



Exploiting
Content
Management

AN INTRODUCTORY
MARKET UPDATE

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INTRODUCTION AND SCOPE

This Market Update is written for organisations wishing to acquire Content Management-based applications with an understanding of Content Management markets. It forms part of the Content Management Market Awareness. It contains an overview of the characteristics, status, market segmentation and dynamics of the markets, together with planning assumptions for the period 2005 to 2006.

It addresses the following key issues:

- ▼ What is the state of Content Management in Europe today?
- ▼ What changes are taking place?
- ▼ Which CM vendors are winning today?
- ▼ What are the core competencies for successful purchasing?
- ▼ What new markets are emerging?
- ▼ What assumptions can users and vendors make when planning success in 2005-2006?

EXECUTIVE SUMMARY

This Market Update provides a description of Content Management markets in Europe, and is written to provide users and vendors with advice on how to acquire and sell with success. It forms part of the Content Management Market Awareness Services from Strategy Partners.

The fundamental changes over the previous separate markets for content and document components can be summarised as follows:

- ▼ Technically, Content Management is mature and can be considered as an integrated set of Document and Web Content and Capture and Output Management components.
- ▼ Financially CM is a victim of its own success as the underlying technologies become commodities and can no longer be purchased in isolation from mainstream IT.
- ▼ Operationally CM is fundamentally different to data processing.
- ▼ Both users and vendors of CM have over-estimated initial impact of CM, but under-estimated its long-term value to high worth applications and services. For example, many consultants believe that they understand document imaging, and see eBusiness largely about replacing paper. Yet Strategy Partners research shows that replacing paper per se is not a valid business goal and is at best a sub optimisation. Instead, eBusiness is increasing the amount of paper

scanned, while the reason for scanning it have fundamentally changed from archiving to connecting eBusiness processes to consumers.

- ▼ A new order is emerging, segmented by offer, comprising of vendors that sell Content Management as
 - ▲ Components
 - ▲ Middleware bundles
 - ▲ Solutions
 - ▲ Annuity and outsourced services
- ▼ The segment for CM middleware bundles is the most mature, and the European market has five major players in this category, which are Documentum, FileNET, IBM, Hummingbird and Open Text.
- ▼ The next two years will see a war of attrition between these five as they fight for market share, competitive position and major accounts.
- ▼ All seek to become enterprise application vendors, rivalling IP platform vendors and ERP and CRM vendors for mindshare among CIOs and C-level business managers.
- ▼ The largest threat to the existing CM Middleware bundlers will come via acquisitions by exiting IT platform providers, which is also an opportunity to realize shareholder value. Most other CM vendors in Europe face the reality of becoming annuity, solution or component providers.
- ▼ Users that seek a better return on their CM investments must change their purchasing approaches to reflect the reality of the new market.
- ▼ New applications are emerging in the government, financial and related sectors to exploit the demand for operational compliance, for which Content Management technologies are particularly well suited.
- ▼ Annuity and outsourced Content Management will become the fastest growing sector of the market, and present both opportunities for users and challenges for current component, middleware and solution vendors.

