DIGITAL CLARITY GROUP

Insight Brief

A Flurry of Private Equity M&A in Content Management Hits the CEM World

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The CEM (customer experience management) world has experienced a number of content management system (CMS) mergers and acquisitions, with whispers of others on the way. The acquisitions of Sitecore, Episerver, and Ektron by private equity firms are the most prominent recent examples. This activity will only increase over the next year or two, and the landscape for CMS vendors will change significantly as a result. Although foreseeable and arguably long overdue, the shifting and consolidating vendor landscape will undoubtedly bring some disruption to vendors, channel partners, and technology buyers alike. As the captain of the CMS flight might suggest, it's time to fasten your seatbelts, for there's turbulence ahead.

Venture Capital and Private Equity: Two Kinds of Investors

Most people in the IT world are at least somewhat familiar with venture capital (VC) firms. These are the investors who put money into high-risk but potentially high-return technology companies, particularly in their start-up stages. Many of their deals fall flat and the investors lose their entire stake. Of course, such a high failure rate is factored into their investment approach. But a few like Facebook and LinkedIn bring huge returns on the money invested. It's not a business for the fainthearted; you need a mathematician's logic and a gambler's love of the thrill to succeed.

Private equity (PE) firms are in many regards the polar opposite of VCs – they invest in and almost always take majority or complete ownership of late-stage firms. They target companies where there is a relatively low risk of losing the investment. The firms targeted for acquisition have reached a plateau despite being established going concerns. In some cases, a PE firm will buy a number of related firms and essentially merge them to reduce costs and create a more compelling and profitable single entity. After the acquisition, a typical PE approach is to install new leadership, reduce expenses, and achieve new efficiencies (by, for example, merging operations or cutting product lines) – all with the aim of creating a leaner, more profitable, and (therefore) more valuable company.

CMS is attractive to investors at both ends of the market

The vendors targeting the CEM market are seeing interest from both VCs and PEs. The VCs are interested in the next big thing, like technology that micro-targets customers and provides advanced analytics (preferably machine learning/artificial intelligence). About three-quarters of these small, innovative start-ups will fail, some others will be bought by larger firms such as Adobe, Oracle, or Salesforce, for example, and one or two may even make it on their own.

PEs, on the other hand, are increasingly interested in the web content management (WCM) and digital asset management (DAM) elements of the CEM world. These include technologies that have been around a long while (in IT terms) and are up and running for most potential buyers. The opportunity for big market growth with these technologies is limited, and revenue from existing customers' maintenance fees often outweighs revenue from new customers. It may be a hard pill to swallow but the fact is that much of the CMS market is getting a bit long in the tooth. It still has value, but it's not high-growth or sexy today, even though WCM remains at the heart of, and is essential to, the promise of CEM. It's this market maturity that has driven recent deals (see the following table) and will continue to drive more in the near- to mid-term.

CrownPeak and ActiveStandards have been merged together by K1, as have Episerver and Ektron by Accel-KKR. It's worth noting that Accel-KKR also owns DAM vendor North Plains, and more synergies are possible down the road. Sitecore's new owner, EQT, is bullish about more

Table 1
Recent Private Equity Acquisitions of CEM Vendors

Vendor	Founded	HQ	PE Firm	Date of Deal
ActiveStandards (Formerly Magus Research)	1998	London, UK	K1	November 2015
CrownPeak	2001	Los Angeles, CA	K1	November 2015
Ektron	1998	Nashua, NH	Accel-KKR	December 2014
Episerver (Epi)	1994	Stockholm, Sweden	Accel-KKR	December 2014
Sitecore	2001	Copenhagen, Denmark	EQT	April 2016

acquisitions and some will surely be made to build out the Sitecore offerings (EQT already owns itslearning, a learning management system).

Technology buyers drive the market

Though the mature end of technologies targeting the CEM world is ripe for PE firms to move in, the CMS market is not only about the whims of an investment community. It is driven by changes in how people buy technology to use in their businesses. From a buyer perspective, there has been a radical change over the past five years in approaching the buying process for CMS technology that is, in turn, driving the need for mature companies to find an exit.

- Buyers want practical solutions to real and difficult business problems they face. They are demanding measurable and realistic business results.
- Technology vendors have (unfortunately) overpromised and under-delivered for too long. As a result, buyers have unrealistic expectations regarding the true cost and complexity of technology.

