

How Vendor Mergers are Shaping T&D

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The energy delivery industry has seen its share of major mergers and acquisitions (M&As) over the past few years among companies such as MidAmerican-PacifiCorp and Duke-Cinergy. Equally interesting has been the robust M&A activity among the community of vendors that provide technology solutions to energy delivery companies.

Over the past 10 to 15 years there has been a substantial shift in the industry from building systems internally from the ground up to buying commercially available products, usually from multiple vendors. As M&As have begun to take hold, buyers now have the opportunity to purchase integrated offerings from the newly merged entities.

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Vendor M&As can have both good and bad impacts on a utility. M&As may create more buying convenience, providing a "one-stop-shopping" opportunity, but at the same time may raise potential risks that did not exist before the merger. The challenge facing buyers

today is to leverage available marketplace expertise and experience to maximize the benefits and advantages that may exist, and to minimize the possible downsides.

VENDOR M&A DOWNSIDE

For new customers just preparing to purchase a system, a potential downside of having an integrated suite from one vendor is that there will be fewer opportunities for buyers to mix and match best-of-breed products. For example, a customer may have preferred to purchase their outage management system (OMS) from one vendor and their supervisory control and data acquisition (SCADA) system from another. Vendors providing these systems may be unwilling to expose their core technology to another vendor, should a customer determine that it wants to buy best-of-breed products from multiple vendors.

Further, a vendor may be planning future functionality in their product suite that is dependent upon their suite's interoperability. If a customer pursues a best-of-breed strategy, that new functionality may not be available under this integration scenario.

New customers who have purchased or are about to purchase a product at the time an M&A is announced face the potential problem of finding their product obsolete by the time their implementation is complete. The process of merging products may eliminate their product altogether or modify it so fundamentally that the customer has to start over. This may result in having to perform additional interface configuration, user training and business workflow modifications.

Existing customers face the difficult challenge of understanding the impacts on their current product as the newly merged company lays out its migration path. At this point, existing customers are at a turning point where it may be prudent to revisit the vendor marketplace to determine what is out there to meet their requirements.

M&As can put companies that were once partners at odds with each other. Conflicts between vendors can have a negative impact on all aspects of delivery — from integration to schedule to price to staffing resources.

VENDOR M&A UPSIDE

Buying convenience is one potential plus resulting from a vendor M&A. (See Table 1. “Summary of Several Major 2006 and 2007 Vendor M&As” for information on recent vendor mergers.) As products such as work management systems (WMS) and mobile work management (MWM), for example, become one combined application, the result is one integrated code stream, improving the product’s maintainability. In addition, the work involved in developing a seamlessly integrated business workflow will likely be significantly reduced.

From supply chain operations support perspectives, buying from one vendor will likely result in easier contract negotiations, one maintenance contract for all products from that vendor and potentially some reduction in general management overhead. Buying from one vendor could eliminate different product upgrade cycles as well. Yet another benefit of M&A activity can be improved financial viability of smaller vendors.

At the user level, a single vendor’s product line will likely have a common user interface. This reduces training costs and enhances the cultural acceptance of the product suite. For

example, a field employee will frequently utilize a WMS in the office. However, when going to the field, the product might be from a different vendor. Thus, the interface is different. In an integrated product suite environment, the user interface could be the same.

Mergers will also change the nature of product integration from one that previously may have been a highly customized, one-off solution to a more productized integration approach that ultimately can be configured and maintained more efficiently. It must be noted however that the integrated product suite does not happen immediately; typically, significant time and development cycles are involved.

Distribution and transmission companies are starting to look at broad strategies to standardize technology across both organizations. M&As have opened up these opportunities by enabling vendors to provide broader solutions to meet the needs of both distribution and transmission operations.

MITIGATING RISKS

Mergers and acquisitions are a fact of life in the vendor community. The best way to mitigate risks of such events is to establish an approach that will help you get answers to the “What does it mean to me?” question.

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Summary of Several Major 2006 and 2007 Vendor M&As

The past 18 months saw several key M&A deals closed among both well known and niche vendors. For example, IBM acquired MRO, an asset management system (AMS) vendor, and Oracle took on SPL, a supplier of AMS, outage management (OMS), work management (WMS), mobile work management (MWM), billing and customer service technology. Oracle also moved to buy Lodestar, to add meter data management systems (MDMS) to its suite.

Vista Equity Partners, a lesser-known company merged together Indus and Mobile Data Solutions Inc. (MDSI). LogicaCMG acquired Worksuite. In the advanced metering infrastructure (AMI) market, Hunt Technologies acquired StatSignal Inc. approximately six months after itself being acquired by Bayard Group. Bayard Group, who had already acquired Landis+Gyr in 2004, then added CellNet to its energy measurement and efficiency sector. (see following page for Table)

At a minimum the approach should address the following:

Determine Business Strategy and Commitment to Market Segment: A detailed understanding of the new, merged entity's business strategy is essential to fully comprehend the merger's impact on each utility's market needs. Are the vendors abandoning one functional area? Will they continue to invest in their products for the current functional area?