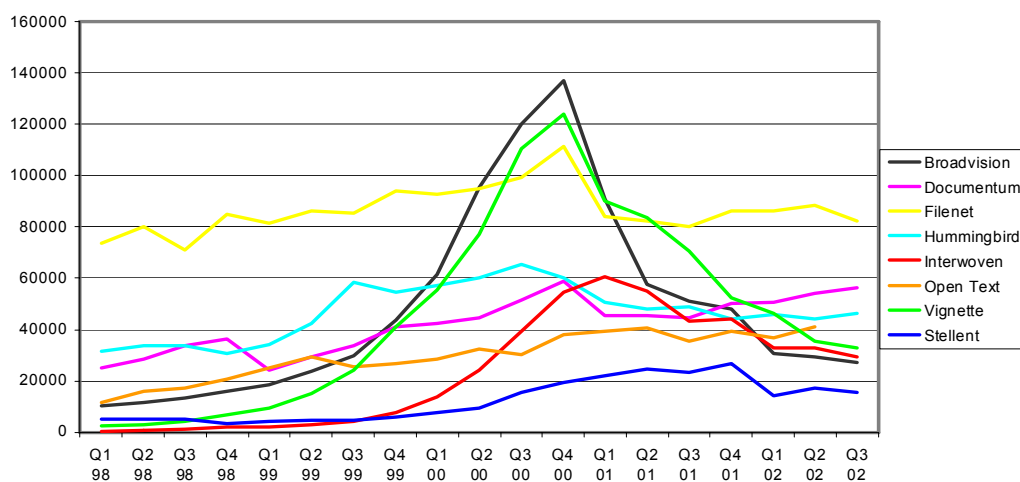
CONTENT MANAGEMENT IN EUROPE TODAY

The State of the CM Industry Today

Content Management as an industry in Europe has matured to become part of the IT mainstream.

Just as telecommunications and IT in general experienced a steady Bull market in the 1990s, followed by the gold rush era of Y2K/Internet, and the 2001 to 2003 retrenchment, so has Content Management.

CM follows IT but remains recession-proof



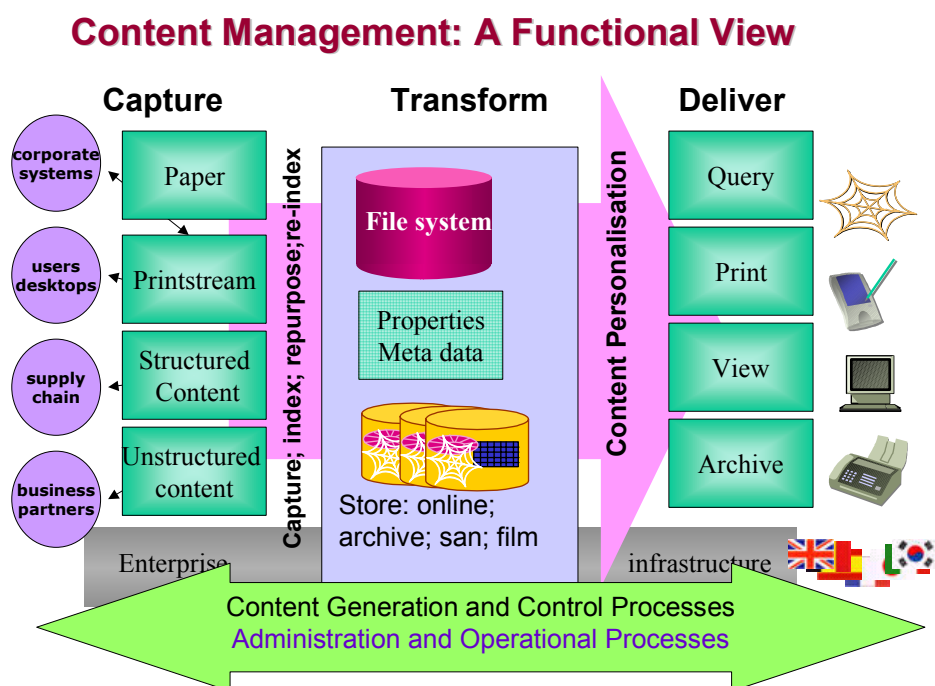
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The chart above of the major Content Management vendors illustrates how Content Management has followed the general IT trend, as the dot coms that rose the swiftest also fell to earth the fastest, and the established players benefited from the Y2K hype but have not fallen so fast and recovered the strongest, reflecting their established brands, installed base of users and channel partners and

Compared with other IT sectors, such as ERP and CRM, CM has experienced one significant difference. Content Management has grown and is still expanding in a recession-proof way, having embraced and extended the internet effect to become part of IT mainstream.

The result is an industry segmented in markets driven by user buying preferences and corporate lifestyle, rather than by pure functionality and advances in technology that characterised the 1990s.

