

Larry Ellison ORACLE AT WEB SPEED "The Internet changes everything," and the CEO of Oracle is living proof.

By Brent Schlender

May 24, 1999

(FORTUNE Magazine) – Larry Ellison, the swashbuckling founder and CEO of Oracle Corp., is much better known for his extravagant avocations than for his executive skills. After all, he's the guy who, besides running the world's second-largest software company, owns and pilots his own fighter jet. (It's a defanged Italian Marchetti. The Federal Bureau of Alcohol, Tobacco, and Firearms foiled his attempt to import a Russian MiG.) He's also a world-class competitive yachtsman whose Sayonara was first in its class to cross the finish line in the deadly Sydney-Hobart race last February.

Architecture is another passion; Ellison hired craftsmen in Japan to build an intricate, hand-hewn house, which, when finished, will be dismantled and shipped across the Pacific to be reassembled on his new estate in Woodside, Calif. And, oh yes, the thrice-divorced billionaire also is considered something of a Lothario. Ellison may be the richest entrepreneur in California, but he's more widely recognized as Silicon Valley's most accomplished playboy.

That's the reputation. Lately, though, the 54-year-old Ellison has been getting his biggest kicks from, of all things, running Oracle. The man who used to brag about how much tennis he played on company time has been logging 50-hour-plus workweeks for much of the past six months. He is personally supervising, with messianic zeal, everything from a revamping of Oracle's notoriously aggressive (and highly paid) sales organization to an overhauling of the company's operations and information systems to a strategic rethinking of what Oracle's business really is.

Those sound like the concerns of any typical CEO, but Ellison is hardly typical. Beneath the studio tan and Armani suits is an obsessive geek who, for most of Oracle's 22-year history, would get excited only about the technical details of software development. Everything else he deemed too mundane to bother with and delegated to lieutenants like Ray Lane, Oracle's president and COO.

So why is Ellison suddenly acting like a real boss? As he would say, "It's the Internet, stupid." Not only does Internet technology create major opportunities for Oracle's enterprise software business, it also provides a pretext—and a huge incentive—for Ellison to reengineer Oracle into the ultimate e-corporation role model.

"When I say, 'The Internet changes everything,' I really mean everything," he declares. "We decided three years ago to redesign all of our products to be deployed over the Internet. Last fall I decided that our company had to go all the way too. We should be huge consumers of this technology that we're trying to sell to people. I'm personally involved because some of the changes are so radical that the company founder is the only one who could get everyone behind them."

Ray Lane puts it another way: "What Larry is doing is much more than putting on the world's largest e-commerce demo. He's looking at how the fundamental structure of our company should change to take advantage of what Internet computing will enable—just as other CEOs should be doing. We fully expect to see dramatic improvement in every aspect of our business, especially on the bottom line." Oracle, whose revenues continue to grow at nearly a 20% annual clip, has watched pretax profitability slip in recent years from the low 20% range to the teens. That's one reason the stock price has fallen since last summer, from historic highs in the 40s to the mid-20s. In fiscal 1998, which ended last May, Oracle's sales swelled by 26%, to \$7.1 billion, yielding profits of \$813 million, a 17.4% pretax margin. In the third quarter ended in February, revenues grew 19%, putting Oracle on a pace to hit \$10 billion this fiscal year; the pretax margin bounced back to 19.5%.

To get an idea of what Ellison and Oracle are up to, you have to understand what the man means by "Internet computing" and how it differs from the "client server" approach championed for the past decade by Microsoft (and, until recently, Oracle too). Then you'll see why Ellison suddenly is so engaged in his job.

Oracle's main product is database software, which corporations use to store in piecemeal form all the salient information about their operations: customer lists, inventory data, personnel details, financial records, transaction histories, correspondence, legal documents, and much more. Ellison's smartest move was to make sure Oracle's flagship database (the latest version is Oracle 8i) works on IBM mainframes, on Unix servers made by Sun, IBM, and Hewlett-Packard, and on PC servers from dozens of manufacturers that use Microsoft's Windows NT software. All told, Oracle has 120,000 customers in 145 countries, including most FORTUNE 500 companies. It holds a commanding 61% share of its market but is being challenged by Microsoft, which has added database capabilities right into Windows NT. IBM, Informix, and Sybase are other database rivals; Oracle dwarfs their market share.

Oracle also makes "enterprise applications" software—elaborate programs that historically have run on desktop "client" computers such as PCs. They, in turn, tap into database servers to get the raw information to track and manage accounting, manufacturing, human resources, sales leads, customer relations, and just about every other corporate activity. Oracle was a late entrant to the enterprise-applications market but is now a major player, drawing 28% of its revenues from it. Oracle's main rivals in this business are SAP, PeopleSoft, and Banyan.

Although client-server software has become extremely popular, it has drawbacks—it is costly and complex for big companies to implement, requires ongoing maintenance by highly paid specialists, and scatters fragments of corporate data among dozens, hundreds, or even thousands of computers, making it difficult to pull together a comprehensive picture of a company's business. A perfect example of this, says Ellison, is Oracle's own human resources information system. "To this day, I can't go to my PC and get an exact head count of how many people work at Oracle [roughly 45,000]. That information is scattered among more than 70 databases around the world, and my PC doesn't have the software or the access to pull it all together. And I'm the CEO, for crying out loud."

This is where Internet computing comes in. Even Ellison's bitterest competitors in the database business agree that the Internet, with its potential to connect virtually every computer in the world, will make database technology more crucial than ever. Says Informix CEO Bob Finnochio: "The Internet is a gift from heaven to the database business, because as more and more people and companies get connected, everyone will need bigger, better, and faster databases."

