



THE FUTURE OF PUBLISHING

Adobe's Designs on Web Analytics: The Omniture Acquisition

An Analysis by
Thad McIlroy
The Future of Publishing
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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.

The cooperation of anyone quoted in this report does not in any way imply their endorsement of the content of conclusions herein.

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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:

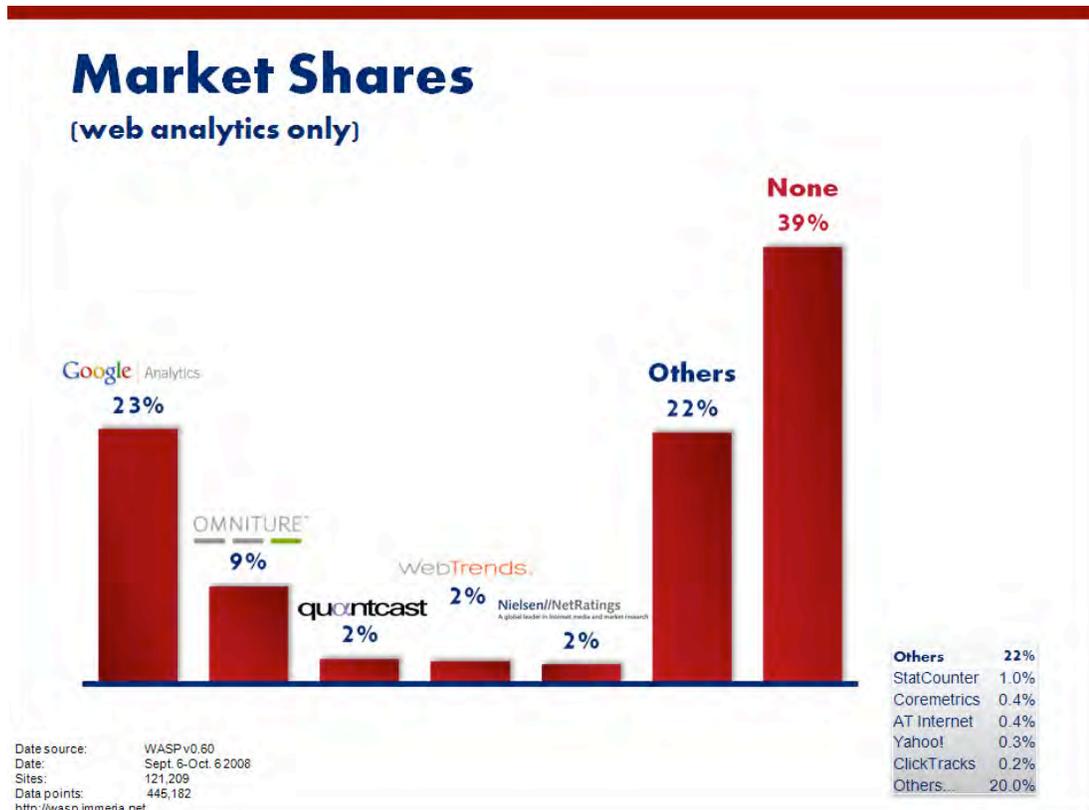
- **To understand what customers do online.** This comprehension allows site owners to see the sites that sent the most traffic to their site, the most popular entry pages into their sites, and the most popular links on any given page.
- **To find opportunities.** Web analytics lets marketers uncover 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.



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.



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."

Adobe Systems Inc.: Products, Financials, and Acquisitions



Adobe is the #2 most-admired computer software company on [Fortune magazine's 2009 rankings](#) (just behind Intuit). It is #11 in the magazine's [2009 rankings of the 100 Best Places to Work in the United States](#). Adobe also ranked #21 on list of top 50 Socially Responsible Companies in the U.S., published by the Boston College Center for Corporate Citizenship and Reputation Institute. In 2009, BusinessWeek/Interbrand [included Adobe](#) for the first time among its selected 100 best global brands. Furthermore, Adobe holds 636 patents in the U.S., qualifying it as an unquestionably fine firm from any number of perspectives.

Quoting from Adobe's Corporate Overview:

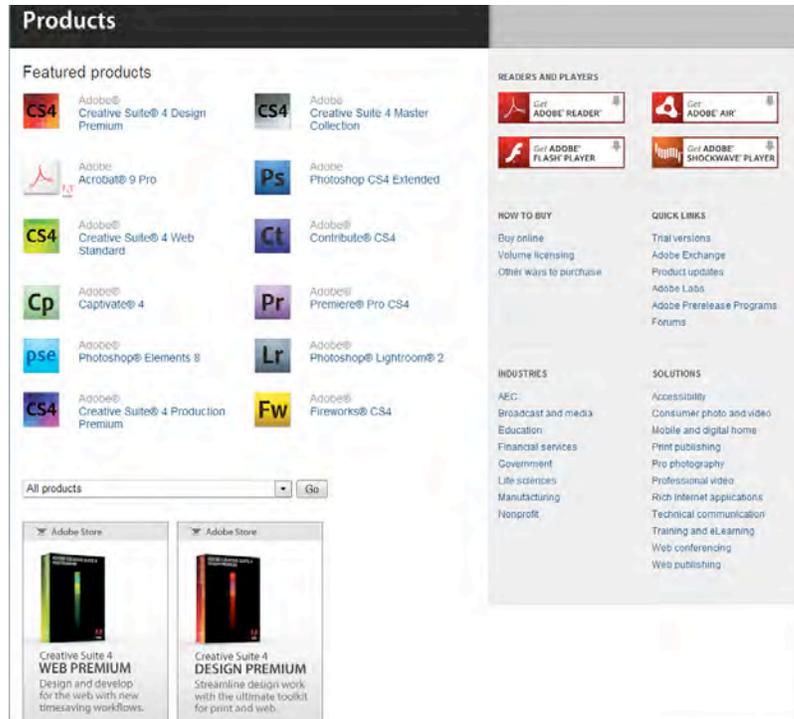
Adobe founders Chuck Geschke and John Warnock shared a vision for publishing and graphic arts that would forever change how people create and engage with information. The two men met in the late 1970s while working at the renowned Xerox Palo Alto Research Center (PARC), where they researched device-independent graphic systems and printing. Excited by the potential of their work to reshape computing, Geschke and Warnock eventually realized that the only way to take their ideas from the lab to the burgeoning technology market would be to create their own company.

