to be used includes Oracle products beyond databases, including server hardware and SaaS.

With the acquisition of Sun Microsystems, Oracle had hardware available to its customers. Along with meeting the needs of an expanding internet-using population, Oracle could also sell that technology to governments, universities, and other enterprises. Many large organizations had technology filing systems that utilized servers and large mainframe computers, and Oracle could meet that need on and off the internet.

Further capitalizing on expanding internet use, many software solutions were being developed to be used as a service through a monthly or annual licensing relationship. Oracle provided multiple on-demand software solutions as services, as do many other companies. SaaS therefore provided software revenue opportunities to Oracle, and hardware revenue opportunities by meeting the needs of many other SaaS providers.

Both an opportunity and potential threat to Oracle was the economic expansion in Asia. While markets and demand are growing, so was the number of software engineers that are capable of developing competing systems. India, for example, was quickly gaining a reputation for competent technological innovation at a lower price than US companies have been able to offer. As the industry becomes increasingly more global, competition will continue to increase, but may provide a way for Oracle to seek qualified talent at a lower cost.

CHALLENGES

In recent years, Microsoft and other competitors have worked to compete effectively with Oracle in the database market space. Although a late entrant into the database market, because of its strong position in PC software, Microsoft has both the resources and credibility to compete effectively in databases. It was estimated that Microsoft may have had as much as 22% of the worldwide database market (SeekingAlpha.com, 2010). This was particularly significant as the world becomes increasingly global, and technology levels the field of competition in favor of small businesses that are more likely to use Microsoft than Oracle. Microsoft was forecasted to increase its database market share at a faster rate than Oracle through 2017, although Oracle's market share was forecasted to increase to approximately 54%.

Although Oracle had a strong first-place position in RDBMS, competition from companies including Microsoft was growing and may eventually begin to take market share from Oracle. As of 2011, Oracle was still capturing market share, but it must continue to work to maintain its position.

As demonstrated by its recent lawsuit with Google, a major risk in the technology industry was that patents and technology can be infringed upon, eroding the value of a company's intellectual property. Recently, Oracle was in a lawsuit related to Java (Gralla, 2010), which was acquired along with Sun Microsystems and may have been one of the primary benefits of the acquisition. It was possible for further Oracle-owned patents to be infringed upon, or for Oracle to be accused by other companies of infringement. Either of these scenarios could lead to financial loss, productivity loss, and the erosion of competitive advantage.

Oracle was a leader in providing technology and software solutions, and relied on constant research and development to remain competitive. The industry was dominated by the most recent, most innovative solutions as well as providers with established systems already in place. As an early leader in the industry, Oracle became a leader in relational database solutions for both private industry and governmental customers, and had expanded its expertise in middleware and applications. Regardless of size, every company must constantly improve its product offerings and innovation to solve ever-evolving problems faced by customers. If Oracle failed to innovate, it would lose market share.

Although an internal consideration, another threat to Oracle may be the risk that something happens to remove Larry Ellison from his longtime leadership role at the company. At age 66, he may not have too many more years to remain at the helm of the company he built. When the day comes that he was no longer able to lead, it is unknown who will replace him, or the effect that it may have on the company whose culture so strongly reflects the personality of its primary founder.

ORACLE IN 2011

Ellison grew Oracle into a dominant player in the database, software, and server industries. The current market in November 2011 was $150 billion (Yahoo Finance). Ellison owned more than 20% of the company and has rarely sold shares. Oracle had acquired 57 companies in the previous 5 years. In January, 2010, Oracle purchased Sun for $7.4 billion. Ellison also owned 52% of business software company Netsuite (Bertoni, 2010).

In 2011, Oracle was the gold standard for database technology and applications in enterprises throughout the world. The company was the world's leading supplier of information management software and the world's second largest independent software company. The acquisition of Sun gave Oracle a leadership role in the hardware arena as well. Oracle technology was now found in nearly every industry and in the data centers of all of the Fortune 100 companies. Oracle was the first software company to develop and deploy 100 percent internet-enabled enterprise software across its entire product line: database, business applications, application development, and decision support tools.

Before the acquisition of Sun was final, Oracle and Sun introduced the Sun Oracle Database Machine, the world's fastest machine for any type of database workload. Today, Sun servers and storage, Oracle Real Application Clusters, Oracle Applications, Oracle Grid Computing, support for enterprise Linux, and Oracle Fusion, were all fueled by a commitment to innovation and results that has defined Oracle for thirty years.

ELLISON'S DECISION IN 2011

Ellison had his principal home in Woodside, California. He served as President of Oracle from 1978 to 1996, and undertook two stints as Chairman of the Board, from 1990 to 1992, and again from 1995 to 2004. Since its founding, he has been Oracle's only Chief Executive Officer (Academy of Achievement, 2010). Ellison was the heart and soul behind Oracle's drive to become one of the most dominant companies in the world.

Yet, as he relaxed at his Japanese-inspired home, he pondered what the next moves should be for Oracle. How would Oracle increase its growth in the future? What direction should the company pursue and how should it do this? Ellison stated, "Our goal was to become #1 in middleware and #1 in applications, just as we have in database. And we will provide our customers with complete, open solutions integrated from the disk to applications software that meet their business needs and solve their business problems. And, we will continue to innovate and to lead the industry, while always making sure that we focus solving the problems of the customers that rely on our technology" (Oracle, 2010).

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