As the Internet expands the universe of devices that can tap into databases, Ellison contends, it makes sense to have those clients find data, crunch numbers, or manage business processes via simple standardized Internet browsers, rather than by specific and complex application software. If the actual data crunching is confined to the servers, and merely controlled and displayed by browsers, he reasons, much of the cost and complexity of managing enterprise software can be dispensed with. Data can be concentrated in fewer, bigger systems, saving money and cutting the number of geeks needed to run a company. Just as important, it will be easier for corporate officers to get instant snapshots of their businesses. "With Internet computing, you really can get the big picture," says Ellison.

Ellison had this epiphany nearly four years ago, after playing around with Netscape Navigator on his PC for a month. After mulling it over and consulting with his pal Steve Jobs, among others, he mandated that every Oracle enterprise-software product be converted to work as an Internet application that can be viewed and manipulated on a PC or other "network appliance" via a browser. He also pulled the plug on further development of client-server products, and instructed the sales force to tell customers that Oracle would phase out those products by 2000. And he had Oracle start a company called NCI (Network Computer Inc.) to pioneer stripped-down "network computers" (PCs minus Windows and disk drives) and Internet-ready TV set-top boxes. He set all this in motion by the spring of 1997. Then, as was his wont, Larry took the summer off.

Upon returning to work that fall, however, Ellison realized that the jobs weren't getting done. His software developers were only paying lip service to his goal of "Internetizing" the product line. On the sly, they were assuring long-standing customers that Oracle wouldn't really pull the plug on client-server applications. Nonplused, Ellison started spending three days a week personally managing software development, and he hasn't taken off more than two weeks at a time since.

Says he: "Apparently I hadn't convinced everyone how serious I was. The transition to Internet computing is the last big architectural change we'll see in computer technology for a long, long time. That's because with the Internet, computer and network services will finally begin to look like the electricity utility, the telephone utility, or the water utility systems, and economies of scale really will apply. Bigger really is better. And database technology will be at the very center."

The more involved Ellison got, the more excited he became about Oracle's potential in a brave new world of Internet computing. His friend Jobs says something else motivated him too. Though Microsoft had taken dead aim at Oracle's database business, with the advent of the Internet and the meteoric early success of Netscape's Internet browser, Microsoft was now distracted. Ellison saw that if Oracle played its cards right, the confluence of the database, the Internet, and the Web browser could displace the operating system as the

focal point of computing and erode Microsoft's industry dominance. In fact, Hewlett-Packard and Dell are working with Oracle to manufacture database servers that won't even need an operating system but instead will run solely on an enhanced version of Oracle 8i.

Says Jobs: "Netscape took Microsoft's eye off Oracle for several years. That gave Larry an opportunity to get Oracle big and strong enough to stand toe-to-toe with Microsoft. It also gave him a chance to figure out how to make Oracle's technology and strategy stand out. He started by promoting this concept of the "network computer," but it morphed into what really ought to be called server computing. Oracle is in a very strong position now."

Oracle's software developers started delivering Internetized versions of most of the company's software last fall. They have also hatched technologies and products specifically for Internet computing. The company has especially high hopes for what it calls "customer relationship management software," which helps a company's field offices track and follow through on sales leads.

Only last fall, after Ellison felt satisfied that software development was back on track, did he realize that the company's organization and operations also needed to take better advantage of Internet technology. Besides pushing the company to use its own software to consolidate fragmented information systems for accounting, human resources, sales forecasting, and e-mail, Ellison and Lane have been reorganizing Oracle's 7,000-person sales force.

Ellison believed that too many Oracle sales reps for various products were calling on the same companies. So Oracle is now assigning specific reps, and in a few cases teams of reps, to specific companies, each selling Oracle's full line of products and services. The goal, Ellison says, is to get customers to order software or request services and support directly from Oracle over the Internet, rather than through a daisy chain of salespeople. "Why does anyone need to call a sales rep to order some documentation or to expand a software license to allow another database or application server?" Ellison asks. "I'm happy to keep paying the sales reps commissions on whatever their accounts order, but there's no reason the stuff shouldn't be sold and delivered through an Internet e-store."

At the same time, Ellison, with executive vice president Gary Bloom, is spearheading a brand-new business for Oracle called Business Online. It takes the utility metaphor literally. Oracle has expanded its data center in Redwood Shores, Calif., adding to its phalanxes of servers and disk drives. Within a few months it will start handling data-processing chores for 22 customers, ranging from small businesses to divisions of FORTUNE 500 companies. All the customers need are PCs or network computers outfitted with browsers and modems. They'll pay fees based on how much data storage and computer horsepower they use. Oracle will own most of the equipment and software, and will guarantee that this so-called application-hosting service will always be available. Oracle is working with IBM in Europe to set up other application-hosting services.

Ellison has also ordered an overhaul of Oracle's marketing message, something he thinks the company should have done years ago. He's openly envious of IBM's success in positioning itself as a company supplying what Ellison calls "picks and shovels" for the e-commerce gold rush. Soon Oracle's flippant ads and billboards denigrating rivals like Informix will be replaced by a new campaign emphasizing how Oracle software powers the Websites of Yahoo, Amazon.com, eBay, and E*Trade.

Larry's never been busier. People around Oracle can't remember ever seeing his parking spot occupied as often as it is now. (Most days he drives a big silver Mercedes-Benz.) It goes without saying that he hasn't spent much time on Sayonara lately. He hasn't been out to survey the construction site at his new estate in six weeks, and the only flying he's been able to squeeze in is short hops in his Cessna Citation to make appearances at industry gatherings. What's more, he's got a steady girlfriend who friends think might just be the woman to make him settle down for good.

Yep. The Internet changes everything.