In 1982, they founded Adobe Systems Incorporated on a simple premise: how could text and images on a computer screen translate beautifully and accurately into print? A year later, they helped launch the desktop publishing revolution by introducing Adobe PostScript technology, providing a radical new approach to printing text and images on paper. For the first time, a computer file could be printed exactly as it appeared on screen, with all formatting, graphics and fonts intact. Adobe PostScript was licensed to printer manufacturers worldwide and delivered unprecedented cost savings and productivity enhancements. It continues to be a core technology on printers today.

This is just the beginning of the saga about how Adobe has become one of the largest software companies in the world (depending on how one accounts software companies, with a large part of their revenues come from services), now employing over 7,000 people (half outside the U.S.).

Products

The following screenshot provides a sense of the range of Adobe's product offerings but does not begin to reveal the true extent. Most people think of Adobe as the company that sells Photoshop, Illustrator, Acrobat, and perhaps, if they're more knowledgeable, the Creative Suite bundle, currently in version 4.



Source: Adobe Systems Inc.

At the recent [FAM](#), the following chart was proffered in the slides of one Adobe executive. It shows the icons used for most of Adobe's products, and in many ways it represents the somewhat exhausting breadth of Adobe's current offerings.



Source: Adobe Systems Inc.

Of special note, the Adobe Creative Suite 4 Master Collection, Adobe's most comprehensive shrink-wrapped offering (at \$2,499 US), contains over a dozen individual software programs and is described on Adobe's web site as follows:

Leverage the power of Adobe Creative Suite 4 Master Collection software, a comprehensive cross-media creative environment for designing print, interactive, web, film, video, and mobile content. Design freely with images, vectors, video, and sound, moving easily from page to

screen. Master Collection integrates new versions of your favorite Adobe software to keep your creative world growing at the pace of your imagination.

Master Collection combines Adobe InDesign CS4, Photoshop CS4 Extended, Illustrator CS4, Acrobat 9 Pro, Flash CS4 Professional, Dreamweaver CS4, Fireworks CS4, Contribute CS4, After Effects CS4, Adobe Premiere Pro CS4, Soundbooth CS4, Adobe OnLocation CS4, and Encore CS4 with additional tools and services.

Thirteen individual, full-fledged software programs, plus a bevy of powerful under-the-hood technologies greatly enhance the interoperability of the Suite. This is not an example of “let’s just toss a bunch of software in a box and make the price cheaper than if the software was purchased separately.” It is a remarkably powerful set of tools that can function stand-alone, but becomes geometrically more powerful with the glue that Adobe has developed to link them.

Few customers recognize the full range of tools available from Adobe today among just its shrink-wrapped products, and fewer still are aware of its many additional products, numerous server-based, intended for larger organizations (refer to the next section for more details).

Financials

Although the company was founded in the early 1980s, the earliest Adobe [annual report available online from the SEC](#) is dated 1994. Adobe was, to say the least, a very different company 15 years ago (the year it acquired Aldus PageMaker software). Some comparisons:

- As of December 31, 1994, Adobe employed 1,565 people; as of May 29, 2009, it employed approximately 7,437 worldwide.
- Sales were \$598 million in 1994; they are projected to reach roughly \$2.9 billion by the end of November, Adobe’s fiscal year end.
- With Q3 figures now in, and with projections available for Q4, Adobe can expect an estimated 20 percent decline in year over year revenues between 2008 and 2009. Sales essentially leveled off in the last two quarters of 2008 and have been dropping steadily (though consistently from quarter to quarter) ever since. One reporter wrote that the company’s net profits will be off by 60 percent although Adobe’s SEC filings suggest that the 30% range is more likely.

It is very difficult to find a company comparable to Adobe. The closest, in my estimation, is [Corel Corporation](#) (Corel), which has a suite of shrink-wrapped products that are not dissimilar in scope to Adobe’s, although it lacks the enterprise products, web development tools and OEM business segments. Despite a market cap of about 4.4 percent and sales of roughly 7.5 percent of Adobe’s, Corel’s product offerings are sufficiently similar for comparison. Corel anticipates a sales decline of roughly 18 percent this year compared to 2008, similar to Adobe’s 20 percent. (Because of Corel’s much smaller size, profitability comparisons are not valid.)

The Upgrade Challenge

Adobe has had a particularly difficult time this year with the continued quarterly decline in sales of Creative Suite, compared to sales for the same periods in 2008. As reported in the company's 10-Q filing with the SEC for the second quarter of 2009, "Overall end-user demand for most of our products, particularly our Adobe Creative Suite family of products and our Adobe Acrobat family of products, remains weaker than comparable periods during fiscal 2008." Although Adobe does not show the breakdown in earnings from its software products—new sales and upgrades purchased by existing customers—indicators give a strong impression that the percentage of customers making upgrades from Creative Suite 3 to Creative Suite 4 has been disappointing (for example, a discounted upgrade price was extended beyond its original deadline). Furthermore, customer reaction to Creative Suite 4 was not universally positive.

A lone but interesting comment on upgrading was made by Aaron Hawkins of PixelClever, [noted in an extensive posting](#) on the topic. His conclusion stated, "Save your money. I wouldn't 'upgrade' to cs4 even if it was free... This is the most expensive upgrade that Adobe has posted thus far, and the product they are delivering still isn't cleaned up enough to justify even a normal upgrade fee. I recommend sticking to cs3 (or whatever version you are using). I don't really have my fingers crossed on a proper cs5 suite, but maybe, just maybe, if enough people refuse to upgrade they might put together a better release."

