



THE FUTURE OF PUBLISHING

Adobe's Designs on Web Analytics: The Omniture Acquisition

An Analysis by
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About the Report

Thank you for purchasing Adobe's Designs on Web Analytics: The Omniture Acquisition.

This report was researched and written by Thad McIlroy at The Future of Publishing. He was assisted by the many contributors to the report, by the vendors covered in the report, and by a freelance team including Bob McArthur, Beth Karita, Elia Kanaki and Tony Freeman. It was a great pleasure researching and writing this report. We hope that you derive similar pleasure reading it.

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About the Author

Thad McIlroy is an electronic publishing analyst and author, and founder of the website www.TheFutureofPublishing.com. Nearly a decade in the making, it is the most comprehensive source of information on where publishing is heading.

With some thirty-years of experience in the publishing industry, he is a well-established expert in the technology and marketing issues surrounding electronic publishing, color imaging and the Internet. He has authored a dozen books and over 200 articles on these subjects. McIlroy also served for five years as Program Director for Seybold Seminars.

As a consultant and analyst Thad McIlroy works closely with publishing and media companies, printers, design and advertising agencies, as well as vendors serving the electronic publishing industry. He serves also as an expert witness on patent litigation, and on other litigation related to technical and marketing issues in the publishing industry.

He is a contributing editor to PrintAction magazine, a contributing writer to The Seybold Report, a columnist/blogger for XMLPitstop.com and Gilbane.com, and on the editorial board of the journal Learned Publishing and the Canadian literary journal, Geist. He is a member of the Technical Association of the Graphic Arts (TAGA), the Association for Computing Machinery (ACM), and the Content Management Professionals (CMP). For three years in a row McIlroy was named as one of Canada's 50 most influential people in graphic communications.

McIlroy has spoken at the Seybold Conferences, the Gilbane Content Management conference, the Henry Stewart DAM conference, XPLOR, ePublishing (Denmark), the NAPL Top Management Conference, the I S & T Annual Conference, the International Association of Graphic Arts Service Providers (IPA) Technical Conference, and Prepress Asia.

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Executive Summary

This summary serves as a brief roadmap of the full analysis. The summary of key findings will be found in the conclusion of this document.

On September 15, 2009, Adobe Systems Incorporated (Adobe) announced its intention to acquire all of the shares of Omniture, Inc. (Omniture) for \$21.50 cash per share. This was a substantial (24%) premium compared to the previous day's closing price, although this metric does not fully reveal Adobe's valuation strategy. An examination of the rationale behind the valuation is contained in the body of this analysis.

The acquisition announcement was a great surprise to the investment community. As the postings included in Appendix B of this analysis clearly reveal, several commentators expressed very negative opinions of the probable outcome.

The overall analysis presented herein clarifies why the Adobe acquisition strategy should not be taken lightly. Adobe is a company with a far above-average success rate for merging new acquisitions with its core business. However, the Omniture acquisition is a very different type of purchase from previous Adobe undertakings. Never before has Adobe attempted to bring into its fold such a disparate business as that of Omniture.

Several convincing arguments favor the deal. Most superficially, why wouldn't the firm that has a leading market position in digital content and web site creation want to incorporate analytics into its offering? Even if seen as a game-changer, rules can always be changed.

This analysis examines the many advantages that may benefit both Adobe and Omniture in this arrangement, as well as the potential drawbacks. It draws on an array of direct interviews with competent primary sources among Adobe and Omniture executives as well as with their respective customers. Every effort has been made to provide a well-rounded perspective of the acquisition. Furthermore, some possible wild cards are considered that may not yet be fully factored into the equation.

Introduction

Adobe's intended acquisition of Omniture is the most fascinating purchase I've examined during my many years in this business. Looking back on Adobe's numerous acquisitions over the last 20 years the great majority were of technologies that complemented its core graphics software business. With the explosion of popularity of the World Wide Web, Adobe began to acquire web publishing software and related technologies, culminating with its largest acquisition ever, the purchase of Macromedia for \$3.6 billion in late 2005. But this also was viewed as a key addition to its efforts on the web.

Yet this proposed acquisition has also lead to consternation, confusion, and multiple concerns that Adobe has somehow driven its car into a canyon. Such was my initial reaction, [entered on my blog](#) soon after the hearing of the deal. However, shortly thereafter in discussion with colleagues I realized that there was very likely much more behind this proposal. I've always had the highest regard for Adobe as a company and the great majority of Adobe staff whom I've come to know over the years. Adobe does not spend \$1.8 billion carelessly.

The following analysis is not a brief overview that merely skims key points regarding the pending Omniture acquisition. It presents a detailed portrait of what may well change the entire landscape of the future of publishing in all its aspects, most certainly the impact of how publishing is practiced on the web.

My knowledge of Omniture before Adobe's offer was sparse. Without the same 20-plus-year knowledge that I have with Adobe, I can't comment on Omniture in the same way, but everything I am reading and learning about Omniture and its customers strengthens my belief that the cultures of the two firms will be a fit.

