

EVENT FLASH

HP to Acquire Autonomy: Bold Move Supports Leo Apotheker's Shift to Software

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EVENT OVERVIEW

Hewlett-Packard announced on August 18th an agreement to purchase Autonomy, the largest software firm in the UK, for \$11 billion. The acquisition is expected to close by the end of 2011, pending regulatory approval.

WHY AUTONOMY?

HP has been eyeing the information management market for years -- seeing the evolving central role of information in the enterprise as a trend it needed to capitalize on, both for strong revenue growth potential and the attach that growing collections of information could provide its storage business. The Autonomy acquisition brings a broad portfolio of information management technology, along with a growing number of search-based applications. Autonomy is a highly profitable software business, with a solid customer base worldwide and a significant cash reserve -- that is, it should add significantly to HP's margins.

Autonomy has racked up remarkable growth since its founding in 1996. The IDOL (Integrated Data Operating Layer) platform they developed was ahead of its time, envisioning the underlying Bayesian inferencing/search technology as a kind of "information bus" for all types of information. IDOL normalizes information across schemas and silos, delivering information in the right format to whatever application or device taps into it. While originally positioned as a search and categorization vendor, Autonomy has moved beyond its core enterprise search business to become a diversified software business with a variety of applications that are unified by the common IDOL platform. Autonomy has added technologies for Web content management, records management, collaboration, email archiving, structured data search, workflow, capture, rich media management and search, speech to text, text analytics, connectors and viewing filters to their core search and categorization technology through a series of acquisitions. HP also stands to gain a significant footprint in cloud and SaaS technology by acquiring Autonomy: Autonomy currently manages 31 petabytes of information for its cloud customers. Autonomy's cloud business represents 62% of sales today, and is growing at 17%, according to Autonomy's latest quarterly earnings call.

THE OPPORTUNITY

The key to understanding this acquisition is that Autonomy and HP realize that the market is at a "tipping point", moving from its legacy data-based software stack to a new IT infrastructure that integrates both unstructured and structured information. These newer technologies enable enterprises to forage for relationships in information that exist in separate silos in order to find, for instance, a customer's transactions and tie them to angry emails or calls to the call center. Early adopters of this approach to unified information access report that their call center costs are reduced, that their customer satisfaction has gone up, and that their ability to comply with government regulations has improved markedly. As information overload has become a costly threat to organizations, the rewards from solving the problem have attracted the attention of large vendors like IBM, Microsoft, Oracle, and EMC. This quickly evolving market will, IDC believes, eventually eclipse the traditional search and BI/data warehousing markets in large enterprises. A modular platform that can aggregate, normalize, index, search and query, analyze, visualize and deliver all types of information from legacy and current information sources will support a new kind of software application: interactive information work environments that address the needs of a particular business process. Autonomy has been a leader in this vision, with their eDiscovery/litigation support applications, their call center application, their Meaning Based Marketing, or Healthcare. Each of these is built on the IDOL platform, but optimizes the underlying modules for a particular business process or vertical industry. This year, they launched Aurasma, an augmented reality platform for merchandising that is based on their mobile technology, coupled with their rich media capabilities.

MUSINGS ON A MERGED HP-AUTONOMY

This acquisition is not primarily a technology sale. If HP had merely wanted to buy unified information access technology, there are a number of smaller, less expensive vendors they could have purchased. For HP, adding a \$1B revenue stream (IDC's 2011 estimate for Autonomy revenues), 400 OEM customers, and 20,000 customers will help boost their enterprise software business and increase their footprint. At the same time, as large vendors have increased their investments and attention in unified information management and access platforms, it's been increasingly clear that Autonomy would have difficulty competing in a larger arena. The HP acquisition gives both the muscle to play in this new, promising market.

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Beyond the obvious benefits of shoring up HP's information management portfolio, it is also important to view the strategic value of this acquisition in the context of HP's broader strategy for cloud computing. Cloud computing is driving many enterprises to incorporate IT and information risk management in their business and IT operations. In the last 15 months, HP has been shoring up its security compliance assets most notably with the acquisition of Arcsight. It has also been working on delivering solutions that improve alignment between the security and IT operations functions. HP's converged infrastructure solutions are another linchpin of its risk management-aware cloud computing strategy. The IDOL platform in combination with the Vertica assets would bring all these pieces together, offering up the technologies that could be used to align information management, storage, security, and IT operations, across a hybrid stack.

IDOL's capability to normalize information across schemas and silos, including metadata information from middleware applications, can be potentially very useful in effectively managing the classification and policies across hybrid architecture environments. Metadata binds the relationships and dependencies between the physical and virtual infrastructures. Maintaining these relationships is critical for effective execution of risk management and compliance policies across on-premise and cloud environments. IDOL's metadata and classification capabilities therefore lend itself well to solving the classification challenge posed by cloud computing environments. Today, many corporations employ multiple classification tools (originating from security, data storage, and search-based disciplines). As a result, the storage, security operations, compliance, and applications functions managing the same data sets and applications, may not necessarily have the fine-grained visibility sometimes needed to effectively manage compliance and security intensive data, especially in close to real-time scenarios. In some instances, potential compliance conflicts are not exposed until it is too late. Normalizing this metadata information and exposing dependencies across multiple functional disciplines is already quite cumbersome under traditional architecture models, so imagine what it would be like in highly dynamic hybrid cloud environments? If HP is able to deliver a unified metadata model, which IT operations, security, applications, storage, and compliance functions are able to reference, using a combination of IDOL platform and the Vertica assets, then it could address a critical impediment among corporations who have been hesitant to migrate compliance intensive data into the cloud.

Although IDC is bullish about the potential technology and business synergies of this transaction, integrating two companies into a single entity is always difficult. HP has not announced organizational changes as a result of this acquisition (as it is not closed), but they have indicated that Dr. Michael Lynch (Autonomy's founder and CEO), will report directly to Leo Apotheker and run Autonomy as a separate unit. In the near term this makes sense, as it will need the support of the CEO to make sure that the newly acquired technologies have the senior support needed to transform HP's future offerings. While there will be integration risks, the payoffs could be transformative for HP.