Reliance on upgrade revenue is becoming problematic for most software companies, not just for Adobe. Microsoft's Office Suite is comparable. It often is stated anecdotally that most Office customers use only 5-10 percent of the product's features. Users do not take the time to learn new features in upgrades, employers generally provide insufficient training, and the general customer response is suspicious of product upgrades, believing that software companies offer upgrades of little value, wanting just to generate additional revenue from existing customers.

My conclusion about Adobe Creative Suite 4 is that despite Adobe's best efforts, it was unable to alter the macro environment that would have made it possible for reviewers to clearly explain the product's great features to the Creative Suite 3 installed base.

Moving forward, this challenge will only increase for companies like Adobe. Technology is moving much faster than most users' abilities to comprehend and utilize it. As Adrian Kingsley-Hughes suggested [in a recent blog entry](#): Technology is great; it's us that are flawed!

Sales Revenues by Categories

In 1994, Adobe split its sales revenue into two categories: software (approximately 75 percent) and licensing Adobe PostScript software (about 25 percent). By 2007, Adobe was reporting sales in a plethora of often ill-defined categories: Creative Solutions, Knowledge Worker Solutions, Enterprise and Developer Solutions, Mobile and Device Solutions, and Other. In [its latest earnings release](#) (Q3, 2009), the sales categories are: Creative Solutions, Knowledge Worker, Enterprise, Platform, and Print and Publishing. The net effect of these more diffuse classifications makes it more difficult than ever to understand exactly how Adobe earns its revenue. Based on the cheat sheet guide to these

classifications (and the percentage of total revenue attached to each segment in Adobe's first three reported quarters for 2009), my interpretations are:

- Creative Solutions = Design software for print, digital imaging, video and the web (58 percent)
- Knowledge Worker = Acrobat and all related PDF-creation technologies (including Connect Pro) (22 percent)
- Enterprise (as defined by Adobe) = "Server-based enterprise interaction solutions that automate people-centric processes and contains revenue generated by our Adobe LiveCycle line of software products." (8 percent)
- Platform (as defined by Adobe) = "Includes client and developer technologies, such as Adobe Flash Player, Adobe Flash Lite, Adobe AIR, Adobe Flex, and Adobe Flex Builder software," and some others. (6 percent)
- Print and Publishing = Includes page layout software, type and the remains of the Adobe PostScript OEM business (6 percent)

So how well did I do? Adobe PR very kindly got back to me the first thing on a Sunday morning, pointing me to the [exact chart](#) I was seeking, buried in the Investor Relations section of its Web site. Here is the actual breakout:

FY2009 Business Segment Classifications
 Last Updated: June 16, 2009

	Products	
Creative Solutions	After Effects	OnLocation
	Audition	Photoshop
	Creative Suite Design Premium/Standard	Photoshop.com
	Creative Suite Master Collection	Photoshop Elements
	Creative Suite Production Premium	Photoshop Extended
	Creative Suite Web Premium/Standard	Photoshop Express
	Dreamweaver	Photoshop Lightroom
	Encore	Premiere Elements
	Fireworks	Premiere Express
	Flash Professional	Premiere Pro
	Flash Media Interactive Server	Scene7
	Flash Video Streaming Service	Soundbooth
	Illustrator	Ultra
	InDesign	Visual Communicator
	Media Player	Vlog It!

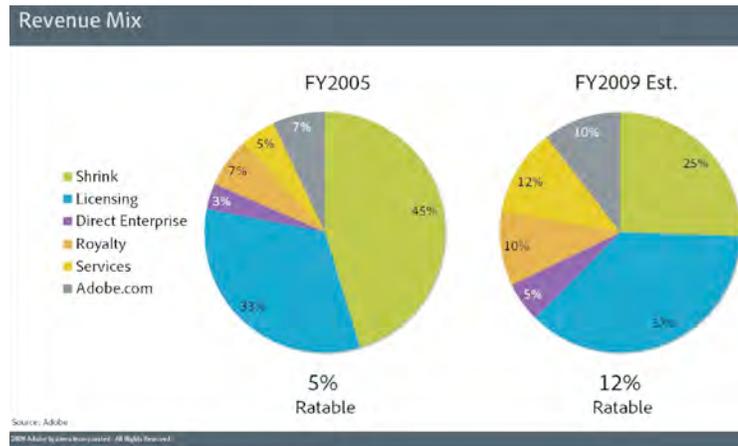
Business Productivity Solutions	<u>Knowledge Worker Segment</u>		
	Acrobat Standard	Acrobat Connect Pro	
	Acrobat Pro	Adobe Document Center	
	Acrobat Pro Extended	Acrobat.com	
	<u>Enterprise Segment</u>		
	LiveCycle Barcoded Forms ES	LiveCycle Output ES	
	LiveCycle Business Activity Monitoring ES	LiveCycle PDF Generator ES	
	LiveCycle Content Services ES	LiveCycle PDF Generator 3D ES	
	LiveCycle Data Services ES	LiveCycle Process Management ES	
	LiveCycle Digital Signatures ES	LiveCycle Production Print ES	
	LiveCycle ES Connectors for ECM	LiveCycle Reader Extensions ES	
	LiveCycle Forms ES	LiveCycle Rights Management ES	
	BlazeDS	Output Pak for mySAP.com	
	Central Pro Output Server	Web Output Pak	
	Platform	AIR	Flash Player
		Cold Fusion	Flex
Flash Catalyst		Flash Builder (formerly Flex Builder)	
Flash Cast		Flash Lite	
Flash Home		Flash Player SDK	
Print & Publishing	Authorware	PageMaker	
	Captivate	PDF Print Engine	
	Contribute	PostScript	
	Director	Robohelp	
	Font Folio	Shockwave Player	
	FrameMaker	Technical Communication Suite	
	Freehand	Type	
	Jrun		

Source: Adobe Systems Inc.