Omniture's co-founder and CEO, Josh James, is expected to make upwards of a hundred millions of dollars from this merger. Despite any private feelings about such a windfall, one should keep a balanced perspective. James is not a Johnny-come-lately to the party — he co-founded his firm in 1996. This payoff falls into the category of "sweat equity." Furthermore, the scale of this reward is an industry norm. Targeting individual cash winners in any particular acquisition is arbitrary. Considering that Google did not even file [for incorporation](#) until September 4, 1998, and didn't [launch Google Analytics](#) until November 2005, James should be seen as a visionary in his field.

The good fortune of a week's delay in publication of this analysis permitted my participation in the October 7, 2009 full-day Adobe session for financial analysts and inclusion of key slides that Adobe generously provided to the public from its presentations. The information that was gleaned has added essential detail and informative graphics to this study.

While large companies naturally prefer blessings rather than criticisms from analysts, I'm convinced that this proposed event is sufficiently controversial from a product match perspective to warrant the greater scrutiny contained in this report. My findings are based on publicly-issued documents, including SEC filings, interviews with staff at each firm, and interviews with their customers, and are supplemented by notes from the October 7, 2009 [Financial Analyst Meeting](#) (FAM), conducted by Adobe (with Omniture's James participating).

I have also quoted extensively from many other experts in the field, excerpting from their blogs and columns, and appreciate their willingness to share their opinions.

Adobe's current product offerings, its financial status, background on Omniture, and web analytics generally are explained in separate sections of this report. Those already familiar with any of these topics may want to skip them.

This report contains quotes from [two Omniture executives](#), its co-founder President and CEO, Josh James, and its Executive Vice President, Business Development and Corporate Strategy, John Mellor. Their [bios are available on Omniture's Web site](#). Several Adobe executives also are cited, and detailed information about them [is on the Adobe Web site](#).

Defining Web Analytics

One of the key reasons why many analysts and journalists are having difficulty discerning the value proposition behind Adobe's offer is likely due to a poor understanding of the nature of web analytics. Like many other concepts surrounding the Internet, web analytics is subject to interpretation. The term is not found in the Oxford English Dictionary. Wikipedia [describes it](#) as "the measurement, collection, analysis, and reporting of internet data for purposes of understanding and optimizing web usage." [WindowsHostingASP.net](#) says, "Web analytics is the study of the behavior of web site visitors. Web analytics especially refers to the use of data collected from a web site to determine which aspects of the web site work towards the business objectives; for example, which landing pages encourage people to make a purchase."

The Web Analytics Association [offers a PDF file](#) called "Web Analytics Definitions" that, although failing to define "web analytics" itself, does offer detailed explanations for much of the key terminology relevant to an in-depth interpretation. One must turn to [the association's website](#) to glean its official definition. "Web Analytics is the measurement, collection, analysis and reporting of Internet data for the purposes of understanding and optimizing web usage." (Wikipedia credits this source for its identical definition.)

[A September 2007 column by Colin Beasty](#), references a 2007 paid Forrester study on the topic ("The Forrester Wave: Web Analytics, Q3 2007") and quotes from it as follows:

According to a recent Forrester survey cited in the report, improving customer service reigns as the top theme driving adoption of web analytics. Seventy-one percent of 200 marketers surveyed stated that their organizations are currently using or planning to use web analytics, citing the following three reasons:

- **To understand what customers do online.** This comprehension allows site owners to see the sites that sent the most traffic to their site, the most popular entry pages into their sites, and the most popular links on any given page.
- **To find opportunities.** Web analytics lets marketers uncover not only problems but untapped potential as well, Burns says in the report. These solutions give marketers scenario analysis tools that show where visitors abandon key processes (such as checkout) and A/B comparison tools that let them gauge the relative benefits of a particular campaign.
- **To drive customer experience and marketing programs.** Businesses are beginning to invest in web analytic solutions, such as contact optimization and web interaction optimization, that create models from data and use those models to optimize the experience for a specific customer in real time.

According to a May 2009 entry on [the immeria blog](#), "Forrester just released the 'US Web Analytics Forecast, 2008 to 2014'. John Lovett, Forrester analyst, predicts the US web analytics market will reach \$1B by 2014, with a steady and amazing growth of 17% per year!" The blog later mentions, "Data from the [Web Analytics Solution Profiler \(WASP\)](#), a service that detects analytics solutions