CONTENT MANAGEMENT FUNCTIONALITY



Content Management has Extended into an Enterprise Application Suite

The Document and Content Management industry has grown from a back-office archiving silo into crucial business middleware and applications that are pervasive across entire enterprises, business supply chains, customer service front offices and government and citizen relationships.

Although most IT staff regard Content Management as a set of functions, this is only one view of the market, and an increasingly misleading one. Just as few cars drivers regard their conglomeration of alternators, glass, engines and gearboxes as bolted-together components, but rather than a cohesive whole that is optimised for a specific purpose, so content management is maturing into cohesive pre-configured solutions and outsourced services, rather than individual functional components for imaging, workflow, repositories and output that need to be expensively integrated.

The key technical and functional constituents of Content Management can be broken down into

- ▼ Document Capture and Imaging for viewing, recognition, archiving, process input. These specific components are undergoing significant change as new Intelligent Document Recognition techniques can remove the cost of routine indexing, dramatically increasing performance, reducing costs and changing the way paper-based information integrates with business consumer applications.

- ▼ Workflow was initially developed to enable images of loan applications to be passed around local networks to speed up processing. Today's Business Process Management tools are used in application development, personal computer applications, project management and line-of-business systems to link disparate dispersed enterprise applications together, and provide the unstructured content component to structured database applications.
- ▼ Content and Document Repository Management emerged in the early 1990s to recognise that the way we access and update everyday documents is different to the way we store data files. Today's systems are optimised to manage all type of content from web pages, emails, word-processing files, and video and still images, so that they can be searched and accessed in multiple applications.
- ▼ Collaboration tools include components for real-time meetings, project management, ad hoc information searching and are continuing to provide real-time access to content from multiple sources in real time.
- ▼ Web Content Management emerged in the late 1990s to assist the creation and control of websites. It has become widely available from suppliers ranging from IBM to small dot coms suppliers, and a commodity product that rarely exists in isolation from other IT systems that exploit the Internet.
- ▼ Document Output, including composition, query and report tools, and print management tools provide operational systems that reflect the need to deliver documents to electronic as well as paper channels, personalised to the message and target user. Formerly the domain of mainframe computers and backoffice print specialists, new systems are driven by marketing requirements and reflect the need to present colour branding consistent with television advertisements, not just bank statements read by bankers.

From Archiving to Mainstream Computing



The major changes reflected in the chart above show how Content Management has progressed from being a backoffice archive-dominated stand-alone system to internet and enterprise-wide middleware used by all staff and consumers, that exploit the numerous new forms of digital media as well as established paper and film-based formats.

Familiarly breeds Contempt for purely Electronic Content

The retrenchment phase of market development is causing many users and vendors to re-consider the caricature assumption that all paper is “bad” and it is a business benefit in itself simply to replace it with “paperless” office (which is about as much use as the paperless toilet etc). This is a classic sub-optimisation that leads to poor purchasing, over-emphasis on technology novelty and inadequate consideration of the operational consequences.

The reality in 2005 is that paper, not the browser, is the consumer channel of choice, and previous attempts to replace paper with clumsy, expensive, user-hostile electronic screens are being found out. Even Amazon.com has to produce paper delivery notes and shipping documents, because that is what its buyers demand.

Many IT strategists and management consultants cannot see the wood for the trees. They have grown familiar with individual aspects of Content Management such as imaging, workflow or web site creation tools without realizing that Content Management has matured into a set of integrated middleware components.

Users seeking operational customer service, regulatory compliance and supply chain systems, and line of business applications in government and

banking have realised that Content Management has emerged as the critical set of operational technologies that often make the difference between success and failure.

Attracting Mature Buyers– CM is Not Rocket Science

The reality that is that Content Management technically is no longer rocket science, and **there are few major technical problems left to be solved**. The CM enables a new generation of scalable applications that can be relied upon.