I missed only one small point: Individual web-authoring software products (e.g., Adobe Director and Adobe Contribute software), sold separately, are apparently added to the revenue of the Print and Publishing sector; when sold in bundles, the revenue accrues to the Creative Solutions sector.

What contributes to Adobe's "shrink-wrapped" software business accounts for approximately 80 percent of sales, while the other combined categories contribute the remaining 20 percent. It also is worth noting that in 2008, Adobe's top sales year, those last three categories offered on average 77 percent gross profit as a percentage of revenue, versus an average of 92.5 percent for the first two categories.

At the October 7 [FAM](#), some interesting additional detail (illustrated below) was offered by Adobe's CFO, Mark Garrett.

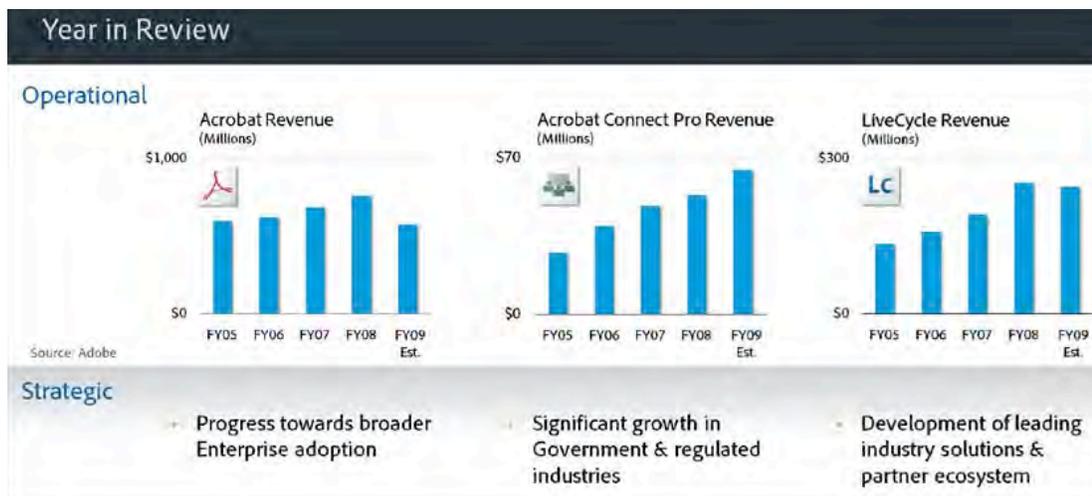


Source: Adobe Systems Inc.

Garrett examined Adobe's revenue from a very different perspective, to make several different points. When I use the term "shrink-wrapped software," the main distinction that I am making is as versus server-based software, sold by dedicated teams directly to larger corporations. When Garrett uses the term "Shrink" is this chart, he is referring to the sales outlet and physical delivery format — "Shrink" refers to physical boxes of software that are delivered directly to end-users through retail or other reseller channels. This is of course far less profitable than online downloads through Adobe.com (now account for 10 percent of sales), where no physical product to deliver exists and no middleman takes a cut of the revenue. (Apparently, 50 percent of upgrades are downloaded worldwide, and 70 percent in the U.S.)

Matt Thompson, SVP for Worldwide Sales, provided an interesting side note, "In several regions of the world, we have more piracy than sales."

Rob Tarkoff, SVP for Business Productivity, offered the following chart.



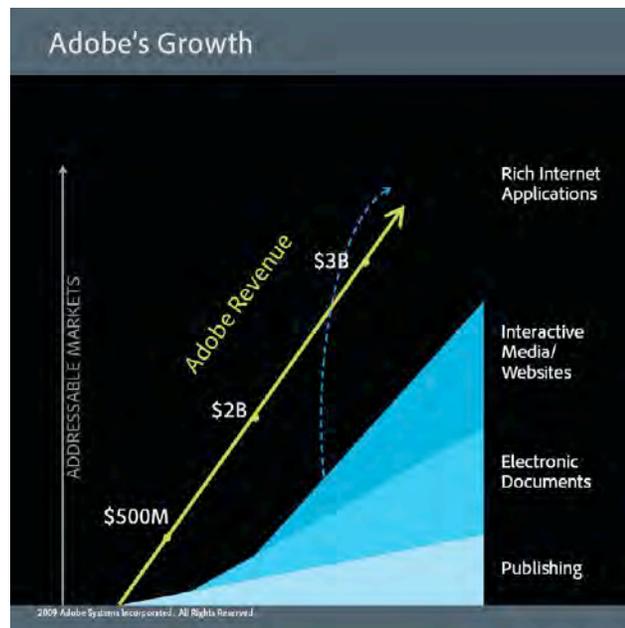
Source: Adobe Systems Inc.

Acrobat-related revenues, after peaking in FY2008, appear to be dropping this year at a faster rate than sales, overall. However, the Acrobat business is still much larger than the other two products shown in this chart.

Now that Flash Collaboration Service is being integrated into LiveCycle, sales are strong, although LiveCycle was characterized as a \$250 million business, about 8 percent of overall projected 2009 sales.

Certainly Adobe is betting heavily on the future of LiveCycle. Two extraordinary applications were demonstrated during [FAM](#), one with FedEx and the other with Morgan-Stanley. This must have taken extraordinary (and expensive) integration efforts, but the results are truly impressive.

Shantanu Narayen, Adobe's CEO, used the following chart in his presentation:



Source: Adobe Systems Inc.

Points made frequently at [FAM](#) were that Adobe plans a determined shift in the way its software will be used, and the company sees a very bright future in rich Internet applications (based on LiveCycle, AIR, etc), built of course with its creative tools and using lots of Flash.

Acquisitions

Few realize that the majority of Adobe's revenues today come from products that it has acquired rather than built in-house, perhaps mainly because it first created its reputation on very fine technologies that were developed primarily by the company founders, John Warnock and Chuck Geschke (who [received](#) The National Medal of Technology and Innovation from President Obama on October 7, 2009).

