

# CA Acquires Nimsoft; More Than the Cloud and Mid-Market Play?

## Introduction

On March 10th, 2010 CA announced that it had agreed to acquire Nimsoft, an IT service management company, for approximately \$350 million. The acquisition is expected to close by the end of March of 2010, and Nimsoft will operate as a separate business unit. The goal of this report is to examine the impact of this acquisition on the IT service delivery market and the impact it could have on customers and prospects of CA and Nimsoft.

## Background

Nimsoft has been one of the most interesting stories in the IT service delivery market for the last 3-4 years. In a market that has been traditionally dominated by the so called "Big 4" (HP Software, IBM Tivoli, CA, and BMC Software), Nimsoft was able to achieve and sustain very good success by positioning itself as "an alternative to the Big 4". This term has two different connotations in the market: technology and customer service related. Traditionally, the "Big 4" vendors haven't been known for superb customer service (even though it differs from company to company). Also, the current product offerings that these vendors are providing come as a combination of: 1) various products that they have acquired in the past; 2) products that they developed on their own, 15-20 years ago, and then "tweaked" several times to address new needs in the market. As a result, these companies' customers very often had to buy, implement, and maintain anywhere between 5 and 12 different products if they wanted to address each of their needs for effectively delivering IT services. In the case of Nimsoft, end-users were able to leverage a single platform (consisting of 3 modules) and still have very similar, if not better, functionality. Additionally, Nimsoft offered a different pricing model that was subscription based (as opposed to perpetual software licenses sold by the majority of other vendors), which forced Nimsoft to prove itself over and over again to their customers through technology innovation, ease of use, and customer service.

Nimsoft's success was mostly driven by their strengths in addressing the needs of the market that can be best defined as medium size organizations to low-end enterprises. Also, close to 40% of Nimsoft's customers are managed service providers. The company's capabilities also play well in the growing market for monitoring the performance of cloud services and Software-as-a-Service (SaaS) applications.

## Technology or Go-To-Market Driven Acquisition?

This acquisition can be evaluated from two perspectives: technology and go-to-market. From the technology perspective, CA acquired one of the most advanced solutions in the market for monitoring the delivery of IT services. Nimsoft's capabilities are very effective in addressing the majority of key pain

points that end-users are experiencing today, and the solution is much easier to implement and manage, as compared to many other products in the market. Additionally, the acquisition allows CA to add some of the market leading capabilities for monitoring cloud services, which is one of the key areas of focus for CA. However, there is a significant overlap between Nimsoft's technology and CA's current offerings for managing IT service delivery and very little synergy between this technology and the Wily, eHealth, NetQoS and Spectrum product families.

From the go-to-market perspective, the acquisition immediately strengthens CA's position in the mid-market, while allowing them to grow their managed service provider business. Is this acquisition a good move for CA? No question about that. However, even though this acquisition presents a very good opportunity for CA, the company has some important decisions to make, and these decisions will determine the return they get on this investment.

Given Nimsoft's core strengths, the acquisition enables CA to strengthen its position in at least four key areas:

1. Mid-market and lower end of the large enterprise market (or what CA calls, "emerging enterprises")
2. Cloud monitoring for both end-user organizations and cloud providers
3. Overall market for IT performance monitoring, as it gives them one of the most competitive solutions in the market
4. MSP market

However, the acquisition does not guarantee success for CA in any of these areas, and they will have to make several internal adjustments to take full advantage of these opportunities.

It should be noted that Nimsoft's "secret sauce" had many different ingredients and the capabilities of their solutions are only one of them. Nimsoft's corporate culture, sales model, and customer service allowed them to develop relationships with their customers that were much deeper than that of their much larger competitors (CA included). That is one of the key reasons they were able to achieve and sustain double-digit growth over the last five years while more than half of their revenues came from license renewals. This presents a major test for CA to prove once and for all that it is no longer a company "where software goes to die". If CA can prove to Nimsoft's current install-base that they share the same values with Nimsoft and that they are truly committed to proving themselves to their customers year after year, it would be a major win that would go well beyond keeping Nimsoft's current customer base intact.

Over the last two years, CA did a good job of gradually changing its reputation from a company that is making acquisitions just to improve its revenue stream (or get emerging competitors out of the way) to a vendor that has a very clear vision, and it is buying only the missing pieces to a large puzzle they had envisioned. The Wily acquisition was a good chance for CA to prove that they are serious about changing how they go about strengthening their position in the market, and it is safe to say that they already passed the test. However, the Nimsoft acquisition gives CA a leg up in the two markets that

they traditionally have had a hard time competing in: mid-market and MSPs. Leveraging Nimsoft's technology only, will not be enough for CA to become a true leader in these markets, and the company's success will be largely determined by its willingness to adjust its delivery methods, sales approach, and marketing messaging to the needs of these markets.

### Addressing Key Market Trends

Systems management and IT service delivery markets have gone through a lot of changes over the last three years. The current market landscape consists of both products that were designed 15-20 years ago to address a different set of problems than those that end-users are experiencing today and of solutions that recently entered the market and were designed to manage new types of enterprise infrastructure. The market was traditionally dominated by the "Big 4", but changes in end-user requirements and the increased complexity of managing IT infrastructure changed a lot of dynamics in this market and opened up opportunities for new and innovative solutions.

