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hybris & iCongo Come Together: What It Means [1]

Contributed by Brian Walker on Mon, 08/22/2011 - 20:43

Today hybris announced its acquisition of iCongo [2] in a creative deal which sees private equity firm Huntsman Gay [3] convert its stake in iCongo into a significant stake in the newly combined companies. The deal combines complementary capabilities and customer bases, while also mitigating challenges each firm faced alone while strengthening a joint balance sheet for the combined $90-100 million in approximate revenues these firms will make up. The deal also changes a number of dynamics important to customers not only of hybris and iCongo, but also of Endeca and many services providers. A few key takeaways and thoughts:

· **For hybris customers the deal adds a strong OMS solution and North American presence.** iCongo's strongest asset as a commerce platform was actually the integrated order management (OMS) capability, which at times was carved out and provided as a stand-alone though it was not marketed in this way. By adding a strong commerce-centric OMS solution to its core commerce and product-content management (PCM) capabilities, hybris is eliminating one of the key gaps its solution had to serve multichannel companies with growing supply chain and service complexity across touchpoints. hybris and iCongo also both share experience and capabilities across B2C and B2B, an important synergy moving forward. The deal also helps hybris improve its support for North American clients and partners by leveraging iCongo's existing operations in Montreal. hybris will also benefit from the iCongo team's experience with hosted commerce solutions if it adds a hosted-managed offering in the future, which seems likely. This deal should also put to rest speculation of SAP courting hybris, and — though no one is saying this yet — point instead to a likely IPO for hybris at some point in the future.

· **For iCongo customers the deal mitigates some challenges and adds strong commerce platform and PCM capabilities.** Despite a solid and profitable business, iCongo clients have experienced a number of challenges with the core commerce platform over the last year. This deal will solidify the current iCongo customer roadmaps around the hybris commerce platform and product content management (PCM) tools (and of course the iCongo OMS), placing their future on a more contemporary and well-benchmarked solution [4]. And while iCongo's current clients may not be required to migrate to hybris, the advantages of doing so soon should be weighed carefully. Among the biggest changes for iCongo clients will be the shift in service model, where the future solution will likely see the introduction of third-party system integrators or global commerce services providers* to provide implementation and ongoing development support. This change may also impact some of the revenues iCongo has enjoyed in the past through recurring revenues from services, but will also improve profitability.

· **For Endeca & hybris joint customers little change is imminent, but the future is clarified.** When hybris and Endeca began their strategic reseller relationship and joint product development work in 2009 [5] it seemed to point to these two companies coming together, possibly on the heels of an Endeca IPO. Even if Endeca were to do an IPO, that kind of deal appears unlikely now. However, for joint Endeca and hybris customers little of a practical nature changes; Endeca will continue to resell the hybris solution as a complementary commerce solution for the foreseeable future, while focusing on its CXM roadmap. Indeed CXM is an emerging solution category [6] for which Endeca is among the best positioned, and for which it can complement many eCommerce and WCM solutions outside of hybris as well.

· **For the ecosystem of services providers and competitors this deal will change the landscape.** A combined hybris and iCongo represents a comprehensive commerce solution with a strategic vision to compete with IBM and Oracle at the top tier. For systems integrators and global commerce services providers* this is good news, as hybris will bring its successful partner-centric commerce solution strategy together with iCongo's OMS. The OMS from iCongo will become a stand-alone solution to complement commerce platforms and compete with IBM's Sterling, Oracle, MICROS, RedPrairie, and Manhattan & Assoc. for mid-market client needs. And if hybris and iCongo leverage the iCongo experience around hosted solutions it will be very compelling as an alternative to Demandware, Marketlive, Fry/MICROS, and others.

· **Sounds good, so what's the downside?** Mergers and acquisitions often look great on paper and PowerPoint. The devil is in the details and execution. Re-architecting the iCongo OMS, migrating clients to the hybris commerce platform and to service providers, and aligning staff and cultures is problematic — especially in a growing market with significant demand that can make a focus on execution very difficult. The next 6 months will be critical as the hybris and iCongo teams focus on integration and migration in order to see the benefits of this acquisition.

Of course, this deal comes on the heels of many others in the eCommerce platform marketplace over the last 15 months; such as Oracle's acquisition of ATG [7], eBay's acquisitions of GSI [8] (and therefore control of Intershop [9]), eBay's purchase of Magento [10], IBM's acquisition of Sterling Commerce [11], CDC Software's acquisition of Truition, MICROS Retail's acquistisition of Fry, and RedPrairie's acquisition of Escalate. Why so much activity? Here are a few reasons:

· **Demand for commerce solutions remains strong.** Our last pulse [12] showed 20% of our North American B2C clients with a replatforming effort already underway, and another 29% planning one within two years. We also recently surveyed Australian B2C companies — 18% of which are underway with a replatforming project, and another 30% of which plan to do so within two years.** While the global economic climate and credit crunch is affecting companies across many verticals, the need to adapt to changing customer preferences to transact online and across digital touchpoints [13] is here and now, driving demand for commerce platforms and related technologies and services. Enterprise solutions providers from ERP to supply chain to content management now see commerce solutions as critical to winning projects as client needs shift to direct, digital, global and multi-touchpoint commerce.

· **This is a bigger solutions market than many realized.** Our models show the commerce platforms and services market at $12.9B^ across the EU and NA with growth projected at a 13% CAGR over the next five years. Add to that a nascent but growing commerce platform and services markets across APAC, Latin America, India, and the Middle East. This then becomes interesting as a sizable and strategic addressable market growing in importance across many geographies, while other IT and enterprise software verticals may be struggling to recover due to macroeconomic conditions.

· **The complexity grows increasingly . . . well, complex.** In the past, order management solutions were typically found only in the most complex and highest scale of eCommerce. But as we continue to "drop the e" from eCommerce and see how commerce platforms are service many channels and touchpoints — from web, to mobile web, to mobile apps, to marketplaces, to call center, to retail store, to interactive displays, to interactive TV — order management has become critical to enabling a complex supply chain which can fulfill across channels, drop shippers, and take advantage of multi-nodal fulfillment environments. Beyond just OMS, also adding to the complexity of commerce solutions are client needs in areas like web content management (WCM), product content management (PCM), channel analytics, and customer experience management (CXM).

· **Enterprise software is *almost* sexy again.** The commoditization of hardware (Apple being the exception to the rule) and the growth of the cloud has shifted the focus from enterprise hardware to software and services. HP's pivot [14] is of course a notable and recent example. And in the commerce platforms and solutions market, valuations set by eBay for GSI ($2.4 billion), Oracle for ATG ($1 billion) , and IBM for Sterling ($1.4 billion) are making many sit up and pay attention to a forgotten and somewhat neglected part of the enterprise software market (not for this analyst, I assure you). Many VCs and investment bankers will also be paying close attention to the pending Demandware IPO — as they navigate turbulent financial markets — to understand how the markets value commerce solutions.

So, will we see more M&A activity this year? How's this for an answer . . . *maybe*. The simple truth is that there are fewer and fewer opportunities for deals of this size. A lot may depend on what the likes of Adobe, Microsoft, SAP, and eBay want to do with gaps or assets respectively, or what mid-market commerce solutions do to combine and position themselves to solve for an increasingly complex set of needs as their clients compete and adapt to changing customer needs in the era of agile commerce [13].

I look forward to your thoughts below in the comments.