The products (and technologies) built in-house include Adobe PostScript software and type, created in the Adobe PostScript and OpenType formats, Adobe Illustrator, Adobe Acrobat, and Adobe InDesign software. Very few people realize that Photoshop was initially [acquired from](#) Thomas and John Knoll (although Adobe has greatly enhanced the produce since Version 1). Aldus provided PageMaker software, for many years Adobe's answer to the upstart QuarkXPress page layout application. FrameMaker was acquired, as have been most succeeding key Adobe software applications. Adobe certainly puts its great R&D teams onto developing such products post-acquisition. Since its early days, the company has grown largely through acquisitions (see a listing of Adobe acquisitions on the next page). Most, if not all, have been successful.

Eyebrows were raised at some early Adobe acquisitions, such as the \$438 million spent for Aldus and the \$567 million for the Frame technology. Have those acquisitions earned out? Adobe surely knows, although it is nearly impossible for an outsider to calculate with any certainty. The reported \$3.6 billion for Macromedia? It is very difficult to believe that the required ROI has been achieved yet, but so many secondary and peripheral values exist for Adobe in these acquisitions, and my view (and the general view held by other Adobe analysts) is that Adobe has a fair-to-good track record in its success. [Many studies](#) indicate that the success rate of acquisitions lies at 50 percent or less. Adobe has certainly outperformed the average.

Acquisitions					
Date	Company	Business	Country	Value (USD)	References
March 19, 1990	Emerald City Software	Software	United States	—	[9]
June 20, 1990	BluePoint Technologies	Computer chips	United States	—	[10]
June 1, 1992	LaserTools-Language Tech ^[note 1]	Software	United States	—	[11]
June 29, 1992	OCR Systems	Software	United States	—	[12]
August 31, 1994	Aldus	Publishing software	United States	\$437,676,000	[13]
September 9, 1994	LaserTools	Software	United States	—	[14]
October 30, 1995	Frame Technology	Publishing software	United States	\$566,567,000	[15]
May 20, 1996	Ares Software	Font management software	United States	—	[16]
March 14, 1997	Sandcastle	Internet latency software	United States	\$3,500,000	[17]
September 5, 1997	HyWay Ferranti	Computer software	United States	—	[18]
September 16, 1997	DigiDox	Electronic catalog	United States	—	[19]
January 4, 1999	GoLive Systems	Internet service provider	United States	—	[20]
December 5, 2001	Fotiva	Digital photo software	United States	—	[21]
April 15, 2002	Accelio ^[note 2]	Software	Canada	\$72,000,000	[22]
May 2003	Syntrillium Software	Software	United States	—	[23]
November 10, 2003	Yellow Dragon Software-Tech ^[note 3]	Tech assets	United States	—	[24]
December 7, 2004	OKYZ	3D collaboration software	France	—	[25]
December 3, 2005	Macromedia	Internet software	United States	\$3,573,000,000	[26]
December 16, 2005	Navisware	Enterprise software	United States	—	[27]
April 21, 2006	Trade and Technologies France	Wholesale software	France	—	[28]
June 26, 2006	Pixmantec	Software	Denmark	—	[29]
September 5, 2006	InterAKT	Software	Romania	—	[30]
October 19, 2006	Serious Magic	Video software	United States	—	[31]
May 31, 2007	Scene7	Multimedia software	United States	—	[32]
September 15, 2008	YaWah	Prepackaged software	Denmark	—	[33]
August 31, 2009	Business Catalyst	Hosting and eCommerce	Australia	—	[34]
September 15, 2009	Omniture	Web Analytics	United States	\$1,800,000,000	[35]

Source: [Wikipedia](#) (note: this listing is not exhaustive)

A further explanation of Adobe's acquisitions was provided by Adobe's CFO, Mark Garrett, in the recent October [FAM](#), illustrated as follows.



Garrett broke them down into three categories, as per the chart above. Most he termed small acquisitions or “tuck-ins.” Slightly larger acquisitions extended existing platforms or technologies. Only Macromedia and Omniture qualified for the “strategic growth” category.

Omniture, Inc: Products and Financials and Key Competitors

OMNITURE® [Omniture's web site](#) offers extensive background data. Presented here is a summary of Omniture's product offers and an examination of its financials.

The company is widely-considered as number one in its field, by just about any metric that can be applied. Its co-founder and CEO, Joshua James, is greatly-admired. One well informed [blog](#) states, "Nobody ever accused ...Josh James of lacking passion and vision; his reputation as a tenacious competitor is well deserved."

According to the [company fact sheet](#):

Omniture is a leading provider of online business optimization products and services, which are delivered through the Omniture Online Marketing Suite, services and solutions. Customers use Omniture products and services to manage and enhance their online, offline and multi-channel business initiatives.

Nearly 5,200 companies around the world rely on The Omniture Online Marketing Suite to optimize customer interactions—creating more personalized, relevant customer experiences while also maximizing the return on their marketing spend. The Omniture Online Marketing Suite offers superior usability, supports multiple languages and currencies, and is delivered securely via an on-demand infrastructure that is designed to scale with customer needs.

Powered by an Open Business Analytics Platform, the suite is supported by world-class services and a rich ecosystem of partners, developers and agencies. Omniture Client Services include ClientCare, with flexible support options and global access; Omniture Consulting, with a world-class implementation methodology and industry best practices; Omniture Education with on-demand and in-class certification programs.

The same document reveals that the company has essentially doubled its sales every year since 2005 (although often through acquisitions rather than organic sales growth).

