



Technology

Return of Dave

Victoria Barret 03.10.08, 12:00 AM ET

PeopleSoft's founder says his new venture is his biggest yet. His skeptics say it may be too big to pull off.

The software industry is known for rewarding some ruthless individuals. But David Duffield has always been one of the nice guys. How nice? Duffield, who's 67, had braces put on his teeth a few months ago so his teenage daughter wouldn't feel bad about her own.

But now Duffield is doing something that is a bit hostile, though he would never, ever suggest that. The billionaire founder of PeopleSoft has come out of a second retirement to build a new company called Workday that sells software big companies can access over the Web to run most of their important back-office functions such as payroll, personnel, asset-tracking and financials. Web software is billed as a flexible alternative to maintaining a suite of huge applications from SAP and Oracle inside a corporate data center.

PeopleSoft was the second-biggest applications company in the world, with \$2.7 billion in sales, before it was swallowed by Oracle after a long, acrimonious takeover battle three years ago. "PeopleSoft was a fabulous company," says Duffield. "Workday has the chance to be number one."

Duffield has hired back a group of PeopleSoft managers led by trusted lieutenant Aneel Bhusri, 42. So far they've persuaded 37 customers to dip their toes into cloud computing. Four, including McKee Foods and Millennium Pharmaceuticals, ripped out PeopleSoft and replaced it with Workday. Duffield and Bhusri swear there's not a sliver of revenge at work here. Says Bhusri: "Oracle isn't the reason we're both doing this. But they did create the opportunity." (Oracle won't comment.)

Duffield has committed \$48 million to Workday and will invest more. Greylock Partners, where Bhusri is a partner, invested \$12 million and also plans to invest more. Workday booked \$26 million in revenue last year, recognizing an estimated \$6 million of that. (Workday signs three-to-five-year deals and recognizes revenue pro rata.) Duffield expects bookings to double this year.

Workday's ambitions have rivals snickering that Duffield and Bhusri are taking on too much, especially in asking Global 2000 customers to let a Web upstart automate its complicated financial flows. Two firms that offer financial software over the Web,

Intacct and NetSuite, are targeting firms with fewer than 500 employees. "We've been doing this for ten years and have spent \$125 million," says Zachary Nelson, chief executive of NetSuite, which went public in December. "Workday can't compress that, certainly not if it's aiming for big accounts." (Oracle's Larry Ellison funded NetSuite and still owns most of its shares.)

The most successful Web software firm to date, Salesforce.com, thrives by focusing on customer management tasks. Says Gordon Ritter, a partner at Emergence Capital Partners who was an early investor in Salesforce.com and another Webware firm called SuccessFactors: "Big companies don't want to rip out their financial systems. It's just too risky."

So far no big customers have signed on for Workday's financial software. "That's our big hurdle," says Bhusri. Duffield is undaunted: "If we're going to do this, we're going to do it big," he says.

Duffield started PeopleSoft in 1987. He hired Bhusri in 1992, when Bhusri was in venture capital, and took him under his wing, propelling him to jobs in product strategy, marketing and business development. He saw a successor in the young man, but when Duffield announced his retirement in 1999, the board instead chose Craig Conway, an Oracle veteran, as chief executive. "Aneel was an absent-minded scientist. He had a beautiful view of the software market but wasn't sure if it was Tuesday," says George (Skip) Battle, a PeopleSoft board member who now sits on Workday's board. Bhusri remained a director but joined Greylock Partners, where he had a string of successful deals.

PeopleSoft stock tripled over the next three years, but growth slowed at the end of 2002. Oracle pounced in June 2003, with a \$5.1 billion hostile takeover bid. Duffield, who was still the largest individual shareholder but had no operational role, stayed in the background while Conway steadfastly refused to sell. But a little over a year later, when Oracle's offer was up to \$7.7 billion, the board axed Conway. He was too focused on the operating side, allowing the company's software-development effort to weaken. "PeopleSoft needed more vision," says Battle.

Bhusri and Duffield returned in October 2004, with a mandate to figure out the future. Duffield left his wife and six young kids (all adopted) near Lake Tahoe in Nevada where he thought he'd retired, and bought a house 20 minutes from PeopleSoft's headquarters (the family joined him later). He sent an all-hands e-mail asking for thoughts and complaints. "I answered every employee e-mail, probably 150 a day," says Duffield. Bhusri talked to product developers and in November told the board PeopleSoft needed to develop new software on the Web. The last version of PeopleSoft can be accessed online, but it doesn't run on the Web. Data are locked into hard-to-manipulate tables.

In December 2004 Oracle bumped up its offer to \$10.3 billion, and PeopleSoft's board couldn't refuse. "The bad guys won," says Battle. Bhusri was devastated, Duffield especially so at having to enter retirement again knowing his creation would evaporate

inside Oracle. "It was terrifying. We were concerned about the potential termination of 5,000 employees. That was Oracle's intention at the beginning," says Duffield. Oracle had also threatened to force every PeopleSoft customer to move to Oracle, a threat Ellison backed away from later.

Duffield and Bhusri met at a Truckee, Calif. diner on a dreary February day. "We both had colds, and we both felt lousy," says Duffield. But Bhusri came equipped with five PowerPoint slides detailing the Web opportunity he saw. Within a month they were hiring ex-PeopleSofties. Workday's first customer, in July 2006, was software firm Kana, headed by software veteran and buddy Michael Fields. "We met for breakfast. I didn't really have to sell him on it," says Duffield.

Workday's software makes prodigious use of the Web's extensible markup language, or XML, which facilitates sharing of documents or data among applications. Changing a reporting relationship between a manager and staffer takes 3 clicks in Workday, compared with 25 in a traditional system like PeopleSoft. A big multinational company can operate in India with a dramatically different organizational chart than the one it uses in the U.S. "Business hierarchies aren't rigid, so the software that tracks them shouldn't be, either," says Bhusri.

McKee Foods (maker of Little Debbie snack cakes) had 75 "bolt-ons," or tweaks, for PeopleSoft for tasks including plant transfer requests and employee address changes. Each fix took weeks to craft and would have to be redone for any software upgrades. It switched to Workday and now nontechnical employees can make similar changes in days.

But McKee Foods still uses Oracle for its financial system, and Oracle, it turns out, has acquired the software firms McKee uses for manufacturing. "Replacing financial is unlikely, at least for a while," says William Richards, who runs information services at McKee. The four firms rolling out Workday's financial software have fewer than 300 employees.

Duffield and Bhusri believe that since most budgets are devoted largely to paying employees, Workday's people-tracking software will do financial tasks even if customers don't swap out old systems. In February Workday acquired Cape Clear, a small integration firm in Dublin, Ireland that could help Workday's software pull data from Oracle's.

Duffield's worst fears about Oracle mauling his creation have not come to pass. Those 5,000 job cuts fell equally between Oracle and PeopleSoft. And Oracle still supports PeopleSoft products. Says Duffield, "I can't say it's the most stimulating place to work, but they've treated the employees ethically and morally well."

Just as he did at PeopleSoft, Duffield sends out weekly companywide congratulatory e-mails. Staffers swap goofy awards, including a bowling ball with one finger hole.

Duffield's son Michael runs sales and his daughter Amy does marketing work. Duffield and Bhusri sit in cubicles like the rest of the staff. Nice is a hard habit to break.