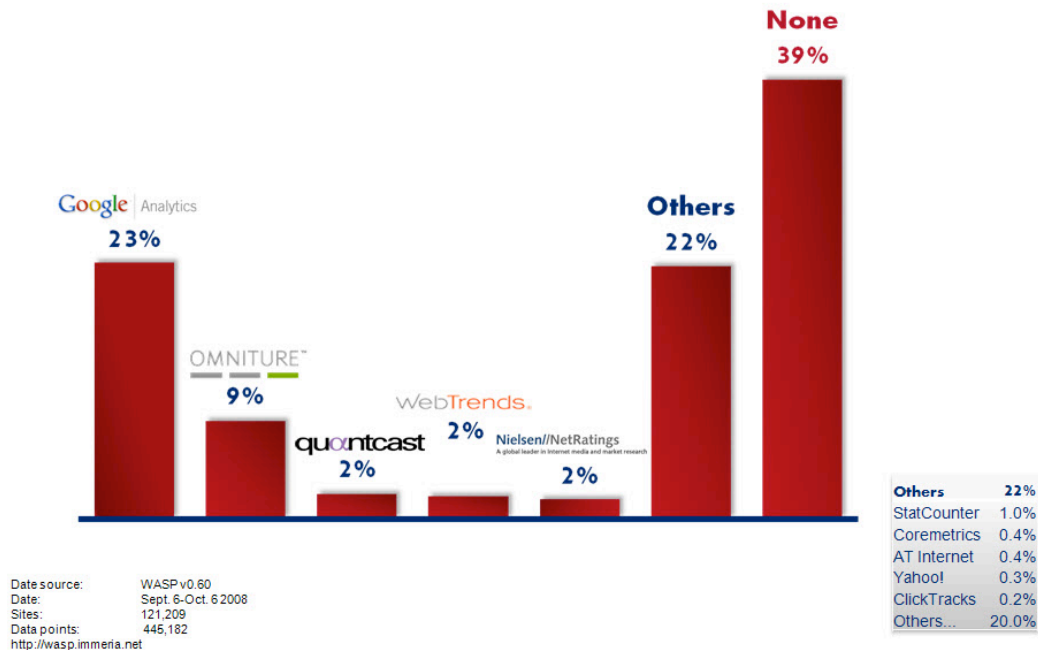
installed on web sites, projects that market penetration for web analytics is roughly 58%. WASP also estimates that 78% of total market share is currently held by free vendor solutions [emphasis mine].”

Stéphane Hamel runs [immeria](#), a consulting and training firm devoted to web analytics, and sells WASP, mentioned above.

In an October 2008 presentation, Hamel offered the following chart on market shares for web analytics only. The data appears at first to contradict his statement that “78% of total market share is currently held by free vendor solutions.” However, considering that nearly 40% do not use any tools, that number holds up.

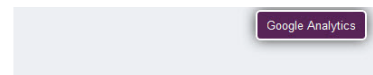
Market Shares

(web analytics only)

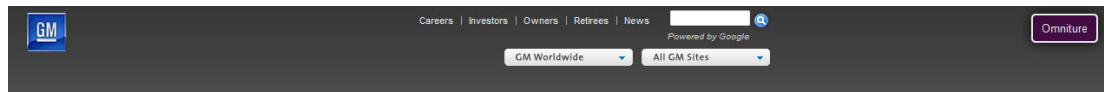


Source: Immeria

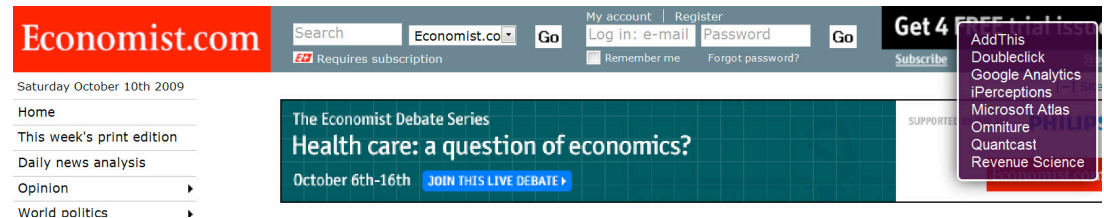
Note: the [free download](#) of WASP that works with Firefox is a fun tool to use. As you surf from site to site, it detects and briefly displays which analytics tools are employed by that site to follow you. Some have four or five. For example, GE, the fifth largest company in the U.S., surprisingly uses only Google Analytics.


 → SEARCH


General Motors, the sixth largest company on the Fortune 500, uses Omniture only.



In contrast, The Economist appears to have fallen in love with measurement.



Stéphane Hamel is also working on a technology called [Just-In-Time Tagging \(JITT\)](#), designed to be used with Omniture SiteCatalyst (Omniture's core product). It strikes me that this could be complementary to Adobe's efforts down the road.

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An excellent blog entry by Jim Sterne, the founding president and current chairman of the Web Analytics Association, titled "[The Numbers Don't Add Up](#)," is hailed by 20 commenters as "brilliant," "great" and more. It does a superb job of pointing to the ultimate limitations of the analytics endeavor. As Sterne writes that "the world of online marketing has been suffering from an delusion of precision and an expectation of exactitude...We live in a world of statistics and probabilities. We can't count all the stars in the sky, so we don't try."

Still, Sterne concludes: "The numbers don't have to be precise — just compelling."