Products

Perhaps as confusing as Adobe's offerings, [Omniture's products](#) also fall into a range of categories that use some generally unfamiliar vocabulary:

Online Marketing Suite

Visitor Acquisition

- Omniture SearchCenter Overview

Online Analytics

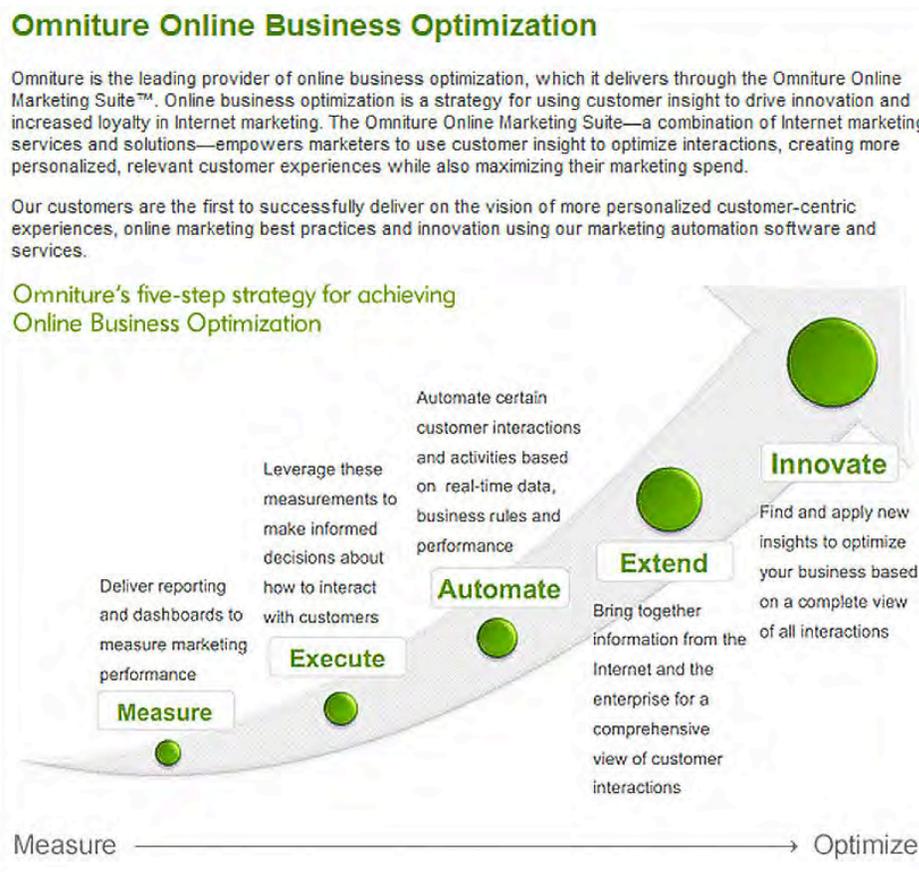
- Omniture SiteCatalyst Overview

- Omniture SiteCatalyst Screen Shots
- Omniture Discover Overview
- Omniture Insight Overview

Conversion

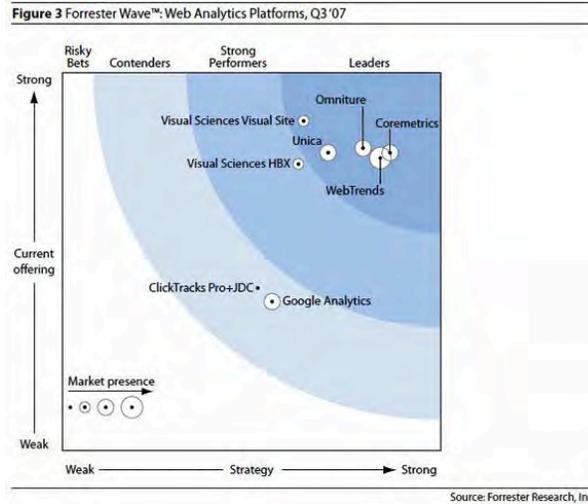
- Omniture Merchandising Overview
- Omniture Recommendations Overview
- Omniture SiteSearch Overview
- Omniture Survey Overview
- Omniture Test&Target Overview

Here is the easier-to-digest diagram:



Source: [Omniture](#)

Forrester Research, Inc. (Forrester) is one of the top firms following the web analytics industry, and its chief analyst for the sector, John Lovett, has an outstanding reputation. In the third quarter of 2007, Forrester strongly favored Omniture in its industry analysis, as illustrated in the following figure.



Secondary source: VisualRevenue

By the third quarter of 2009, Forrester placed Omniture unquestionably at the head of the pack, by examining current offerings, strategy, and market presence (as indicated by the larger circle, seen in the following illustration).



Secondary source: LaComperia

The 2009 Forrester report features the following commentary on Omniture:

Omniture leads the web analytics industry in its core data handling, reporting, and analysis capabilities, as well as through its ever-growing set of ancillary marketing applications.

The company effectively doubled in size in 2008 through the acquisition of leading competitor Visual Sciences, a move that also extended its ad hoc analysis offering substantially. While some criticize its comparatively high pricing, Omniture excels by offering extensive customization and deep drill-down access to multiple layers of data. Additionally, the product drives innovation in rich media measurement by being first to market in areas such as native Flash tracking and mobile application measurement. Omniture's executive vision is to leverage web analytics as the platform for all marketing activities, and it is aggressively developing its suite of online optimization products and services.

The fact that Omniture leads the web analytics North American industry is clear.

During the final edits for this report I received a very relevant email from Dr. Mathew McDougall, Group CEO & Executive Chairman of [the SinoTech Group](#). He asks: "I was wondering if you are going to speak about the whole in the purchase; the China factor. I am the CEO of a Chinese web analytics firm, SinoTech Group (<http://www.sinotechgroup.com.cn>) and have had direct discussions with Adobe about this."

I asked him to provide additional comment and received this on October 10, 2009:

When Adobe Systems and Omniture announced the details and rationale behind their merger, some interesting items emerged. Highlighted was the obvious benefit from a combination of Adobe's popular Flash video platform and Omniture's analytics capabilities. But in China, with some interesting market anomalies, this deal is less relevant.

Fundamentally in China, Adobe has been unable to stop the pirated trade in their software, Omniture (primarily because of pricing) has struggled to make a lot of inroads into the local Chinese web analytics market.