The chart below indicates the difference between early adopters and pragmatic buyers. Strategy Partners' research shows that pragmatic buyers are a far larger, more lucrative market, yet most vendor marketing seems to be aimed at early adopters, rather than pragmatic buyers

CM has Crossed the Chasm to Mainstream

Early Adopters

Change Agent

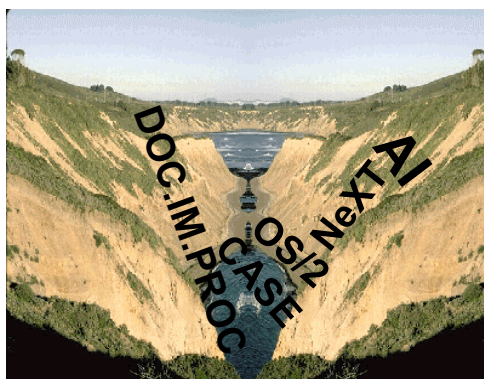
Revolution

Roll Your Own

Differentiation

Work around

Visionary



Pragmatic Buyers

Improvement

Evolution

Standards

Reference Oriented

Support Oriented

Pragmatic

A Marketing reality check is needed here.

A generation of IT marketing managers has relied upon technical features to differentiate products. Examples include being my disk/scanner/workflow/repository/printer is faster/larger capacity/ works on Microsoft etc. better than yours. The current reality is that users do not care, but vendors cannot get in the door to see them if they cannot deliver a 20% reduction in business costs and promise an ROI of six months or less. Now, how fast did you say that your disk went around?

Much like cars that bring children to school do not need engines that propel cars at 600 miles per hour, some applications do not require the disks, scanner and functionality that they cannot take advantage of, but are sold as being necessary.

This calls into question the resource allocations of many CM vendors. If many users do not need the product functionality being developed, why develop it? . Although sales teams are strong enough to sell whatever is produced, and will still accrue revenues in the short term, vendors are being naïve if they think it is sustainable.

Not only is it bad business, it is reminiscent of the painful impact of Kanban and Lean Thinking experienced by mature manufacturing companies in the 1980s, when technical perfection was sought at the expense of customer-facing operational fulfilment. Many car companies lost market share to Japanese companies, which focused on reliability and being rustproof. Their brands were not enough to save them.

In addition, focus on technical perfection denies the resources to the marketing function to identify and productise the new killer applications needed to drive the industry forward. We recently encountered a Content Management middleware company whose European Marketing Manager had identified two markets where over sixty prospects were interested in a CM-based high value compliance application at around \$1m a deal. To exploit these two vertical market pre-sales consultants were required. This was refused outright by a North American headquarters committed to allocating thirty engineers to producing a dot.net version of its core CM repository product, at a time when Microsoft has reduced the cost of its Content Management server product to \$6,999 a server.

Many CM vendors in Europe that are not in the top tier are no longer in the CM code cutting business, but in the solution and niche marketing business. Their core competence has to move quickly to exploiting a better knowledge of the local markets. Examples include engineering companies in Germany, international banking in the UK, and in France for utilities or whatever is unreachable by larger cheaper faster North American platform vendors.

The Maturity of the CM Industry Changes What Users Should Buy

The table compares best practice in the key aspects of channels, products, offerings and rewards that most CM vendors need in 2005-2006.

What are the New Core Competencies? Gold Rush versus Pragmatic

▼ Channel	▼ System Integrators	▼ BPO
▼ Competence	▼ Technical design	▼ Process simplification
▼ Product	▼ Custom build	▼ Configuration
▼ Timeframe	▼ Disengagement day	▼ Ten years
▼ Offering	▼ Branded product	▼ Service Level Agreement
▼ Liability	▼ Minimal: Software only	▼ Outcome
▼ Operations	▼ Vendre des viandes	▼ Cost reduction
▼ Reward	▼ Percentage of s/w sold	▼ Annuity / renewal
▼ Fulfilment focus	▼ On-sell and Maintenance	▼ Fulfil and Renew

The largest change is in the area of liability, as fewer users are prepared to buy software licenses full of the promise of providing better customer service, regulatory compliance etc, yet the vendors that sell them have well-written contracts that specifically exclude any liability for the consequential outcome. Pragmatic buyers should expect vendors to adopt a new approach to operational liability, not merely to sell CDs of software and then accept no liability. Many users should seriously consider buying from outsourcing providers, rather than in-house systems if they have not already installed a significant CM system. The goal of system integration activities must be to reduce cost, not employ more man-days or “sell more meat”. Outcome based business process outsourcers, who employ different organisational and compensation plans to force different cost cutting behaviour, is rapidly superseding such “disengagement day” mentality.

