

Chron 200 / Comings and goings

By Ellen Lee

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Say hello to Salesforce.com and goodbye to Siebel Systems.

San Francisco's Salesforce.com Inc. (No. 128), along with Google Inc. (No. 19) and Dolby Laboratories Inc. (No. 124), joins the Chronicle 200 after going public two years ago.

Several of the companies taken off the list were acquired and absorbed by larger companies. Consider:

-- In early July, Cupertino security software company Symantec Corp. (No. 33) bought Mountain View's Veritas Software Corp. for \$10.5 billion.

-- Two weeks later, IAC/InterActive Corp, the Internet company run by media mogul Barry Diller, acquired Emeryville's Ask Jeeves Inc. for \$1.85 billion.

-- In December, Adobe Systems Inc. (No. 48) in San Jose completed its \$3.4 billion purchase of Macromedia Inc. in San Francisco.

-- And in January, Redwood City's Oracle Corp. (No. 10) sealed its \$5.85 billion deal with San Mateo's Siebel Systems Inc.

The mergers and acquisitions reflect the impact of consolidation in the technology industry, as large technology companies got bigger to remain competitive, particularly against other high-tech giants such as Microsoft Corp. and Google.

"Being a big company is really important," said David Dinerman, senior manager with consulting firm Grant Thornton. "The Oracles and Symantecs and Adobes of the world are moving up in size, and they're doing it by acquisition."

Marc Benioff, founder and chief executive of Salesforce.com, has a simpler explanation for the changes: Salesforce.com is in because it is pioneering a new technology market, in which it "rents" software to customers so that they don't have to spend the money to buy, install and maintain it themselves. Its chief rival, Siebel, on the other hand, is out, because its technology has become, well, old -- it develops software that its business clients have to buy, install and maintain themselves.



Chronicle / Chris Stewart, File
Chris Stewart

change05_208_cs.jpg Event on 4/11/06 in San Francisco. Chron 200 special section. Marc Benioff, CEO of Salesforce.com, holds a keynote luncheon at the Four Seasons Hotel in SF. Salesforce.com is one of the new names, after it went public two years ago. Incidentally, one of its competitors, Siebel Systems, is one of the companies that has been dropped from the list after it was acquired by Oracle Corp. Chris Stewart / The Chronicle MANDATORY CREDIT FOR PHOTOG AND SF CHRONICLE/ -MAGS OUT

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"Siebel is gone because the technology is outdated," said Benioff, noting that customers such as Cisco Systems Inc. and Merrill Lynch have switched from Siebel to Salesforce.com.

Of course, not everyone shares that view. After all, Siebel software is used by a long list of customers, including Alaska Airlines and Loews Cineplex. But Siebel's acquisition does reflect a move made in an industry that is maturing and consolidating while a new one is emerging.

Oracle has sought to come out on top by aggressively gobbling up Pleasanton's PeopleSoft Inc., Siebel and several other companies. Those acquisitions have put Oracle in a position to be a single source for companies for their technology needs while giving it enough size to compete against rivals like SAP AG, Microsoft and IBM Corp.

In addition, Oracle founder Larry Ellison has hedged his bets by co-founding NetSuite Inc., a business similar to Salesforce.com, in which Ellison also has a small stake.

Oracle's moves shouldn't reflect badly on the company being acquired, said Jim Kochman, a senior managing partner at Pagemill Partners.

"Siebel was not in danger of going out of business," Kochman said. "It's not like the company gave up and sold out. It's a normal process of evolution. They had the resources to duke it out. They just chose to realize the premium they were being offered" by Oracle.

The resurgence in the economy has made it possible for Silicon Valley businesses to go on a buying spree. And unlike the days after the dot-com bust, these businesses are not going after cheap buys, but targeting the businesses that have something -- special technology, employees, key executives -- that they want and need.

In the cases of Oracle, Symantec, IAC/InterActiveCorp and Adobe, the businesses paid a premium, highlighting how much they valued the companies they were buying.

Meanwhile, their smaller competitors have to figure out how they'll fit into the picture as the industry shrinks.

"You want to be on a winning team," said Steve Bottum, managing director at Savvian, a San Francisco investment bank. "You don't want to be No. 5. You want to join the No. 1 or No. 2 as the sector becomes more mature. Many companies decide it's more important to be part of the market leaders than to be a follower (because) there becomes a greater disparity in success."

In the case of Ask Jeeves, a network of sites now known as IAC Search & Media that includes Ask.com, the Internet search engine experienced both the dot-com highs and lows, emerging as a scrappy, but smaller, contender against Google and Yahoo.

By joining forces with IAC/InterActiveCorp, which also owns Web sites such as Evite and Citysearch, it can tap the resources of a larger company. For IAC/InterActiveCorp, adding Ask Jeeves to its portfolio helped drive more hits to its family of Web sites.

IAC/InterActiveCorp "wasn't buying a company going down," said Marc Morgenstern, a partner with Sonnenschein Nath & Rosenthal. "They were buying a company going up."

Experts expect more mergers and acquisitions. Already this year, Walt Disney Co. said it is buying Emeryville's Pixar Inc. for \$7.4 billion, and McClatchy Co. is acquiring newspaper chain Knight Ridder Inc. for \$4.5 billion.

Even Salesforce.com could be a future target. "Siebel tried to build what (Salesforce.com) has done and couldn't," said Terry Garnett, managing director of Garnett & Helfrich Capital and a former senior Oracle executive who worked with Benioff during his four years there. "No has been able to build it to the size Marc has built it. It's not because others haven't tried. He's become the kingpin of that particular segment, and that might be attractive for someone (who wants) to get into that market and become the dominant player quickly."

Of course, Garnett added, Salesforce.com would likely command a pretty hefty price tag and would need to get the approval of its directors.

Benioff said he's focused on innovation rather than consolidation, and the company's customers. "The software as service market is growing quickly," he said. "And there is still a lot to do."

Notable departures

Company	Reason
Ask Jeeves	Acquired
Calpine	Filed for bankruptcy
Catellus Development	Acquired
Macromedia	Acquired
Providian Financial	Acquired
Siebel Systems	Acquired
Veritas	Acquired

Source: Chronicle research