Smart Moves When Your Vendor Is Sold

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If nothing else, the software suitors -- both welcome and unwelcome -- that have put themselves forward over the last few weeks have driven home the fact that no matter how big or seemingly "safe" a vendor might be, it still could up for grabs by a competitor. "Buyers always knew the best-of-breed vendors were a risk for acquisition, but now they look at PeopleSoft (Nasdaq: PSFT - news) and wonder if there is any investment that is safe," Gartner vice president and research director Rob DeSisto told CRMDaily.com.

Indeed, these can be scary times for software buyers. Even in an ideal acquisition -- say the deal promises to deliver a more robust product down the line -- there is disruption and inconvenience for users. In the worst cases -- when a vendor acquires a company for its customer base or market share and clearly has no intention of supporting two competing products -- a company can kiss goodbye its multimillion-dollar software investment.

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Meanwhile, more than one analyst is predicting a new M&A wave. "Certain software sectors are still overbuilt with vendors for the number of customers available," AMR Research senior analyst Louis Columbus told CRMDaily. "Watch out for smaller vendors with little or no infrastructure turning into Microsoft (Nasdaq: MSFT - news), Oracle (Nasdaq: ORCL - news), PeopleSoft and SAP (NYSE: SAP - news) road kill."

"All industries have a consolidation cycle, and clearly it has started in software," Gartner research analyst Bob Mack told CRMDaily. "The best defense may well be to decide in the beginning to go with the biggest player out there" despite the new uncertainties.

But as Oracle demonstrated to the market, even the big vendors are not necessarily safe. Smart companies should prepare -- or perhaps better put, brace themselves -- for the possibility that one

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or more of its software vendors will be acquired at some point. And when it happens, it will not be pretty.

Hostage Audience

"There is not a whole lot users can do if an acquiring vendor decides not to come out with a new release or stretch out maintenance releases," Mack said. For example, a user can work into a contract clauses that provide compensation in cases of acquisition, but these are fairly worthless, he said. "Every vendor has escape clauses built into a contract anyway, and they get excised one way or another."

That said, users are not completely at a vendor's mercy.

For starters, user groups are one of the best ways to get a vendor's attention. "Microsoft has shifted some of its policies when user groups -- and in some cases Gartner -- raised holy hell," Mack said. Unfortunately, the most companies can hope for is to influence how a vendor executes certain activities. "Vendors rarely make contractual promises to user groups."

Companies also can negotiate to put the source code into escrow in case of business failure or acquisition. This too is only a limited solution, though. "That idea worked well before there were ERP systems," Mack said. "Now companies have to deal with integration issues and very complex software."

Paid To Switch

It is important to remember that the acquiring vendor does not want to make enemies of its brand new customer base, at least not right off the bat. "The acquiring company will want to migrate the customer to its suite of products," Sheryl Kingstone, Yankee Group analyst told CRMDaily. "In order to ensure this, the company will give the customer financial incentives to move." Kingstone advises companies "to get as much for that existing license as possible."

Getting paid to switch is the best possible alternative to not having the vendor ever acquired in the first place. "Get off that application as seamlessly as possible. You don't want an application that is only in maintenance mode."

In the Long Term

Companies have more leeway if they start thinking about how acquisition issues will play out in the long term, Liz Roche, vice president of technology research services for the Meta Group told CRMDaily. For example, Siebel (Nasdaq: SEBL - news) has been singled out by analysts as the big loser in an Oracle-PeopleSoft line up. This is not necessarily the case, she said.

"I think this would be a great development for Siebel," Roche said. "Siebel has been taking a lot of hits because it doesn't offer an integrated back-end ERP system. What the Oracle bid has done is call into question whether a company might be safer spreading around vendor investments, rather than trying to create an enterprise (news - web sites) backbone with one vendor."

Indeed, Mack says one of the best long-term defenses is to opt for modularized software as much as possible and to ensure packages are integrated within an architecture that allows a standard interface.

That may be the ideal solution, but reality has a way of making things difficult for companies. "The ERP vendors, no matter how much they pay lip service to this ideal, are not about to create an environment that allows this," said Mack.

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