

Churn and Change

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In the September/October 2007 issue of this magazine, John Mancini correctly pointed out that our industry, as Thornton May always liked to call it, is presently at the juncture of an identity crossroads. This is not surprising. Over the course of its thirty-odd years of existence, our industry has consistently displayed a bias toward metamorphosis. The industry has been through (in rough chronological order; from the 1970s to the late 1990s): the imaging business, electronic imaging, document imaging, document image management (DIM), document management (DM), electronic document management (EDM), electronic document management systems (EDMS). Let's also not forget the unfortunate dabbling with knowledge management as an industry moniker in the late 1990s. Early this century, technology convergence dictated another name change, to content management, which soon transformed into enterprise content management ECM.

ECM on the Verge of a Sea Change

A glance toward the horizon indicates sea changes are coming that could actually enable our infant industry to finally grow up! This can be said with confidence, because our industry is in the next (highly predictable) stage of its growth, one that fits the same curve inevitably followed by all other industries or at least the ones that manage to survive. This developmental stage is both practical and inevitable: practical because in one fell swoop it cures our industry's major problems its identity crisis, its lack of common standards, its perverse infighting; inevitable because at present, the controlling paradigm requires it. Consider that just a few AIIM shows ago, there were at least 400 firms chasing what many experts estimated as total revenues of \$4 billion. If you subtract out the dollars attributable to double-counting products that are resold, the figure likely nets out to some \$2.75 billion: a revenue picture that looks more like that of a single Fortune 500 company than it does an entire industry! That is why the next stage of our industry, having just begun in earnest, is that of mergers and acquisitions (M&A), and is the primary topic of this article.

The Motives behind M&A Mergers and acquisitions are the engines of economic growth and market evolution. Inventions spawn new products; new products spawn new companies; the new companies grow and proliferate into new industries; and, when they hit a critical threshold of growth, consolidation takes place for one or a multiplicity of good reasons. Here are the most common reasons for a merger or acquisition.

- Increase market share (and influence) By adding FileNet to its enterprise content management suite for \$1.6 billion in 2006, IBM managed to combine the number two and three players in ECM to compete against leader EMC.
- Obtain critical mass: The combined power and resources of the newly merged company enable it to more effectively compete in the marketplace by creating synergies that can launch its growth on a fast track. Case in point: in early 2005, when Oracle Corp. closed its \$10.3 billion acquisition of PeopleSoft Inc., the merger made Oracle the world's second-largest seller of business applications software behind SAP AG. Oracle said the acquisition gave it the size and heft required by the firm to compete in the applications market.
- Establish new growth platforms: Growth can be spurred by a company implementing its core competency in a different media environment. For example, when Iron Mountain Inc. purchased Connected Corp. for \$117 million in October 2007, the document storage behemoth declared the acquisition to be a critical stage in its strategy to add digital capabilities to its paper storage business.
- Extend geographic coverage: Last year, Electronic Data Systems Corp.'s acquisition of a majority stake Mphasis BFL Ltd. more than quadrupled EDS personnel in India, boosted its offshore capabilities, and helped it keep pace with its outsourcing rivals in the fields of applications development and business process outsourcing.

- Add product capabilities: Three years ago, when Veritas gobbled up email archiving leader KVS Inc. for \$225 million, it plugged a big gap in the Veritas product line at the time, and marked a milestone in the maturation of the archiving and compliance markets.
- Diversify portfolio: Diversification can provide new outlets for expansion as well as protect against downturns in the market.

M&A Battles in the ECM Industry

As big companies compete to see which one can consume the most companies below them on the industry food chain, once it starts, consolidation can get contagious. In the world of ECM, competition for M&A honors has been dominated by EMC, Oracle, and IBM. These three big corporations are good examples of established businesses competing to survive by acquiring companies that increase their installed base, enhance their capabilities, and expand their market share.

EMC kicked things off in July of 2003 by paying around \$1.3 billion in a stock deal for the backup and recovery software vendor, Legato, to compete against backup software market leader Veritas, a move which added more than 30,000 to its customer base. Later on that year, eager to move further up the information management lifecycle ladder, EMC paid around \$1.7 billion in a stock swap for content management software company Documentum Inc. Its last acquisition of 2003 was VMware, which it purchased for \$635 million to gain a competitive edge against IBM's Tivoli and HP's OpenView software.

Veritas retaliated in 2004 by purchasing VMware and Smarts, and by merging with Symantic in a \$13.5 billion merger, the biggest deal of that year. Then IBM fought back later that same year by announcing a storage migration program designed to take high-end business from EMC called Piper Service. It consists of a black box, cost-analysis tools, and consulting help all specifically designed to help customers migrate from EMC to IBM storage servers. At the beginning of 2006, IBM, having already purchased Lotus, continued to bulk up its content management product line by acquiring FileNet, which was historically a frequent rival of EMC's prior acquisition, Documentum. That set Oracle to hunting for an imaging and ECM acquisition, which came about near the end of 2006, when it announced that the \$440 million procurement of the ECM software vendor, Stellent. That allowed Oracle to gain imaging because Stellent had acquired Optika a couple of years earlier. A few weeks later, in order to strengthen its position in the CRM market, Oracle acquired Siebel Systems after shareholders voted overwhelmingly to accept the \$5.85 billion deal.

