

# Is it growth or consolidation! IBM Acquires FileNET

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IBM has announced its intention to acquire FileNet by year-end for approximately \$1.6 billion in cash or about \$35 per share. What does this mean to the enterprise content management (ECM) industry? Is it shrinking and consolidating? Is it growing and becoming more competitive? The motivations and fallout from this planned acquisition will be more apparent in coming months.

According to IBM, the acquisition of FileNet aims to further the company's Information on Demand initiative, IBM's strategy for addressing this growing market opportunity.

Ambuj Goyal, general manager of information management for the IBM Software Group, observes, "It's no longer about bringing content together, but leveraging it for compliance and process reasons." Certainly compliance, governance and litigation readiness are key drivers for organizations, much more so than they were even a few years ago.

According to Steve Weissman, chief analyst at Kinetic Information, "IBM enhances its ability to do this (leverage content) for its customers, both by taking a competitor out of the mix and by obtaining outside tools and best practices that it can combine with its own. Even if some of what it acquires turns out to be redundant or irrelevant, IBM has declared its commitment to the market in a way it could not otherwise do, and that can go far toward capturing customers' hearts and minds."

Lee Roberts, chairman and CEO of FileNet, believes the market is increasing. "The growth in enterprise deployments of ECM and BPM technologies is fueling a global market expansion," he said when the acquisition was announced.

IBM and FileNet competitors have their take on the IBM move. "The consolidation continues in ECM--that's no surprise to anyone," says Kirk Roberts, executive VP of products, solutions & marketing at Open Text. "In just a few weeks, the competitive landscape has been completely transformed with two major deals: our proposed Hummingbird acquisition and IBM's announcement."

Whitney Tidmarsh, VP of strategic marketing at EMC, which acquired major enterprise content management provider Documentum in 2003, has her doubts about IBM's ability to succeed in consolidating product lines and delivering value.

"EMC sees IBM's acquisition of FileNet as validation that the market is seeking to buy content management from large IT solution providers. While an interesting growth move by IBM, the complexity introduced by overlapping products will require a costly, services-led approach to address implementation," Tidmarsh says.

That is somewhat ironic, because EMC's strategy has been one of relentless acquisition rather than organic growth, with major ECM acquisitions including Documentum, capture vendor Captiva, optical storage software provider Legato, enterprise rights management provider Authentica and others including ProActivity, Interlink, Internosis and RSA Security.

Weissman is not terribly surprised by the recent move, but by the fact that IBM is making it. "FileNet's acquisition was not wholly unexpected, as the company has been largely successful for many years, has achieved meaningful size and in many ways stood alone as a cornerstone competitor once EMC acquired Documentum. However, it is somewhat surprising that it is IBM doing the acquiring, for Big Blue already has a presence in the ECM and BPM

spaces, and, by both companies' admission, shares product capabilities, target markets and customer bases with its new possession," he says.

Open Text's Kirk Roberts adds, ""For us, we see nothing but silver linings in IBM's plans. If IBM's deal gets done, we are firmly established as the only large-scale, global ECM company with complete independence from hardware platforms. This, combined with partnerships we've been building with SAP, Microsoft and Oracle, puts us in a very strong and unique competitive position to assist customers in managing key content and processes across their enterprises."

Surely IBM will have the typical problems that major acquisitions bring, such as those that FileNet experienced when it acquired Watermark, Saros and Greenbar in rapid succession over a decade ago: competition between rival development teams, coordination of geographically dispersed support teams, retaining customer loyalty, keeping customers and resellers through the transition, and consolidating product lines.

Having FileNet on the front end capturing and managing document images and content with IBM operating a Content Manager DB2 database on the backend will bring about not only technological challenges but also bring in to question the efficiency of such an architecture. Integrated, streamlined architectures developed holistically like those from smaller ECM providers--particularly those on Microsoft server platforms—will be more efficient, faster and less costly to manage.

And that brings into question another element of the deal that IBM is surely counting on: those lucrative maintenance revenues that FileNet collects from its aging installed base. Increasingly, those customers are going to make the calculation that to continue paying the high costs is more painful than making a conversion to a more advanced and nimble architecture from a competitive offering. Especially if they are Microsoft shops. So, just as FileNet did not fully capitalize on what it thought it was acquiring with the Watermark, Saros and Greenbar acquisitions by the time the dust cleared, IBM may find dissatisfied FileNet customers peeling off and choosing other options--with the current lower-cost or even open source alternatives in the ECM marketplace.

IBM and FileNet competitors will be well advised to attack the FileNet installed based to harvest alienated customers in the uncertain period of the transition. Ultimately, FileNet customers will be the winners as the planned IBM acquisition of FileNet will bring about new negotiating leverage and make a conversion to other, lower-cost alternatives more attractive.