BusinessWeek online

NOVEMBER 13, 2006

INFO TECH

A Fifth Startup? It's All In A Workday

PeopleSoft founder Dave Duffield is tilting at Oracle -- again

Dave Duffield was alone in a hotel room 3,000 miles from home when he got the news that PeopleSoft Inc., the company he had started and built over 17 years into a software powerhouse, had been snatched away. It was Dec. 10, 2004, and Duffield was preparing to give testimony in a shareholder lawsuit when the call came from longtime colleague Aneel Bhusri. "I've got some very bad news" was all he needed to hear.

PeopleSoft's independent board members had voted to accept an enhanced $10.3 billion buyout from Oracle Corp. (ORCL) Oracle Corp., the megacompetitor Duffield had taken to calling "the bad guys" because he feared there would be layoffs and product cuts if it took over. He felt like some- one had punched him in the gut. "I was in the middle of nowhere," he recalls. "It was totally depressing."

Duffield had put up a good fight. Three months earlier, when he returned from retirement to try to rescue PeopleSoft from Oracle's clutches, many were amazed. Here was a wealthy, retired man in his sixties who, with Bhusri, had turned the reins over to CEO Craig Conway back in 1999. He had philanthropy and six adopted children at home to keep him busy. What did he need with running a company again? So when Oracle Chief Executive Lawrence J. Ellison finally prevailed in the takeover battle, everyone assumed Duffield would retreat to Tahoe--with the $600 million more he made off the sale.

They were wrong. On Nov. 6, following a year of industry speculation, Duffield, 66, will launch his latest software company. The startup, his fifth, is called Workday. It's a bold attempt to tackle head-on the giants of the business, Oracle and SAP (SAP), with Web-based "on-demand" software.

That means taking on the old PeopleSoft products, which Oracle still sells and supports. Already, Workday bears a striking resemblance to Duffield's old company. At its offices in Walnut Creek, Calif., executives sit in egalitarian cubicles. Many are former PeopleSofties with a strong sense of loyalty: Few forget that, following the buyout, Duffield put up $10 million of his own money to help laid-off workers. Today, CEO Duffield roams the halls in jeans and a golf shirt. Just like in the early days at PeopleSoft, it's as if a Midwestern company has been plunked down on the edge of Silicon Valley.

Attacking Oracle and SAP, which hold 65% of the market for big-company applications, is an idea that would get most people laughed out of a venture capitalist's office. Fortunately, Duffield is worth an estimated $1.2 billion. Bhusri, who is back as co-founder, is a partner at venture firm Greylock Partners, which jumped at the chance to fund Duffield's next act. So far he and Greylock have ponied up $15 million and expect to invest $20 million more by yearend. Why get back in the game? "I had a good life, my kids were happy, and I could hold my head up high about what I accomplished at PeopleSoft," Duffield says. "I wouldn't [risk all that] unless there was a real opportunity."

AHEAD OF THE CURVE
That opportunity is to catch the software business at a new inflection point. PeopleSoft came along when human resources and other business applications were moving from mainframe computers to PCs. It quickly became a leader in easy-to-use programs that automate HR tasks such as the administration around hiring, firing, and performance reviews. For its time, PeopleSoft produced programs that were remarkably easy to use and customize. Then it rocketed to No. 2 in software for broader use in corporate applications, such as accounting, factory planning, and supply-chain management.

Shortly before its sale, PeopleSoft had 13,000 employees and $3 billion in annual revenues. In 2003, PeopleSoft attempted to widen its lead by buying a smaller competitor, J.D. Edwards. Ellison launched a hostile bid for PeopleSoft that stunned the industry. Conway resisted vigorously but alienated shareholders who felt he needed to consider the escalating offers. Finally the board fired Conway and turned to Duffield. He opposed a sale, but was overruled by independent directors.

Fast forward to today: Corporate software packages have grown increasingly complex and expensive to maintain. Frustrated employers are turning to on-demand software, which is easier to use and cheaper long-term. Sellers run programs for customers, taking on the cost and hassles of operating databases and servers. Users log onto the Web to pull down information on payroll or figure out where an order is in the sales pipeline. At the same time, a new, more flexible style of programming is emerging that takes advantage of software building blocks. As companies grow, they can move pieces around without breaking up the whole system. Workday will try to exploit those changes.

But the idea that Web-based technologies can improve software isn't exactly original. A handful of promising young companies--salesforce.com (CRM), RightNow Technologies (RNOW), and NetSuite, to name a few--are gaining share with midsize companies. And SAP, Oracle, and Microsoft (MSFT) are retrofitting their programs.

So Workday has its work cut out. The largest of its five customers is Biosite Inc. (BSTE), a biotech company with 1,100 employees. To build customer confidence, Workday needs to forge relationships with big software and services outfits. It's in talks with Microsoft to figure out how to get Workday software to mesh with its ubiquitous desktop programs. And Accenture Ltd. (ACN) is building a Workday practice to help big companies evaluate and implement the programs, a sign that it thinks Workday is on to something. "We think this is a huge opportunity," says Bob Suh, Accenture's chief tech strategist.

Still, Workday's best asset is Duffield's reputation as a software legend. Early on at PeopleSoft, he did much of the coding himself and personally manned booths at trade shows. His last slide at customer conferences showed his direct phone line (and, later, his e-mail). "There really is a cult following around Dave," says AMR Research Inc. analyst Bruce Richardson. "If anyone can do this, it's them."

By Sarah Lacy