How do these realities play into increased M&A? It's simple – buyers (particularly marketers) have little interest in the underlying technology and are increasingly looking for one-stop shops to meet their needs. They are ever warier of multiple specialized tech products that require multiple specialized skills and consultants to get up and running quickly and cost-effectively.

Buyers are looking for integrated suites of technology, not piece parts. Fewer buyers are looking for a stand-alone WCM system; they want WCM to be a feature function in a broader marketing suite. Buyers don't want to laboriously bolt together analytics, audience management, and email campaign management tools – they want to buy a single system that does it all. Some buyers are going even further and taking the approach to simply outsource all of this complex stuff to a specialist digital agency. The digital agency in turn doesn't want, nor does it have the skills, to integrate the piece parts to create a whole solution. The digital agencies are starting to – and increasingly will – look to managed service providers to do all that messy IT stuff for them.

One result is that having specialist CEM vendors up for sale as buyer trends shift makes for a perfect M&A market. There is an opportunity here for consolidators to build those one-stop shops – take the complexity and risk away from buyers, sell services at a steady and reasonable price, and take out some of the remaining competition in the process. That is what we are seeing in the market today – smaller vendors coming together to counter threats from the likes of Adobe, Salesforce, and Oracle, all of whom already sell integrated CEM-related technologies and all of whom are seeing growth and positive buyer demand.

Though the PE acquisitions of CMS companies involve smaller vendors, the fact remains that consolidation is ongoing across the spectrum. Oracle and Salesforce, for example, have made many acquisitions in the broader CEM/digital-marketing space over the past few years. It's highly likely that Microsoft will look to close the widening gap between its own limited CEM capabilities and the broader market. That may well mean more acquisitions for Microsoft. We expect those acquisitions to be centered around ecommerce and digital asset management initially. There is a lot of creative and innovative activity going on at the start-up VC level, but most buyers today just want a digital approach to marketing and sales that works. They are not looking for high-risk tech investments; they are looking for an integrated approach to CMS and digital marketing. The PE firms see an opportunity here and, all in all, it's likely a good thing. There will be more M&A activity to come in the CMS and broader digital marketing world, possibly a lot more, and that is how it should be given the maturity level some of these CEM-oriented markets have reached. As in every IT sector, there is a continuum of older firms maturing and newer firms emerging to disrupt. The CMS marketplace (and the much larger CEM world) is no exception. As the first generation of CMS technologies mature, change and disruption are quite rightly on the horizon for all.

It's time to revisit your relationship with the PE-backed vendors

Whether you are a technology buyer, reseller, or integrator, these acquisitions dictate that you reconsider your relationships with the new owners of these CMS vendors.

- **For buyers – it's time for due diligence.** If you are a technology buyer, you need to at least do a little due diligence if the vendor you are using or plan to use is undergoing a change of ownership. Your relationship with the vendor may be better or could be worse; all we know for sure is that the vendor's focus will not be the same. But either way, more integrated one-stop shop options to meet your CEM needs will become more common, and more integrated firms will emerge as the PE firms pull together the piece parts for a broader solution.
- **For service providers – it's time to revisit your strategy.** If you are a reseller or integrator of a CMS technology undergoing an ownership change, then you need to immediately prepare for change. There will likely be a change of leadership and strategy at the acquired vendor – by default, the buyer thought they could run the company better (harsh but true). You should find out if the new owner already owns other technology vendors and ask some questions: Do those vendors already have established channels? Is there overlap in the product lines? What's the potential for clashes? The one thing you can't afford to do is to watch idly while change occurs. You need to act quickly to figure out if the change is positive or negative for your organization.

http://www.digitalclaritygroup.com/no-joke-sitecore-acquired/

Definitions

CEM – Customer experience management

CMS – Content management system

DAM – Digital asset management

WCM – Web content management

About Digital Clarity Group

Digital Clarity Group is a research-based advisory firm focused on the content, technologies, and practices that drive world-class customer experience. Global organizations depend on our insight, reports, and consulting services to help them turn digital disruption into digital advantage. As analysts, we cover the customer experience management (CEM) footprint – those organizational capabilities and competencies that impact the experience delivered to customers and prospects. In our view, the CEM footprint overlays content management, marketing automation, e-commerce, social media management, collaboration, customer relationship management, localization, and search. As consultants, we believe that education and advice leading to successful CEM is only possible by actively engaging with all participants in the CEM solutions ecosystem. In keeping with this philosophy, we work with enterprise adopters of CEM solutions, technology vendors that develop and market CEM systems and tools, and service providers who implement solutions, including systems integrators and digital agencies.

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