So although the deal makes sense in the more mature Western Markets, I believe the strategy misses a China story. From my assessment, a couple of options are possible for Adobe; purchase a local Chinese web analytics player (there are only a handful to choose from), partner with a local Chinese web analytics firm to provide a common global solution or just put this region on hold until they work out the rest of the world.

But given the growing importance of China, both from the maturing digital marketing/advertising perspective as well as the growing acceptance of web analytics from online publishers, I would suggest Adobe take one of the first two options; buy or partner.

I plead guilty, as would many of my colleagues, to an excessive North American focus on an industry that is now worldwide. [Nedstat](#) is almost exclusively European-focused. I wish that I had the knowledge to bring a worldwide perspective to this analysis, but following Adobe's lead, am focused primarily on North America.

Financials

As mentioned previously, although Omniture has doubled its annual sales consistently since at least 2004, its profitability has not kept pace. The company lost money each year. In 2007, the loss was

\$9.4 million; in 2008, \$44.8 million. Its first quarter 2009 loss was \$8.2 million, and its second quarter loss was \$4.9 million (a 24 percent decrease over the same quarter in 2008) on sales of \$87.6 million (a 22 percent increase over the same period in 2008). Third-quarter results were announced on October 15, 2009, and revealed a YTY sales increase of 13% (150 new customers were added) and a non-GAAP net income increase of some 50%, and a significant decrease in the GAAP net loss.

Thus, it is a good news/bad news story. Adobe clearly believes that the acquisition of Omniture will increase core Adobe sales. What is not clear from anything either company has said is how this might increase Adobe's profits. Indeed, Adobe CFO Mark Garrett said in the Q&A period at [FAM](#) on October 7, "We can't assume a lot of cost synergy." At the same time, Adobe CEO Shantanu Narayen stressed that the number one reason for the acquisition, at least in the shortterm, was to increase Adobe sales and profitability. This requires further clarification.

Omniture CEO Josh James made a presentation during the briefing (although he was not present during the Q&A, as the acquisition was still pending). He offered the following very persuasive graphic on the strength of Omniture's customer base.



Source: Omniture

At the same time, James made frequent references to how Omniture's business is changing from pure web analytics, illustrated as follows.



Source: Omniture

Exactly how those changes are playing out appears to me as still vague, but I found the best descriptions in articles referencing the Forrester report mentioned above (“US Web Analytics Forecast, 2008 to 2014”). For example, [according to MediaPost](#):

Forrester Research Senior Analyst John Lovett believes the industry has begun to get its footing, but maturity is still distant. Growth will emerge from unexpected places and become part of an array of integrated services supporting marketers. Web analytics can help companies identify profitable initiatives, prioritize marketing activities and focus on best campaigns. The macroeconomic conditions have forced the change.

Measuring social media has become important. Conversations about brands happen across the web and not just on the company’s web site, so the ability to measure offsite activity has become important, Lovett says. “The sophisticated users rely on their Web data to become more relevant to customers,” he says. “Rather than just send out marketing messages in a shotgun approach and trying to fill up the call center with leads, they look at the web analytic data to identify customers at a certain stage in a product lifecycle.”

By doing a little research on the back end to gather the data, it allows marketers to approach customers with specific messages that fit buying cycles, rather than approach them with a generic message they may disregard.

Although alarmist in tone, the article “[Zeroing In: The Frightening Future of Interactive Advertising](#),” published by the non-profit [Center for Digital Democracy](#) (CDD), is in fact the most informative I’ve found on where web analytics appears to be headed. Reading the article solely for its descriptions of emerging technologies and strategies in a marketspace now called Behavioral Targeting (BT), a more clear picture emerges. (Privacy concerns surrounding these technologies are discussed below.)

As Adobe’s SVP Creative Solutions Johnny Loiacono commented during the [FAM](#), “Web analytics is kind of yesterday,” while stressing the opportunity around business optimization.

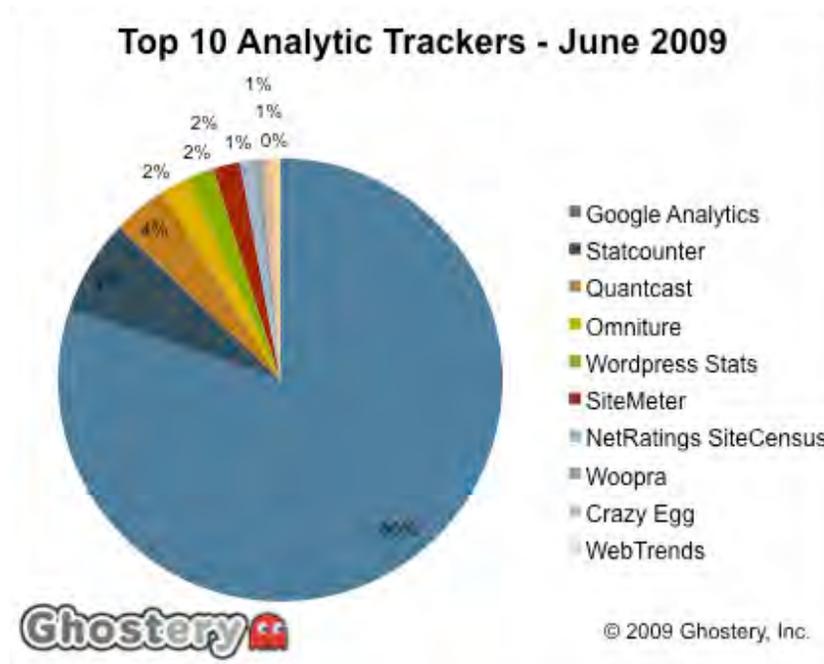
Omniture’s Competitors: Google Analytics and?