WHAT NEW APPLICATIONS ARE EMERGING?

Examples that illustrate how Content Management has become part of the IT mainstream are listed below, illustrated by content management’s ability to address major business problems.

Not only can Content Management systems work with conventional structured database systems, they can extend their capabilities and also address issues that involve processes and unstructured information that simple databases cannot reach.

Financial and Government Sector Issues

Key misses for Compliance using content management in the Financial Sector include

- ▼ Sarbanes-Oxley Compliance requires companies to be able to deliver evidence of the process and documents used for auditing and corporate governance that are contained in documents and ad hoc processes. SarBox is only beginning to have an impact in Europe.
- ▼ Email storage to being sold by Fear, Uncertainty and Doubt, but email also requires enclosures and full Content Management repository functionality to be acceptable to most regulators.
- ▼ Process monitoring to show that the correct processes can be carried out by the workflow and business process management functions within Content Management. There is evidence that many users are meeting their understanding of what the regulators need today by using conventional paper approaches. They then plan to automate them with Content Management systems next year when they have an operational experience of how little they can get away with to satisfy the regulators. In other words, if it moves, store it: Paper now, automate later.
- ▼ Other SEC and, Basel II, FSA Rules for IFAs, Mortgages, Pension, Endowments, etc fall into the same category. There is now a small industry of self-serving accountants, auditors and consultants across Europe who has a vested interest in creating fear and uncertainty. It appears that they implicitly encourage the regulators to increase the overhead on business. A separate argument exists that addresses the lack of accountability of regulators, but that is not the subject of this Market Update.

In the Government sector, issues include

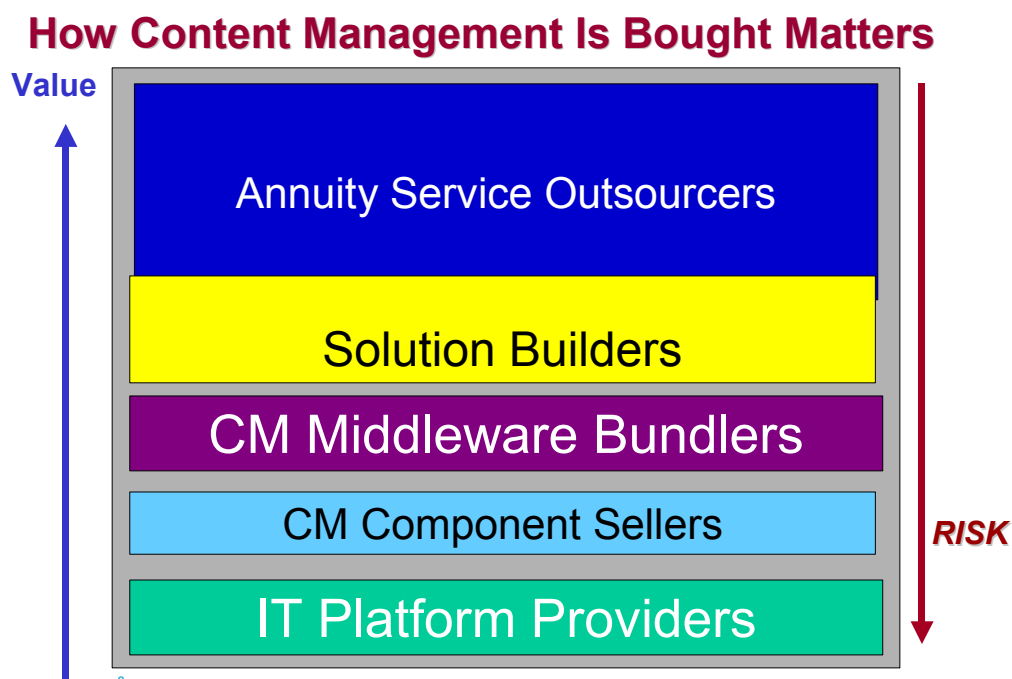
- ▼ Records Management, which is mandatory in specific sectors within the government sector across Europe, and standards such as the EU MoREQ programme, and those for the National Archive (PRO2) and related requirements are needed by vendors to ensure that they are not excluded from bids. The Records Management sector has now stabilised from a vendor perspective, and vendors without an offering are effectively too late to enter the market.
- ▼ Freedom of Information Act 2005 requirements is forcing local and central government to adopt electronic approaches to conventional paper-intensive tasks. Many start off hoping that hybrid paper and electronic systems will cope, but realise during pilots that this is rarely the case.

