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What Future for Software Vendors? - by Stephen Poe, EDP

What does HP's announcement of their pending purchase of Exstream and all the other merges and acquisitions in the past few years – mean for our industry? Are software vendors facing extinction or it is just the down portion of a larger cycle?

Although the hardware vendors have always been the largest companies in our industry, the past two decades have seen the founding and rise of many smaller independent software vendors (ISVs). ISVs helped drive our market by enabling more hardware functionality and by enabling functionality driving line of business applications.

For example, the current Transpromo revolution

Traceable to Rogers & Pepper's 1993 introduction of the 1 to 1 marketing revolution – it was driven by a combination of falling prices for data storage and processing along with advances in databases, data mining, and sophisticated document composition software which could take advantage of the data collected and stored. Even today's newest Transpromo functionality – cheap color – requires more ability to gather, store, analyze, and compose documents before they can take advantage of the new color printers. Under the covers, it requires more sophisticated software to handle not only color objects but also other color-related issues such as conversion between different color spaces.

And the rise of creation, storage and finally display of electronic documents is almost purely software driven, including new advances in marketing which accrue strictly to online documents, such as targeted URLs, and those shared with hardcopy, such as electronic inserts.

Finally, the added functionality and flexibility from other software, such as Document Re-engineering, conversions and transforms permits companies to leverage their hardware investments with better load balancing and higher production efficiencies.

But little is left of a once thriving ISV field within our industry

After the Exstream acquisition, the high end (measured by annual revenue) document composition software field has no independent ISVs left; all absorbed by larger hardware companies except Docucorp going to Skywire/Hall Financial Group. The conversion/transform field is shrinking after the GenText, Emtex, Streamweaver and Transformer acquisitions. And even the larger mixed

software/hardware players are being gobbled up – InfoPrint by Ricoh, and rumors of Océ possibly being next.

So what do all these acquisitions foretell?

Is the ISV a doomed creature in our industry? Perhaps not. Instead, a review of history shows that it's part of a cycle that is playing out yet again. Small, nimble software firms are founded and grow quickly, inhabiting emerging niches in areas too small to be considered by the larger players, or in areas of new technology where quick response to launch a new product can pay off. As these companies grow, they themselves slow down due to larger company size, and become attractive targets to the large hardware corporations.

After they are purchased and assimilated, their focus shifts to supporting the parent company's needs. This certainly benefits the parent company, but frequently means the original ability to quickly respond to changing market trends is diminished, leaving an opportunity for a new start-up ISV to again enter the fray.

An excellent example of this is the Exstream sale - Davis Marksbury and Dan Kloiber, serial entrepreneurs, have now successfully ridden this cycle three times, first with PDR Information Services, then with PDR Advanced Technology, and now with Exstream.

So what does it mean for our industry?

It means the cycle is still going. The end of the acquisition cycle heralds the start of the new ISV growth cycle. It means watch out for that next generation of small, nimble ISVs coming up; see where they take us next.

Attend XDU; listen to the sessions, and walk the floor at the exhibition hall in Boston; see for yourself what the small ISVs are offering and where the market may be heading in the next few years.

Stephen D. Poe, EDP is VP of Product Management for Crawford Technologies where he is responsible for helping Crawford Technologies expand their existing product lines and move into new market spaces and geographies. His 20+ years in this industry have been primarily spent working for or consulting to ISVs. He is a frequent speaker at technical conference and an author in the trade press. He is a member of AIIM and Xplor International and was a member of the W3C Advisory Committee and an invited consultant to the European Standards Organization.

At XDU in Boston, Poe will be chairing the Executive Technology Panels: Software course on Tuesday and the Document, Statement and Transpromo Re-engineering course on Monday. He can be reached at spoe@crawfordtech.com.