



IBM to Acquire Talent Management Vendor Kenexa

August 28, 2012 - IDC Link

By: [Lisa Rowan](#); [Bo Lykkegaard](#); [Cushing Anderson](#); [Vanessa Thompson](#)

On August 27, IBM [announced](#) its intent to acquire Kenexa (KNXA), a vendor of talent management software, content, and services for \$46 per share, a net of \$1.3B, a 42% premium. The deal is expected to close in the fourth quarter of 2012 subject to Kenexa shareholder approval. Kenexa has 8,900 clients according to press materials. It is IDC's belief that many of these fall into Kenexa's survey, pre-hire assessment, and compensation query product lines, all volume businesses.

The talent management market has been the hottest market in Human Capital Management (HCM) and HCM itself has been a bright spot in the overall applications market. Being as hot a market as it is, it has drawn intense interest from both a software and services perspective. This interest has resulted in major market consolidation on the software side with recent acquisitions of SuccessFactors by SAP and of Taleo by Oracle. This acquisition by IBM is the latest in this string of consolidation moves.

This move will further strengthen IBM's capabilities in building Smarter Workforce solutions. IBM gains a number of disparate assets in Kenexa including:

- A talent management technology platform encompassing recruiting, learning, performance management, and compensation
- Behavioral science, pre-hire assessment, and survey businesses that inform predictive analytics around hiring strategies and employee engagement
- Deep compensation modeling tools and data
- Significant recruitment process outsourcing (RPO) practice

Kenexa describes "social solutions" and Government and HR in the Public sector as areas of strength. Several can be seen as overarching goals for a strong outsourced HR capability. The value gained through experience in performance management, or even leadership, on the other hand, can profitably be delivered through a project-based offering and those specific services may be more easily consumed in a "project based" fashion than an outsourced relationship.

Kenexa themselves have been a very acquisitive organization including notable purchases of the Brassring recruiting system, Salary.com compensation surveys, data, and talent tools, and most recently Outstart in learning management. In addition to technology, IBM gains a lot of workforce content including compensation data and competency libraries via Salary.com.

IBM positions this acquisition squarely in its social business initiative. However, of the many talent management vendors in IDC's recent [MarketScape on Social Technology](#) in Talent Management, Kenexa was found to lag its competitors with social enablement found only in recruiting at the time of publication. The Kenexa assets will need to be beefed up in the social realm or be combined with other IBM assets to achieve such social objectives.

Placing Kenexa in the IBM Collaboration Solutions Group signals that IBM understands the need to socialize applications and build out expert networks. Although converting this message to one that spans the next generation enterprise application platform will be the challenge. To define the next generation

application platform, the way applications are being consumed today is in modules and in recent years these have become smaller and smaller. The services that underpin these application modules have been bundled to redefine how we view these smaller application modules. Breaking applications down to the services and consuming the service (or the process) creates a scenario for businesses to line up a broader set of processes that meet a specific business need. The Kenexa assets will need to have embedded social (or relationship) capabilities as systems of relationship or be combined with other IBM assets and services to drive new ways for employees to collaborate.

Smarter Workforce Services?

A scan of IBM's website for Smarter Workforce reveals few references. Most are related to analytics, but IBM admits there are more elements to successful talent programs than simple math. Even so, in many enterprises, human capital decisions are made without fact-based analysis, or even facts.

For enterprises having difficulty moving to a more fact based decision process, outsourcing may be a step too far. On the other hand, less complex projects addressing specific pain points and with high potential for success may be the opportunity some enterprises need to "try before you buy" a major relationship.

IBM is well regarded as a provider of talent related consulting services, rated as a "Major Player" in the [IDC MarketScape for Talent Related consulting](#), and is seen as most capable of all consulting firms at providing HR and talent related insights. IBM is also perceived as much better than most firms at delivering ROI for the talent projects.

Combining IBM's talent related prowess with some of the technology and existing services Kenexa offers should provide a compelling value proposition for enterprises interested in taking early steps along the smarter workforce continuum.

To fully leverage the capability this combined organization has, IBM will need to integrate the concepts of a well connected, well aligned and well leveraged workforce into services offerings beyond analytics and in addition to an outsourced package. The successful "thin edge of the wedge" strategy where a consulting firm provides a narrow set of valuable services and then expands the relationship to include broader services and eventually outsourcing, will work in this domain, too.

An emerging enterprise applications competitor: IBM

In 2011, IBM announced an acquisition strategy to spend \$20 billion on software-related acquisition by 2015. Since then, the IBM CFO has specified that the company will prefer acquisitions of smaller specialists as opposed to larger software conglomerates and that it aims for sub \$1.5 billion acquisitions. Previous, IBM's explicit strategy was to stay out of the applications software markets and focus exclusively on services, middleware software, and hardware.

Kenexa is not IBM's first acquisition in the enterprise applications space. However, previous IBM acquisitions were mostly extensions of existing software portfolios, like when it extended its Tivoli offerings with the acquisition of Maximo enterprise asset management applications. The acquisition of Kenexa places IBM squarely in the HCM applications space and puts IBM in the position of potentially competing head-to-head with best-of-breed talent vendors such as Cornerstone OnDemand and ERPs such as SuccessFactors from SAP, and Taleo/Fusion from Oracle.

Why will IBM risk souring these application software partnerships, which has been the foundation of IBM services offerings for years? The answer lies in the changed reality of enterprise applications software market, in which best-of-breed specialists are rapidly being acquired by software giants, such as Oracle and SAP. One year ago, IBM could have based a Smarter Workforce partly on SuccessFactors and Taleo. Today, these companies are owned and being integrated into SAP and Oracle, respectively. Another reason for owning applications instead of partnering is the rise of software-as-a-service (SaaS) and SaaS-based outsourcing models. These new business models are direct and require IP ownership. Therefore, the enterprise application barometer is shifting from partnering to buying and, hence, IBM will gradually emerge as an enterprise competitor rather than a services partner.

Conclusion

From an outsourcing perspective, IBM gains a robust RPO business complimenting IBM's own existing RPO business offered both standalone and as part of broader Business Process Outsourcing engagements. And in learning services, the Kenexa (Outstart) offering will give IBM its own technology platform again. IBM eschewed its own learning platform in favor of reselling Saba several years ago. The challenges remain a question of what becomes of the Saba relationship and how IBM will expand its services to create an entree into talent consulting that point directly at the RPO services it is gaining. For Kenexa, the upside of IBM ownership is significant. As an independent company, Kenexa has a full talent management portfolio but it has not garnered the same mindshare or market share of the integrated talent management market as competitors such as SuccessFactors. IBM will provide global reach as well as services-based and outsourcing-based opportunities around business process socialization and the Smarter Workforce brand. IBM's acquisition of Kenexa extends the ongoing wave of consolidation in the fast-growing talent management market.

Subscriptions Covered:

[European Enterprise Applications, HR, Talent and Learning Strategies and Services, Enterprise Collaboration and Social Solutions, Business Consulting Services](#)

Please contact the IDC Hotline at 800.343.4952, ext.7988 (or +1.508.988.7988) or sales@idc.com for information on applying the price of this document toward the purchase of an IDC or Industry Insights service or for information on additional copies or Web rights. Visit us on the Web at www.idc.com. To view a list of IDC offices worldwide, visit www.idc.com/offices. Copyright 2011 IDC. Reproduction is forbidden unless authorized. All rights reserved.