Understand Product Roadmap Strategy: Utility executives should require that the new vendor entity provide a detailed product roadmap strategy. What is the integration strategy for products that have overlapping functionality? If products are going to be integrated, what is the strategy for migrating customers to the new platform and at what cost, if any? What is the schedule for integration? How long before a true integrated product suite will be available?

Also important is knowing of plans from retiring a product that has already been deployed. If a product is going to be retired, what support will the vendor supply and for how long? And what is the migration path for existing customers?

Whatever the roadmap is, expect that it will take two to three complete release cycles to get a truly integrated suite. Often, the initial impact of the M&A is to shore up the finances of the acquired company as well as to affect the psyche and attention of the vendor's implementation team. There may also be diluted focus of the existing users groups as the merged company may decide to merge the user groups of the pre-merger products.

For a company in the midst of implementing one vendor's product, it is essential to determine the impact of future releases on the current implementation. The vendor's roadmap should provide the necessary assurances that investments today won't be wasted and that there is a reasonable migration path to the new integrated product platform.

Affirm Implementation and Support Team: Implementations in the utility industry usually run over extended periods of time in which strong working relationships evolve between vendor and utility project team members. It is fair and reasonable to ask the vendor to supply affirmation that the implementation team remains in place and/or they provide a transition plan that satisfies utility support requirements. Utilities with a support agreement in place for a product should affirm that the new entity will meet those requirements or provide a plan to do so.

Table 1. Summary of Several Major 2006 and 2007 Vendor M&As

Date	Companies	Work Functions	Description
Feb. 2006	LogicaCMG acquires Worksuite from Severn-Trent	AMS, WMS, MWM	Potential combination of Logica's AMS with Worksuite's WMS/MWM offering; Adds financial strength to Worksuite
Feb. 2006	ESCO Distribution Control Systems, Inc. (DCSI) acquires Hexagram Inc.	Automated meter reading/AMI	Marries electric market expertise with Hexagram's gas market expertise
March 2006	Bayard Group acquires Hunt Technologies	AMI	Expands its energy measurement and efficiency sector
Feb 2006	Bentley Acquires Cook-Hurlbert	GIS	Expands Bentley's MicroStation offerings to include utility network design and optimization software
Jun 2006	Sensus Metering Systems Acquires Assets of AMDS	AMR, AMI	Expands Sensus' AMR product and services portfolio with AMDS' fixed network RF system with full two-way communications
Aug. 2006	IBM acquires MRO	AMS	Bundles IBM's IT consulting with MRO's AMS software
Aug 2006	Cooper Power Systems acquires Cannon Technologies	AMR, DR, DA	Broaden the range of energy automation offerings
Sept. 2006	Hunt Technologies acquires StatSignal Inc.	AMI	Enables two-way transfer of meter data
Oct. 2006	Indus & Mobile Data Solutions Inc. (MDSI) merged via Vista Equity Partners (New name Ventyx – March 2007)	MWM, AMS & Customer Service	Potential combination tying Indus' asset and customer service functionality to MDSI's field work force application
Oct 2006	IBM acquires FileNet	ECM (Content Management), BPM	Strengthens IBM's presence in the ECM/BPM marketplace
Nov. 2006	Oracle acquires SPL (SPL had acquired CES in 2004)	AMS, OMS, WMS, MWM, Automated meter, plus billing and customer service	Positions Oracle to leverage SPL's asset, outage management, work management and mobile work management technology with widespread presence of Oracle database in utilities
Jan 2007	Mincom acquires Conversant	EAM/ERP, CIS	Extends Mincom's offerings beyond EAM into the customer care area
Jan 2007	Cooper Power Systems acquires Cybectec	Substation Automation	Broaden the range of energy automation offerings
Feb 2007	Bayard Group acquires Cellnet	AMI (fixed network), Distribution Automation	Expands its energy measurement and efficiency technology practice
April 2007	Itron acquires Actaris Metering Systems	AMI, Metering	Expands complimentary marketplace opportunities
May 2007	Oracle agrees to buy Lodestar	MDMS	Provide a more comprehensive suite for critical utility operational systems

Leverage Vendor User Group Relationships:

Vendor user groups provide utilities with access to peers who face similar issues, and these user communities are a powerful force that should be leveraged to influence vendor decisions.

Develop a Cost-Benefit Analysis: A vendor M&A that ultimately leads to a new integrated product could provide significant benefits in terms of an overall enterprise systems strategy. Remember, product integration requires significant investment by the vendor. It won't happen overnight, but this should not delay an in-progress implementation so long as a clear understanding of the vendor's product road map is in place.



LOOKING TO THE FUTURE

Over the coming year, many readers of this article will feel the direct impact — positive or negative — of M&As as discussed in this article. With the appropriate experience, the utility can navigate around the negatives and manage risks while realizing the additional efficiency gain opportunities. To be sure, bad things can happen when expectations don't match reality, but by establishing a good sense of what is real and practical and taking steps to leverage vendor relationships, utilities can come out ahead in the M&A game. Ask tough questions. Develop a mitigation strategy. Understand the cost-benefits of vendor plans for each unique situation. And move forward with the confidence of sound due diligence.

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