"Big 4" vendors chose different strategies for dealing with these new challenges. Some of them are predominately relying on periodically upgrading products that they developed, or acquired years ago, and using their pricing models to "lock" their customers into long-term commitments. Others choose to deal with these new trends head on and reinvent themselves as providers of solutions that will address the challenges of the present and future, not the past. CA falls into the latter group of vendors. Over the last 12 months, CA made a few significant moves to position itself as a leader in the IT service delivery market. This is not only a result of the 5 acquisitions that CA has made in the last 12 months, but also the packaging and positioning of products that they already had. In terms of their technology initiatives, they did a good job of understanding the importance of a transaction-based approach for monitoring the delivery of IT services, which is something that forward-thinking organizations increasingly care about. Also, they have been leveraging the strengths of their CA Wily product to position themselves as a leader in the growing end-user monitoring market.

However, there are some other trends in the market that could pose significant challenges for CA's execution of its strategy in the IT service delivery market. These trends can be summarized as the following:

- **Ease of deployment and management.** Organizations are getting tired of having to use many different toolsets to manage their infrastructure, long and labor intensive deployment cycles, as well as the amount of instrumentation it takes to get these products up and running. For that reason, they are becoming increasingly interested in using a single product, or multiple products that can be managed through a single platform.
- **Usability of performance information.** Many organizations are experiencing the following problem: improvements in the ability to collect data about the quality of IT service delivery do not necessarily translate into performance improvements. As the complexity of enterprise infrastructure increases, the role that analytics plays in turning this data into actionable and relevant information is becoming more important.

- **Aligning IT initiatives with business requirements.** Even though organizations are becoming increasingly interested in changing IT from a cost center to a source of innovation and business growth, many of them are still spending too many resources on just “keeping the lights on” and maintaining and managing the IT infrastructure that they already have in place. This leaves an insufficient portion of their IT budgets for investments in new IT projects and services that can truly support business growth and create competitive differentiators.

Nimsoft has been successful in addressing each of these trends, as it was: 1) providing a unified solution that is easy to deploy and manage; 2) delivering advanced performance analytics built around the idea of delivering the right information to the right people at the right time; 3) enabling organizations to significantly reduce the cost of IT operations. CA’s success in dealing with these issues will depend on a strategic decision that they need to make: should Nimsoft become just another toolset in CA’s portfolio or the cornerstone of their new IT management offerings?

### **Keep an Eye on the IT Service Delivery Mid-Market**

The mid-market for IT service delivery solutions has been generally underserved. Many larger vendors were not focusing on this market segment, and they were not able to offer solutions that were flexible and easy to use and manage, but still include all technology capabilities that end-users needed. However, there are a number of vendors that are keeping their fingers crossed that CA will fail to take advantage of Nimsoft’s technology as they are realizing a potential existing in this market and are going after it pretty hard.

Nimsoft has a leadership position in this market, and even though their mantra was “an alternative to the Big 4” their true competitors were the likes of Zenoss, Nagios, Quest Software, SolarWinds, NetIQ, and Dell’s SilverBack Technologies. It is expected that these companies will see the acquisition as a major opportunity and keep CA and Nimsoft on their toes and wait for their mistakes to increase their share of the market. Additionally, emerging vendors such as AccelOps and Zyrion are well positioned to continue their growth and address some of the top challenges that end users are experiencing. Lastly, CA is not the only one of the Big 4 who understands opportunities that this market presents, as small to medium size enterprises are one of the key focus areas for HP Software in 2010.

The mid-market is expected to keep growing, but is also expected to continue to be the key source of innovation in the IT service delivery market. We are already seeing innovative vendors such as Zenoss leveraging their open source platform and innovativeness of their community to create competitive advantages in managing new and emerging types of enterprise infrastructures. Also, emerging vendors such as AccelOps are putting together an advanced mix of IT management capabilities while providing delivery methods and pricing models that are very compelling to this market segment. And large vendors such as HP are leveraging their strengths in the cloud and SaaS technologies to put together an innovative set of capabilities that could be very appealing for this market as well.

As a result of these dynamics in the mid-market, CA and Nimsoft have a fairly small time window to prove to end-user organizations that they are committed to innovation, customer service, and providing flexible delivery options before their position in this market starts to deteriorate.

### Summary

To be able to truly evaluate this acquisition, we have to go back to September of 2009 when the NetQoS acquisition was announced. At that time, many end users were asking the same question: Why is CA acquiring a technology that is very similar to what they already have in house? The answer was fairly simple: because NetQoS has better technology than what CA already has to offer in that market. In the case of Nimsoft, CA again has acquired one of its direct competitors, and there are a lot of similarities between the technology capabilities that CA already had in house and what they've bought. Even though the acquisition opens up many new market opportunities for CA, the bottom line is that they are buying a technology that they had difficulty competing against and that is better positioned to solve new problems in this market, as compared to what they already had. It should be noted that, in both cases, CA bought companies that had established themselves as true leaders in their market segments and had very good success in competing with incumbents in these markets.

The Nimsoft acquisition is a move that gives CA an opportunity to completely reinvent itself from a technology perspective and take a leadership position in the IT service delivery market. CA now has all the tools it needs to start a new phase of the company's development and leap over the competition. The new CA, with a technology portfolio that would be predominately built around Wily, NetQoS and Nimsoft solutions – which is a unique mix of best-of-breed offerings – has the chance to become the company to beat in the IT service delivery market. For this to actually happen, it will in large part depend on the role they pick for Nimsoft in their current product portfolio.

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