Not Always a Rosy Picture

While the pace has slackened a little, IBM, Oracle, and EMC continue to make new corporate acquisitions. Each merger announcement outlines a rosy future for customers and shareholders alike. However, mergers do not always produce happy days for stake-holders in the short term. As the African proverb goes, When elephants fight, it is the grass that suffers. This adage certainly applies to the post-merger adjustment of a number of firms in the forms recognition sector of the ECM world, made apparent when Verity Software purchased Cardiff Software in 2004 to add more substance to its lifecycle management solution. It made the mistake of discontinuing the use of the Cardiff brand name on its Teleform Liquid Office products. As a result, Teleform virtually disappeared from the market as competitors such as Kofax took advantage of Verity's failure to realize the brand strength of the Cardiff name. After Autonomy purchased Verity in 2005, it brought back the Teleform name to compete against EMC, which answered by purchasing Captiva for \$275 million at the end of that year.

Captiva itself had grown by acquiring Webb Systems, Symbus Technology, Input Software, and SWT of France. It turns out that in an effort to cut costs and boost profits in order to attract buyers such as EMC, Captiva had shut down its primary R&D and technical support center, precipitated by senior Captiva personnel showing up unexpectedly one day and changing the locks on the office doors. This move left the company with a scarcity of customer services, a situation that is finally on the mend since EMC discovered it could outsource its Captiva support services to companies like Alius Doc, a recognition specialist founded by key engineers of Captiva's Waltham support center.

Another forms recognition merger that proved dicey includes WebMD Corporation's acquisition of Dakota Imaging, Inc., in April 2005 through its WebMD Business Services segment, for a price of a little over \$61.5 million. A month later, Sungard EXP bought RRI, Inc., as part of a \$449 million package deal with four other companies sold through

a securities consortium. Sungard currently markets RRI's flagship product, Formworks, as part of its line of software products, and still maintains RRI's website. Like its competitor, EMC that runs many of its acquisitions as wholly-owned subsidiaries, Sungard appears to be running RRI as a sub; however, RRI's key management have retired and the firm has barely been heard from since the acquisition.

Benefits to ECM Customers

From a stockholder's perspective, the prime benefit of a big merger or acquisition is that it creates more shareholder equity and drives up the price of the stock. Of course, a hostile takeover can produce unhappy stockholders it's all part of the game. But what are the benefits to the existing and future customers of the ECM software companies involved? What do they get out of a successful merger or acquisition other than twiddling their thumbs while waiting to see what will happen to the software systems from either one or both of the companies that they have already purchased and installed? Typically, these are the customer benefits:

- **More long-term security:** A larger company with a bigger installed base and more technology resources means that the company will be more stable, will be able to weather the consequences of a downturn in the economy, and thus stands a better chance of being around in ten years.
- **A migration path that offers richer features, improved integration with compatible software.** Customers find that with richer technology resources at their disposal, the new entity can offer additional features and interfaces to a variety of new software applications, while guaranteeing that customer applications will be serviced.
- **Software products are kept up-to-date and protected from product obsolescence.** More engineering resources usually mean better and more frequent software updates, which in turn act as a safeguard against obsolescence providing the software service agreement is kept in force.
- **Better product maintenance and support from more locations.** The combined software service resources of both entities are now at the customer's disposal, which can mean shorter waiting time for telephone and online services and more intelligent support, as well as more physical locations that are closer to the customer's home.
- **Smoother operations among enterprise software applications.** With one team of engineers developing software on a common platform, interactions between the software applications of the two companies will become more tightly integrated and will run more efficiently. The capabilities of their software suites will extend over a wider variety of applications, producing better interoperability over the enterprise which translates into fewer system crashes and smaller maintenance headaches for the customer's IT professionals.

Of course, the above benefits define the consequences of a successful merger or acquisition, a factor over which the customer has no control whatsoever. Ideally, an M&A produces synergies between companies that benefit shareholders, customers, and employees of the new entity alike.

What new players in the ECM world can be expected to start flexing their muscle more in the ECM consolidation game? Looking to the future of M&A's in the world of ECM, one sees website companies and search engine companies lurking on the horizon. As we speak, Microsoft is refining SharePoint and Longhorn for the ECM market, and its Vista operating system is starting to take hold. Google has already acquired YouTube and is engaged in one of the most ambitious projects ever, one that involves imaging millions of textbook pages and making their content searchable and available over the Internet to the general public can a major imaging or ECM acquisition by Google be far behind? Moreover, AOL and Yahoo! are reinventing themselves and looking to make strategic acquisitions. Plus there's always China to worry about.

So there's plenty of action on the table, and one thing is certain: no matter what's on the horizon of the ECM landscape, it's inevitable.