In addition, specific pre-configured horizontal solutions are becoming safe to buy, rather than custom-built one-offs. These include:

- ▼ Contracts Management
- ▼ Accounts Payable/Receivables, which is growing fast in Northern Europe
- ▼ HR Outsourced Services The largest BPO market requires content management services extensively
- ▼ Multichannel Customer Services, that empower call centres and web sites as well as delivering and processing paper communications
- ▼ Multichannel Mailroom Outsourced Services, which is emerging as a new operational infrastructure

MARKET SEGMENTATION: HOW USERS BUY, NOT BY NOT FUNCTION

The most practical segmentation of the content management market is outlined below



Note that this reflects:

- ▼ The risk that users are prepared to accept when they acquire systems. Of course managers in manufacturing companies can buy a kit of CM parts, and bolt together the application they need, but at a higher risk, cost and time to implement than is available in pre-configured component bundles.

- ▼ The secondary importance of function. Just like cars, leading-edge technology and its apparent functionality is a hygiene factor in most cases- e.g. all cars have four wheels, alternators, engines etc. However, that is not enough to persuade the buyer to choose one over the other.

Market size at a functional level is becoming increasingly irrelevant. As market context and segmentation become crucial to value and delivery. Just as the Coca Cola sold in night clubs at £20 a glass is guaranteed to be the same Coca Cola sold in supermarkets for 20 pence a litre, basic Content Management components for Imaging, Workflow Document Output and Repository Management can be built and acquired for pennies for personal users or hundreds of thousands of Euros for enterprise –wide licenses. Differences in functionality are becoming increasingly rare and serve the purpose of market differentiation, rather than providing real additional value.

In addition, the position of some offerings in the market and the margin for market leaders is not necessarily reflected in the volume or profitability of their offering. It is possible to compare some content management products with the position of Ferrari in the European car market. As a company that ships less than 5,000 units a year, many would consider it a complete failure as a superficial count reveals that it has 0.03% of the overall European sales for cars that possess four wheels and an engine. However, this company has seven out of the eleven of the Manchester United first team and is the Gorilla market leader of lifestyle transport for young men in the North of England with over £3m a year of disposable income. Compare that with both Ford and General Motors of Europe that have market shares over 10% and produce over one million cars but rarely consistent profits.

Content Management is Segmented by Offer

Strategy Partners' research shows that the markets for Content Management are segmenting into:

- ▼ A market for Content Management within the IT infrastructure, typified by Microsoft and Oracle workflow and content repository offerings
- ▼ A market for Content Management “best of breed” components, such as those for Image Capture, stand-alone Workflow, Records Management, Content Repository, Rich Media Enhancements
 - ▼ A market for Content Management middleware suites, which all offer the basic functionality for customer service, collaborative systems, information supply chains, and other horizontal components
- ▼ A market for vertical Content Management applications

Note that the functionality of such segments is largely identical. All drive scanners, provide workflow to varying levels of complexity, and all provide document repository and basic output capabilities.

