EMC Acquires Its Way to Juggernaut Status

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These days, EMC looks a little like the Energizer Bunny - it keeps going, and going, and going - seemingly unstoppable.

Despite criticism from some of its investors and from industry analysts, EMC continues to keep the acquisitions coming. The Hopkinton, Mass., data storage and IT infrastructure giant has swallowed so many companies (31) over the past five years that it has its own mergers and acquisitions news Web page .

It's all part of the plan, according to EMC's stated acquisition strategy. In a briefing last June, EMC Chief Financial Officer Bill Tueber explained that the Hopkinton, Mass., company's acquisition framework focuses on expanding its core business, entering fast-growing markets and rounding out current offerings.

EMC typically acquires younger, growing companies that are not yet fully profitable. If a company fits that mold, EMC executives then look at several other factors to determine whether it would make a valuable acquisition. First, it must fit into one of the company's areas of focus - IT, back office/transaction processing, information storage products and platform-based software, the EMC Software Group and VMware.

If it's deemed to be a fit, it is then evaluated to determine whether it will further the company's stated goals of moving aggressively into international markets.

So far, the company's strategy seems to be working. 2006 revenues were

just over $11 billion and Q1 2007 revenue rose nearly 15 percent. EMC is currently inching up the list of the world's top IT product companies, ahead of Symantec and just behind the likes of Dell, SAP, Oracle and HP. At the top are Microsoft, Cisco, IBM and Intel.

EMC's recent acquisitions are in line with a major shift the company made about three years ago, said Charles King, principal analyst at Pund-IT, a Hayward, Calif., consultancy.

"At about that time, they stopped talking about data and started talking about information, and their four business units - information storage (hardware), content management and archiving, security and VMWare - reflect that," he said.

When EMC considers an acquisition, it looks at it both strategically and tactically, added Brian Babineau, senior analyst at Enterprise Strategy Group of Milford, Mass.

"Those that can add immediate top-line revenue and also deliver incremental value to the rest of the business are strategic acquisitions, like VMware, Data General and RSA Security," he said.

The second group are acquisitions that lead to R&D savings by getting products to market faster or bringing new features into a product more quickly, he explained. These aren't necessarily top-linen revenue producers, but they might increase the company's existing product portfolio's revenues over time. Examples include the acquisitions of Kashya, Avamar and nLayers.

Data deduplication specialist Avamar, acquired in Nov. 2006, was a particularly timely move because it brought attention to a revolutionary space-saving technology just as it was starting to become a force in the data center. As a result, hundreds - perhaps thousands - of companies

began to consider adding a form of deduplication for their own systems.

Now, five months later, deduplication - which eliminates redundant data throughout a storage network to save capacity, improve bandwidth and use less electrical power - is one of the hottest trends in the data storage industry.

While the strategic acquisitions have certainly paid dividends above and beyond what many had expected, there is a balance between acquisition price and ROI (return on investment) when it comes to the tactical acquisitions.

"The public doesn't see those R&D savings. They are hard to measure if you don't have insight," Babineau said. "But overall, they have done a good job of picking the right apples off the tree."

The information storage part of the business is its most mature, and is what most people associate with the company. In that corner, EMC has a set of solid business products, from Symmetrix at the high end through Clarion, Centera and Celerra. The content management and archiving piece of the business is in more of a transitional phase, King said, but the acquisition of Documentum in 2003 has really helped.

VMware, everyone agrees, has been one of EMC's most successful acquisitions. Purchased in December of 2003 for about $600 million, the technology is on track to do $1 billion worth of business or more this year, King said.

The piece of the business that's the least settled is the security piece. The acquisition of RSA Security in June of last year was a good step, but the challenge is running it as a separate business while using the technology to supercharge its own products, King said.

Although EMC hasn't made any bad acquisitions, the purchases of Legato and Documentum do have some scratching their heads. Legato was an acquisition EMC perhaps hoped would pay off more than it has, while Documentum has paid off in some areas and caused problems in others. For example, while Documentum is EMC's foray into both the information classification and content management market and Legato into the backup space, both have archiving solutions, creating an uncomfortable overlap, Babineau said.

He also said that EMC could do a better job of generating more incremental savings from its acquisitions, including better management of layoffs, more product integration and less feature and product overlap between what it acquires and what it already owns.

As for what's next, Babineau expects EMC to make more tactical acquisitions on the security side, as well as on the resource software management side of the business.

"All in all, I'd give them an A- so far for their acquisition strategy," Babineau said.

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