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Energy Week for January 30, 2002 - Centralized Dispatch Increases Importance of Integration

Jill Feblowitz

Northern Indiana Public Service Co. (NIPSCO) will close 5 of its 12 service hubs citing the downturn in the economy. NIPSCO would do well to take advice from American Electric Power (AEP). In 1996, AEP centralized four call centers into a virtual call center. Previously, local dispatch answered emergency calls, had access to work crews and maps, and had an intimate understanding of customer location and circuits. With the virtualization, local knowledge was lost.

Now AEP Customer Service Representatives (CSRs) can report the status of an outage to customers. An Interactive Voice Response (IVR) system automatically updates the Outage Management System (OMS) with call data. When work is complete, an update is visible to the CSR through a Graphical User Interface (GUI) created in-house using **Mitem**'s *MitemView*. The lion's share of the work involved Automatic Number Identification (ANI) (a caller's number) and Dialed Number Identification Service (DNIS) (which of a company's multiple 800 numbers the caller dialed). ANIs were mapped to the transformer/pole, circuit, and customer account through a pole number stored in Marketing, Accounting, and Customer Service Systems (MACSS), the AEP's Customer Information System (CIS) based on **IBM**'s *DB2*.

A utility consolidating operations should be prepared, at minimum, to provide the new dispatch center with the tools to effectively service the customer. Key systems to integrate are Geographical Information Systems (GIS), Work Management System (WMS), and OMS, along with CIS. To get to the next level of restoration status requires on-going dedication to keeping phone data current.

Lante Takes On Energy With Luminant Acquisition

A bankruptcy judge approved **Lante**'s acquisition of **Luminant Worldwide** for $5.2M. Lante set the offer price at $3M, dictating the terms for bidding in the auction for Luminant's systems integration business. Luminant's revenue through September was $60M, which means Lante's purchase was at a significant discount to sales, even after accounting for the shedding of some unprofitable accounts.

Lante has done its homework on the Luminant backlog. Not withstanding former client Enron, Lante has established a solid first vertical practice in Energy. The group will focus on areas where Luminant had experience, such as pipeline marketing intelligence, trading system integration, and Lante's expertise in wireless field services. Lante is hoping that energy, along with a new national sales force, will be the foundation for sustained growth. If Lante succeeds in migrating the intellectual capital on energy trading, it would be competitive with **Accenture**, **Cap Gemini Ernst & Young**, and **Sapient**.

Lante has fared better than other companies serving the dot-com market, by successfully transitioning to a Fortune 500 client base. We estimate that in 2000, Lante relied on dot-coms for 40% of its revenue, but that the percentage is down to zero now. And Lante's sales to the Fortune 500 held up relatively well in 2001, providing a stable base coming into this year. The company had $65M in cash at the end of last quarter and is close to

Citadon is Bringing Project Management to the Entire Enterprise

Since its creation five years ago from multiple mergers, **Citadon** has worked to improve project communications in the Heavy Construction industry. But a new product strategy takes Citadon away from the project focus and into a more enterprise-oriented approach to capital construction. Citadon spent the past year building the new strategy in response to demand from initial customers GE, Becthel, Fluor, and Duke. It is the right move for Citadon, but the last chance for the long-term viability of Citadon.

Project Supply Chain Management (SCM) applications are usually sold to project managers or departments, thereby affecting the performance of individuals in a multibillion-dollar opportunity. The applications use document communication and mark-up and, depending on the vendor, limited workflow for document management. The pricing models and deployments have been per project, enforcing the project basis of the applications.

Recently, energy companies cut spending for new power plants by as much as 50%, however, those same companies still have billions of dollars committed to capital construction. Adjustments in capital project spending are better evaluated looking at a portfolio of projects. The portfolio is difficult to build using popular project applications, such as those from **MS Project**, **Primavera**, **Artemis**, and, up until now, Citadon, since they all took a project approach. Users must invest in applications that not only track progress but forecast aggregate project position and provide a platform for scenario planning allowing resource reallocation. The COO or vice president of plant construction are best served by these applications and CIOs should look to them to invest in it.

Marc McCluskey

profitable, losing less than $1M per quarter. That, plus the ability to cherry-pick Luminant's lucrative energy accounts, will provide stability for Lante in the coming year.
Jill Feblowitz, Mark Gomes

Software Quality Woes: Keeping Up With Oracle 11i Patching and Retesting

According to a cross section of large clients implementing or upgrading to **Oracle**'s *E-Business Suite 11i*, the quality problems that plagued the software in early 2001 have not abated. The software is still being patched constantly and many of the recommended patches, especially "Family Packs" of patches, introduce as many serious problems as they resolve. The details and recommendations will be part of an AMR Report in February 2002. While these problems are hurting Oracle in the market, many companies are continuing with projects with their eyes open to the issues. They need to minimize the risk to their project, which gives some of Oracle's partners an opportunity.

Users find that the manual processes used to apply dozens of patches every week and to migrate configuration data and customizations from instance (target machine and environment) to instance are very error prone, sometimes requiring dozens of operations. About 20% of the companies contacted were using a management tool, such as one from **Kintana**, to manage the process and couldn't imagine coping without it. Given the volume and repeated cycles of patching and testing, all *11i* sites should consider such a tool. In addition to patching and migration, the tools usually provide other functions, such as problem tracking and resolution.

