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Independent Analyst Comment

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Open Text on the ECM acquisition trail again

"…Open Text is now back on track and has a strong suite of products and a coherent roadmap, but it has to be very careful to ensure that this acquisition does not derail this…"

On 6 May, the Canadian Enterprise Content Management (ECM) vendor Open Text announced it is to acquire Vignette Corporation one of its competitors. Under the terms of the deal Vignette shareholders will receive $8.000 in cash plus 0.1447 of an Open Text common share for each Vignette common share, which represents approximately $12.70 at the close of the market on 5 May and equates to about $310 million. On completion of the deal Vignette will become a wholly owned subsidiary of Open Text, which is now the last remaining major independent ECM vendor. According to Susan Clarke, senior research analyst with Europe's leading independent IT Research Advisory organisation Butler Group, the success of this acquisition will depend on how Open Text handles Vignette. If its intention is ultimately to kill off the Vignette brand – as it tried to do with the Hummingbird products during that acquisition, and integrate differentiating functionality into the Open Text suite, then this is a highly dangerous strategy that may well backfire.

At first glance it is difficult to see what either company will gain from the deal. Both vendors offer ECM platforms, although Vignette, which started as a Web Content Management (WCM) vendor has always had a strong WCM platform, whilst Open Text and its earlier ECM acquisition Hummingbird both came from a Document Management (DM) background. However, before its acquisition by Open Text Hummingbird had bought the WCM vendor RedDot which gave it, and now Open Text, an extensive WCM offering. Although Vignette's WCM product includes some features not available in the RedDot solution, there is too much overlap to justify the acquisition on functionality alone.

The only logical conclusion to draw from this acquisition is that it has more to do with the current economic climate than providing complimentary functionality. Open Text recently reported a 93% fall in net income for the second quarter of 2009 compared with the same quarter in 2008 despite a growth in licence revenue, customer support, and services. For the first half of the year a 17% decline in net income was reported. Although Open Text is by far the largest independent content management vendor, it is still vulnerable to takeover and it is not a foregone conclusion that it will be able to weather a prolonged recession. As the only other major independent content management vendor left, following the acquisition of Interwoven by Autonomy, Vignette was in a more precarious position than Open Text, and it is certainly the case that vendors in the same product area often merge in order to grow their combined size and compete more effectively against larger vendors, which in the case of content management is large infrastructure players such as EMC, IBM, HP, and Oracle.

Open Text must learn from its earlier mistakes following its acquisition of Hummingbird when it tried to kill off the Hummingbird products, only to be forced to back track due to strong opposition from Hummingbird customers that refused to migrate to Open Text products. It has now promised to continue to support and develop the former Hummingbird portfolio. After a couple of difficult years, Open Text is now back on track and has a strong suite of products and a coherent roadmap, but it has to be very careful to ensure that this acquisition does not derail this. Open Text does not have a good record of handling the aftermath of acquisitions particularly well. It took it a long time to fully integrate the IXOS and Gauss acquisitions several years ago, and this affected its financial results for a couple of years afterwards.

The success of this acquisition will depend on how Open Text handles Vignette. If it maintains the Vignette brand and company as a separate subsidiary, allowing Vignette to maintain a degree of independence and its own identity, then there will be some benefits from the expanded customer base and additional revenues, particularly as it should be possible to make savings by combining back office operations. However, if the intention is ultimately to kill off the Vignette brand, and integrate differentiating functionality into the Open Text suite then this is a highly dangerous strategy that may well backfire. Vignette has some very large high profile customers that may not be prepared to migrate to Open Text products, and based on Open Text's past performance following similar acquisitions, its competitors will be rubbing their hands in glee waiting for the opportunity to pounce on any disgruntled Vignette customers.

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Notes for Editors:

Sue Clarke is a **Senior Research Analyst** with **Butler Group** and joined in 1997. She is Butler Group's specialist in the fields of storage and content management, which includes e-mail management and all aspects of Enterprise Content Management. Her recent work has included Enterprise Content Management solutions, e-mail management Tools, Information Search tools, storage products, Identity and Access Management solutions, and storage products. She has recently completed in-depth Butler Group Reports on Document and Records Management, E-mail Management, and Identity and Access Management. Prior to joining Butler Group she worked primarily as a developer in the commercial computing environment and an Analyst Programmer. Sue has over eighteen years experience in the IT industry.

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