Market Roundup

August 11, 2006

FileNet Acquired by IBM

By Tony Lock

IBM continues to splash the cash on software companies as this week it added FileNet to its recent acquisitions. The company has announced that it has entered into a definitive agreement to acquire publicly held FileNet in an all-cash transaction valued at $1.6 billion; some $35 for each share. Subject to the usual shareholder and regulatory processes the deal is expected to close in the fourth quarter of this year. FileNet specializes in supplying enterprise content management and business process management software and solutions. IBM has announced that it intends, following the closure of the acquisition, to combine FileNet's operations with IBM's existing Content Management business in the Information Management unit, and to integrate IBM's Business Process Management (BPM) and SOA technologies with the FileNet platform. IBM has also stated that it will continue to support and develop the acquired solutions for multiple platforms, including HP, Sun, BEA, Microsoft, Oracle, Linux, and multiple storage alternatives.

Founded in 1982 FileNet now has over 1,700 employees worldwide along with more than 4,300 customers around the globe. The company also boasts over 250 partners in its channel ecosystem and has developed a series of solutions specialized for a wide range of industry verticals. Such industry-specific solutions will prove to be especially valuable to IBM as it continues to seek to turn its own portfolio of technologies into solutions assembled for specific vertical markets. Indeed, IBM has already indicated that it plans to combine the Content Management technologies of both companies to provide specific industry-focused, high-value solutions that capture and deliver content as part of business processes.

This is another move by IBM to develop its "Information on Demand" initiative that it announced in the spring of this year. The Information on Demand strategy aims to provide clients with data exactly when and how they need it to improve their business processes, quickly respond to market needs, and rapidly identify new business opportunities. These are matters that are of vital import to every organization. When pressed, every CEO always likes to state thata company's most valuable assets are its staff, its information, and its customers. Turning the rapidly increasing volumes of data generated day by day into "knowledge" in a timely fashion is an essential requirement. This move by IBM offers it a chance to gain more traction in a technology sector that, unlike most IT solutions, enjoys boardroom visibility and that holds much potential value for customers and suppliers alike.

Microsoft Recognizes Speech

By Susan Dietz

Microsoft recently announced that Speech Server 2007 will be integrated into Microsoft Office Communications Server 2007, stating the specific goals of breaking down the silos of instant messaging, Internet Protocol telephony, voice response, audioconferencing, and videoconferencing. Microsoft also announced that Windows Speech Recognition will be available in Windows Vista, utilizing eight languages (U.S. English, U.K. English, traditional Chinese, simplified Chinese, Japanese, German, French, and Spanish). Per the company, this is the first time a Microsoft Windows operating system will include speech recognition technologies. The addition of speech capabilities to Office Communications Server 2007 is claimed to give developers the opportunity to create

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new communications applications or extend existing applications using an integrated set of application programming interfaces (API) and by extending existing applications for Office Communications Server 2007. Microsoft has stated that a unified communications solution could bridge communication methods, such as instant messaging and phone calls, through spoken commands. Demonstrations of the technology at the SpeechTEK 2006 conference included the use of an intelligent agent to help a caller locate and communicate with a person based on previously defined preferred methods, such as email or instant messaging. A second demonstration at the same conference showed an instant messaging conversation taking place with one person speaking and the other typing. The spoken words were translated to text and the typed words were converted to speech. Other aspects of the Speech Server 2007 software include presence-aware help desks, integrated contact center solutions, and multimodal applications that can be accessed from a variety of clients.

It's true that the performance of speech recognition software has increased dramatically since it was first introduced and PCs now have the power to deal with the demands of it, but there are still some potential problems with the technology and it most likely wouldn't be adopted everywhere. To be sure, speech recognition isn't the only promoted use for Speech Server, but it will most likely be the most-used aspect in practical applications, and one of the problems with speech recognition is probably going to be ambient noise. For example, a customer service center that isn't adequately noise-proofed would, in all likelihood, wreak havoc with voice-activated controls. Also, what about the problems of using it in a public area? What would everyone else have to say about that? There is enough of an outcry against public cell phone use; we can only imagine what would happen should someone's seatmate on a transatlantic flight start in with, say, "Email John. Dear John, the doctor said I should notify you." Clearly, speech recognition does not fit everywhere. There is also the question of languages (such as English) where sentence context is relevant as several words are pronounced the same but spelled differently. One would most likely still need to use a keyboard to correct any mistakes.

There is some speculation that perhaps widespread use of speech recognition will eventually do away with dialects, but that would be a question for sociologists. Another potential obstacle to the adoption of speech recognition is the time required to train the software. However, the main question remains: is the world ready to adopt a different computer UI if voice recognition is anywhere near good enough? We are yet to be convinced.