Regression testing time and labor were also an issue. Very few customers interviewed are using tools such as one from **Mercury Interactive** because of the cost. The few that have tried them found them valuable for retesting and stress testing.

The price point of the tools is a key concern for end-user companies. Many tool vendors build their pricing models assuming the buyer was doing heavy development work, not just implementing a standard package. License fees can run to several hundred thousand dollars and most projects did not include them in their budgets--after all, how hard could it be to implement a vanilla Enterprise Resource Planning (ERP) package? A lower price point for this market segment, perhaps limiting how the tools could be used, might greatly expand market penetration and total revenue.
Bill Swanton

i2 Technologies Takes a Bow For Less-Than-Dismal Q4 Results

Huh? In any other year, reporting a 49% drop in revenue from the previous fourth quarter would have been followed by the collapse of the company stock and the resignation of the CEO. Instead, **i2 Technologies**' stock price was up 11% during the day before the announcement, and the financial analysts on earning calls all congratulated the company for not doing worse, proving conclusively that 2001 was one of the strangest years in business and human history.

i2 posted 4Q01 revenue of $193.9M, down from $377.9M in 4Q00. To round out this picture, the company posted a $34.7M loss, down from net income of $44.4M in 4Q00. For the year, i2 had total revenue of $985.6M, a 12% drop from $1.126B reported in 2000. License revenue growth fell a stunning 35% to $457.7M from $709.2M in 2000, and, to no one's surprise, this resulted in a net loss of $149.0M, down from net income of $108.4M in 2000. All the financial figures are on a pro forma basis. For financial reporting purposes, the loss was $590M for Q4 and $7.75B for 2001. The bright spots are an 18% increase in service revenue to $320.9M and a 42% increase in maintenance revenue to $207.0M.

PeopleSoft Gains Momentum at Close of 2001

While not quite a runaway train, **PeopleSoft** seemed to pick up speed at the end of 2001. Software license revenue for 4Q01 topped $174M, up 15% from the third quarter and 6% from 4Q00. For the full year, software license revenue was up 30% to $645M. Total revenue for 2001 increased 19% to $2.07B.

Much of the revenue is thanks to existing customers buying new products. According to CEO Craig Conway, every customer that upgrades to *version 8*--2,200 customers are live or in the process of upgrading--also buys a new application. But new customers are also bringing in revenue; about 42% of revenue came from 147 new customers. PeopleSoft doesn't break down revenue by product line, but Conway said the ratio of Customer Relationship Management (CRM) sales outside of its installed base is increasing. PeopleSoft also won 41 deals in Q4 worth $1M from new and existing customers, indicating that multiproduct deals are on the rise. The number was up from 27 in Q3.

Meanwhile, PeopleSoft is acquiring **Momentum Business Applications**, the research house it set up and sold to shareholders in 1998. The $90M cash transaction won't have a significant effect on 2002 revenue, but it does remove the perception that creative accounting is being used to hide development costs. The deal should be completed in this quarter.

PeopleSoft was conservative in its guidance for 2002, predicting modest growth for Q1 and a 15% increase in software revenue for the full year. But its 2001 results, indicating solid execution on new and add-on sales across product lines and regions, gives it the kind of momentum it needs going into 2002.
Monica Barron

Energy Term of the Week: Mark-to-Market

Mark-to-market accounting is grabbing attention lately as energy companies look for better accounting

The company seems confident that it has made a number of changes that will bring it back to a profitable status. It has reduced the average deal size to $829K while increasing the number of deals in 4Q01 to 68. It also reduced the sales force from 409 to 307. Both of these are positive signs for the company, as the i2 salespeople were notorious for trying to turn every sales lead into a megadeal. Having fewer salespeople is also good for i2, since many didn't make quota while doing tremendous damage to the company's image with brash sales tactics. The company expects to continue its cost-cutting efforts through the first half of 2002, including completing its move-to-India program, where it hopes to move 50 to 60 developers to its Indian development center for more extensive development at a lower cost. CEO Brady indicated that he expects sales revenue to follow more typical i2 seasonal patterns in 2002, which means a flat 1Q. He also expects Supplier Relationship Management (SRM) and order management to fuel 2002 sales revenue growth.

Is a more humble i2 a good thing? Absolutely. The key to the company's success this year will hinge in part on its ability to get more customers implemented and happy. In this case, a 50% increase in service revenue would be a good thing, since it would show that it is making amends for some of its take-no-prisoners tactics of the last three years. The other part of the success formula is a return to simpler products, which prospects can relate to business problems that they expect to resolve in 2002, not over the next decade. i2 needs to refine its SRM message, return to a more modular supply chain management message, and learn to listen to its customers and prospects. The opportunity is there because most companies will have major supply chain projects going on in 2002. i2, however, will have a tough time convincing these companies to redirect money from internal projects to new application purchases.
John Bermudez

procedures. Mark-to-market allows companies to report the full multiyear contact as profit, rather than booking the gains over time. Energy industry scrutiny began with the collapse of Enron. Other energy companies, such as Williams, which is now also under the microscope, have used this accounting practice widely. Energy companies will need to provide legible and reproducible mark-to-market valuation--the calculation of the value of a position at current market rates or price--at the end of the day. While energy and utility companies will continue to use spreadsheets for assessing their positions, regulatory changes are expected with the fallout from Enron. AMR Research believes more companies will migrate to special-purpose third-party applications that can calculate daily mark-to-market valuations more accurately and on a more objective basis than a third party can provide.
Jill Feblowitz

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