The historical differences lie in how they are presented to the market and the underlying application that the user seeks to deploy, as illustrated by the historical perspective of the major players. For example, IBM and FileNET have provided imaging and workflow since the 1980s, so although their integrated Content Management suites are extremely capable at Repository Management, it is the customer service market for item processing in the finance and government in which they are most successful.

Documentum started by enabling Pharmaceuticals companies to deliver regulatory reports from its supply chains for research and manufacturing, and IXOS originally linked only to SAP systems, so this less-process oriented but repository- centred approach dominates their sales today.

Open Text and Hummingbird by background are search engine companies and their offer for collaborative knowledge management-type applications to professional knowledge workers dominates their sales today.

Bottom Line: Users should focus on Applications, not Infrastructure

The change that has been taking place in the past two years is that users can buy the CM solution that meets their business goal, rather than acquiring an expensive CM infrastructure and then hoping that they can use it to build a series of applications. .

The need to be aware of the tactics of vendors that seek to provide a complete intermediation layer of middleware between the content silos anywhere across a dispersed organisation and the solution and users that exploit them. The vendor's goal is to become a user organisation's single supplier for all Content Management Middleware, and exclude competitors for reason of cost or speed of integration. It does this by adding or increasing the functionality in the areas that is has not dominated, and claiming that the cost for integration across multiple Content Management system outweighs any minor disadvantage in functionality or cost of converting smaller older systems.

How users buy CM has changed fundamentally and successful acquirers will use market knowledge, not just functional beauty contests to direct their purchasing

APPENDICES

Other Market Updates

This Market Update is part of Strategy Partners Market Awareness Services for its clients.

Other updates in this series include

- ▼ European Content Management Markets: Evaluation of Vendors
- ▼ European Content Management Markets: Market Sizing 2005-2007

Other Updates, which are published quarterly include:

- ▼ European Document Capture Markets; Market Sizing 2005-2007
- ▼ European Document Capture Markets: Vendor Analysis
- ▼ European Document Output Markets; Market Definition and Segmentation

Other impending publications from Strategy Partners include

- ▼ Multichannel Mailrooms: A Executive White Paper
- ▼ Human Resources Benchmarks- A Market Report
- ▼ Record Management in the UK- Market Summary Update
- ▼ Business Performance Management- An Executive White Paper
- ▼ Knowledge Management – A Practical Guide
- ▼ Document Outsourcing Markets

Strategy Partners also publishes a set of Introductory White Papers for executives, aimed at informed executives on the major principles, market dynamics and underlying technologies and business issues. These are aimed at providing an executive overview to assist them in understanding the fundamentals of markets with which they may not be familiar.

These include White Papers in Content Management, Document Capture, Document Outsourcing, Business Process Management and Document Output Management.



APPENDIX: ABOUT STRATEGY PARTNERS

Founded by individuals with a proven international reputation for market analysis in key areas of the IT sector, Strategy Partners is an established professional retainer and project based IT consultancy business.

We deliver independent consulting and original market analysis in the key areas of

- ▼ Content Management,
- ▼ Electronic Document Management (EDM),
- ▼ Customer Relationship Management (CRM),
- ▼ Application Integration
- ▼ Enterprise Resource Planning (ERP)
- ▼ Outsourcing
- ▼ Knowledge Management (KM).

As users make investments, we empower them against the vendors to make the technologies 'safe to buy'. We understand the purchasing process and know how to speed it up, not slow it down

In addition, Strategy Partners delivers expert advice to help vendors in formulating and improving their marketing strategies. Specifically, we are the only source of detailed market sizing and quantification in our chosen software markets in Europe. We carry out original analysis and do not take a large North American number and divide by another.

For the investment community Strategy Partners provides market diligence and acts for organisations seeking Venture Capital. We also work for buyers and sellers in mergers and acquisitions by providing market knowledge and a process to assist in the valuation of businesses.

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