Storage Networking Comes Together: Brocade Buys McData

By Tony Lock

This week the storage industry witnessed the latest in a long line of supplier consolidation as Brocade announced that it has reached a definitive agreement to acquire McData in an all-stock transaction. Under the terms of the agreement McData stockholders will receive 0.75 shares of Brocade common stock for each share of McData stock held. Using Brocade's current stock price the agreement values the acquisition at approximately $713 million. On completion of the deal existing McData stockholders will own around 30% of Brocade. The transaction is expected to be tax-free for stockholders. At the close of the deal, which is subject to the usual stockholder and regulatory approvals, McData will become a wholly owned subsidiary of Brocade and the existing Brocade executive management team will remain in position. Two directors from McData are expected to be appointed to the board of Brocade while the company's current CEO, John Kelley, will serve as an advisor to Brocade.

The amalgamation of these two vendors brings together companies that between them shaped much of the early history of storage networking. Indeed, until recently the two were the most widely recognized suppliers of storage networking switches, a position that is now under threat from Cisco. The two vendors have been in a state of intense competition in recent years as more of their solution sets have overlapped. At the same time they have been put under pressure to provide greater degrees of interoperability, especially at the management level. It will be interesting to see how the coming together of the two vendors will affect the two product catalogues, especially in the area of management software.

There is no doubt that storage management is still an area of major concern and investment. The new Brocade/McData will have an opportunity to either merge product lines or continue to run them in parallel. However, it must ensure that interoperability between the two portfolios becomes much more sophisticated and it

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must do so rapidly. This applies in spades to the management software stacks. It is fair to say that Management Software will be the biggest challenge and, potentially, the greatest opportunity for the new organization.

There then remains the matter of bringing together two sales teams that have traditionally been competitors. Although the continuing growth of Cisco in the two vendors' core markets should make this integration logically more straightforward there are strong personalities involved. Changing attitudes and cultures is never a simple matter. Equally there is also the question of how the overlapping partner channels can be brought together effectively. There is much opportunity in joining together Brocade and McData but the integration process must allow focus to shift away from keeping the combined customer base informed and happy. Cisco is the major competition and we shall have to see how the new Brocade takes up the battle. It will also be fascinating to see if another supplier raises its head to take on the new big two at the storage networking top table.

Nokia Joins the Music Biz

By Susan Dietz

In an announcement recently, Finnish mobile service Nokia stated its plans to buy U.S.-based Loudeye, the music service that owns OD2. OD2 is one of the major European digital download suppliers. With this move, Nokia announced its intention to launch its mobile phones—in particular the N-series—into the digital music player arena. Nokia will reportedly pay $60 million U.S. dollars for Loudeye. Nokia claims that by acquiring Loudeye, it can offer consumers comprehensive mobile music options, including devices, applications, and the ability to purchase digital music.

We suspect that this purchase shows Nokia is seeking to broaden its business model by providing value-add services that could quite possibly generate repeat revenues; revenues that could far exceed the value of the phone itself over time. Quite a lot depends on the world of digital rights management, however, and the flexibility of buyers to run downloaded music on multiple devices, not just the Nokia phone. The potential for negative publicity if the DRM aspect is mishandled shouldn't be underestimated, though. The music world is very much aware of when its toes are being stepped on and has become very quick to move into a counterattack. This probably isn't a bad time for Nokia to be looking at digital music. It looks like Microsoft, among others, may be planning to offer its own competitor to iPod and iTunes. However, some others are getting out of the music business after finding the tricky, unpredictable world of DRM too much headache to justify any predicted profits: MyCoke is onet such company that comes to mind. However, lack of successful marketing may have contributed to MyCoke's exit from the digital music business, but marketing shouldn't be too much of a problem for Nokia.

How can a phone with a music application compete with an iPod? For one thing, the iPod can't take a call from your sister, nor take a picture of your best friend. The highest-selling mobile phones include a digital camera, and a camera is something for which consumers have shown a preference. We think adding music is an interesting move by Nokia to not only make their mobile phones multi-capable and desirable to a larger audience, but also, if a mobile phone service absolutely must enter the digital music arena, an effort to make the company a bit more bulletproof from lawsuits as OD2 is including licenses along with the company purchase. This tactic may be emulated by other mobile phone companies in the future.

Nokia claims that the future lies in multiple functions packaged into one form factor, but we would approach that prophecy with just a touch of skepticism. Sales of multi-play devices so far haven't been what manufacturers had hoped for, although sales are more than the nay-sayers had predicted. Perhaps, as we have suggested before, more consumer flexibility in choosing device application packages would boost sales of those same devices.

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