

BMC Acquires Identify Software

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BMC Software recently closed its purchase of Identify Software, signaling its movement into the application support (and development) market and enabling leverage in other strategic initiatives. Moving beyond a pure production focus will strengthen its position but also offer new challenges.

WHAT YOU NEED TO KNOW

The acquisition of Identify Software is an opportunistic move by BMC Software to open up new markets and blunt competitive efforts, but it has the usual execution and technology challenges. Identify customers should be bullish on the improved prospects for their investments, given that they are now part of a larger company. Conventional advice to lock in current maintenance contracts as soon as possible also stands. Given the enthusiasm of current Identify customers, existing BMC clients will want to evaluate this new portfolio tool to assess how it can improve their application support processes. They should, however, assign realistic assessments as to when BMC will be able to reduce the duplicative agent and associated management infrastructure.

ANALYSIS

On 27 March 2006, BMC Software announced the acquisition of Identify Software for \$150 million in cash. The transaction officially closed on 9 May 2006, and Yochi Slonim, former CEO of Identify, is now in charge of BMC's Transaction Management organization. BMC is placing Identify's AppSight product under its Transaction Management family, which previously included two products: MAINVIEW Transaction Analyzer, which tracks real transactions through the mainframe; and BMC Transaction Management Application Response Time, which measures and baselines end-user experience using synthetic transactions and captures session details for diagnosis of failed transactions. AppSight fills a gap in BMC's Transaction Management family by enabling the diagnosis of the root cause of end-to-

end transaction problems and minimizing the need for application support staff to attempt to re-create the problem after the fact.

Background

Originally founded in 1996 as Mutek, Identify provides tools for individuals within IT who are focused on application support (problem identification, resolution and application performance) activities. When Slonim assumed the leadership of then Mutek in July 2000, the company was primarily focused on meeting the needs of application developers. As this market fell increasingly under the purview of integrated development environment (IDE) providers, Slonim turned the company's attention to optimizing the activities of application support teams – an idea that had its genesis in his early days as a co-founder of Mercury and that company's transformation of the application testing marketplace. The strategy seems to have worked: Identify's fortunes improved with revenue growing from approximately \$4 million in 2002 to \$23 million last year, supporting an installed base of more than 500 customers. Gartner estimates that the company has received over \$60 million in private equity.

An AppSight Primer

The company's signature product, AppSight, uses its internally developed Black Box technology, so named because like its airline equivalent, it records critical information for diagnostics – but in this case oriented toward applications. Through a variety of agent-centric and invasive (yet not requiring code change) engineering techniques, such as (but not limited to) Windows message queue hooking, bytecode instrumentation, application programming interface interception and transaction tagging, data is provided from several perspectives – user, system and application for both desktop and server environments (the latter including J2EE and .NET). Implementers of the product not only can obtain deep-dive diagnostics (down to the source code level in some

cases), but also can trace transactions across supported platforms and even visually replay the original screens provided to the end user (and presented in context with the other diagnostic data). The product enables users to set up comparisons between transactions so that abnormalities can be readily identified. All of this information is captured into a log file, which can be attached to problem records, and so on, to provide a common basis for coordinating problem resolution activities across multiple stakeholders.

In Gartner's discussions with end users of the product, it has generally received an enthusiastic endorsement with substantial benefit claims typically offered, ranging from reductions in problem identification time to reductions in overall application support costs (one client cited a problem scenario that had previously required over 200 hours to solve and now took only a few hours with the use of the product). That's the good news; the bad news is that while it is functionally rich, it is also often found to be complex (one reference was to it being a big Swiss army knife). Clients cite the need for education and even post-deployment training to effectively use the tool. Data collection is done via the configuration of recording profiles, which, if not performed carefully, can "crush" a server, according to earlier customer feedback. Since those client discussions, however, Identify has added new capabilities, such as recording permissions, as well as product threshold settings to prevent inadvertent resource consumption.

The Opportunity for BMC

The allure of Identify for BMC is manifold. First, the technical depth of the AppSight product will help to re-establish BMC's prowess in the overall application management market. BMC had seemed to be ignoring this market over the past several years, much to its detriment, given the rapid growth of architectures based on J2EE and service-oriented architecture (CA was in a somewhat similar position prior to its acquisition recently of Wily Technology.

Second, and potentially more important, the acquisition of Identify brings with it a new IT organizational constituency (primarily application support but also application development) for BMC to sell into and to potentially leverage for upsell opportunities. In our most recent Data Center Operations survey, over 60 percent of the respondents indicated that application support (including development) teams not only were responsible for areas such as traditional problem determination, but had complete application management responsibility within their enterprises, so this is increasingly an important group of management product stakeholders. Third, the acquisition will augment the company's overall service management strategy, because there are relevant linkages with its Remedy service desk offering, given the often close coordination between the help desk and application support teams. Finally, while it may be difficult to place a dollar value on it, a key aspect of the acquisition is that it provides an opportunity for BMC to become relevant earlier in the application management life cycle and, hence, begin to chip away at some of the advantage that this position has offered Compuware, IBM, Mercury and Microsoft. While AppSight is not a testing tool, many Identify customers use it in conjunction with products such as Mercury's LoadRunner to evaluate application internals during various testing exercises (as Gartner has previously noted, Mercury has adroitly leveraged its testing capability into enabling the follow-on sales of application management tools). And of course developers still use the product for early debugging – a capability that was enhanced with AppSight's support for Microsoft's Visual Studio Team System.

Potential Challenges

While BMC managed to snag an opportunity seemingly overlooked by many of its competitors, the acquisition will still have its many challenges. Under pressure to reverse declining revenue and yet having a cash position exceeding \$1 billion, BMC is

continuously having to evaluate options to stimulate growth. The Identify acquisition will not significantly alter BMC's revenue situation anytime soon, although the company is clearly hopeful that it will be able to take a somewhat modest product and turn it into a sales dynamo, as it has done in the past with products such as PATROL (now known as BMC Performance Manager). Key to this effort will be the ability to retain Identify's sales team, because the current target buyer for the product is unfamiliar territory to BMC sales managers. Indeed BMC has only limited credibility in the pre-production and application support marketplace and could face a backlash from current Identify customers if the aggressive sales force reductions that BMC has undertaken with some frequency wind their way into the Identify sales force, or if current Identify sales team members resign because of issues related to the bureaucracy often found in larger companies.

BMC's investment in Identify may face tough times if it becomes perceived as a "once in a while problem diagnosis tool," which of course would limit its

potential market. Another issue is the product's cost: The per-seat cost (from the perspective of the product end user) exceeds \$20,000, and the product has an average sales price over \$150,000. This is a large cost for what is usually an unbudgeted item category. From a technology perspective, BMC will want to ensure that prospects of the AppSight product do not experience any negative performance impacts, and hence, some additional field support will likely be forthcoming. In addition, having Identify agents running simultaneously on the same platforms as BMC Performance Manager/PATROL agents may lead to additional resource (not to mention maintenance) issues, since there is no current commonality in terms of architecture. In the pre-production market, where Identify often sells, this is not an issue, because BMC agents are usually not deployed there, but this may become a bigger challenge in production environments, where IT managers are usually loath to burden their systems with multiple management agents.