[In his report](#) “The Forrester Wave™: Web Analytics, Q3 2009,” John Lovett first references the (top) “Five vendors (which) achieve Leader status by showcasing innovation and vision.” These, he states, are “Omniture, [Coremetrics](#), [Unica](#), [Webtrends](#), and [Nedstat](#) (which) all demonstrate highly competitive capabilities, making vendor selection challenging.”

Numerous commentators suggest that Omniture is vulnerable to the free Google Analytics offering. Certainly Google Analytics has far larger market share than any other firm. This no doubt only partly because it’s free: as Forrester’s John Lovett notes in the same report, “Since (2007), (Google Analytics) has significantly enhanced its enterprise capabilities with numerous product rollouts, such as the ability to create custom reports, perform advanced segmentation, and visualize data using an interface tool.”

As much as anything, these top five vendors together target different markets, i.e., The Top Five look to the Global 2,000 corporations; Google targets everyone else. (Although please recall from the

beginning of this report that General Electric uses only Google Analytics on its public-facing site.) The following market share chart was created by [Ghostery, Inc.](#)



Source: [Ghostery](#)

By number of users Google has 80 percent and Omniture has 2 percent. This makes sense to me. To further illustrate the point, I offer an excerpt from the dialog that [appeared in a 2008 thread](#) in the “Website Analytics: Tracking and Logging” section of the [WebMasterWorld](#) web site.

Angelfan/7:02 pm on January 17, 2008

I am looking into purchasing Omniture, but during my meeting with Omniture I couldn't really see a clear difference between Google analytics and what Omniture has to offer.

In what ways do you think they're different?

Which one provides better more detailed reporting?

Lyndsay/8:56 pm on January 17, 2008

When I started my current position, I was only using Google Analytics... when they told me they use Omniture, I was set to convince them they should switch. Now that I've gotten to know Omniture (which has taken several months — its huge!) I much much prefer it.

It is so easy to set up customizable variables, tracking codes, and there are so many ready-made reports that Google just doesn't offer. I can accomplish a lot more in a small amount of time than with Google.

Although I should say that I still use only Google Analytics for small sites. Like, less than 100 pages.

Cgrantski/3:26 pm on January 18, 2008

It's like comparing a new Mercedes to a 1980 Volkswagen. Depends on your needs and style. A lot depends on whether all you do with a car is drive it around the block in good weather.

Angelfan/ 11:50 pm on January 18, 2008

Thanks all! It does make sense to use Google analytics for smaller sites and a paid analytics system for larger sites. I think I'm going to try out Omniture and post a review in a few weeks.

[A guest blog by Paul Holstein](#) from last November on the excellent [Web Analytics Demystified](#) web site addressed the question, "Why do we still need Omniture?" He posed the question first to the [Yahoo Web Analytics group](#), and then in this entry that summarizes the many responses that his question prompted, provides a more in-depth characterization of customer perceptions of the value of Omniture (along with, in several cases, a rebuttal). He also made the important point (as illustrated in the Forrester charts in this report) that Google has been adding a lot of features to its offering. Nonetheless, it remains a question that Google will seek to compete in the same marketplace as Omniture.

Hamish Ogilvy, in [a blog entry on datalicious.com](#), did a comparison and made the key point that Omniture is essentially the Microsoft Office Suite in its category: pricey, powerful, and packed with features many of which may never be used. Google Analytics web analytics service is the Microsoft Works package—\$40 (free in Google's case) and it probably does most of what the average business needs. (This is my analogy. Check his entry to see how he phrases the challenge.)

An Example of Analytics in PDF

Both Adobe executives and outside analysts have recognized that a key component of the web, PDF files, are not measured by Web analytics firms today. (See for example, Anil Batra's blog entry, [Why Did Adobe Buy Omniture?](#))

However, for several years [Vitrium Systems, Inc.](#) has sold an SaaS offering called [docmetrics](#). The [docmetrics site](#) contains video and online documentation about the product, including [a comprehensive white paper](#) explaining the features of the technology. The key features of docmetrics might reasonably be expected to be incorporated into Adobe's offerings in the years to come, but docmetrics makes it easy today to visualize how the Omniture acquisition can enable web analytics in PDF files. Docmetrics changes the value proposition for the dissemination of PDF documents. Publishers can uncover a plethora of data about the PDF documents they make so freely available on their web sites, including answers to the questions: Does the downloader actually open the document? How many people read each PDF, how many print the document, and how many view the content more than once? Which pages do readers view and which parts of the content do they spend most time on? Do they pass any documents along to colleagues? What are the email addresses of those who receive the documents?

Vitrium's docmetrics provides a concrete example of a tangible value in Adobe's acquisition of Omniture, and it's available today to see how PDF analytics can function.

The Upside and Downside for Each Firm

Adobe's Upside

1. As CMSwatch.com's [Phil Kemelot points out](#), "Adobe Flash Player is on more than 98 percent of web-connected personal computers. In addition, the cumulative distribution of Adobe Flash Lite, which is licensed by mobile handset and consumer electronic device manufacturers, hit nearly one billion devices as of the fall of 2008."

The problem is that Adobe does not earn one cent on any of these installations (just as it does not with Acrobat Reader). Money is made selling tools to create the content displayed in these players/readers (and providing services via Connect, Flash Media Server, and Scene 7). Adobe is not earning as much money as it feels it should by selling Flash Pro file creation software and services. Adding analytic tagging to Flash objects should improve their value to all users of the format, increasing its popularity (and aid in the battle with competition such as [Microsoft's Silverlight](#).) As Shantanu Narayen noted at [FAM](#), "We need to monetize Flash's popularity, which the Omniture acquisition in part enables."

Significantly, Adobe also recognizes that the current tools for Flex programming are too complex for many designers. For this reason, it announced at [FAM](#) that Flash Catalyst will be included in CS5, [described on the Adobe Labs site](#) as "a new professional interaction design tool for rapidly creating expressive interfaces and interactive content without writing code." As Adobe's Johnny Loiacono said, "Catalyst will bring Flash to a much, much broader audience."

2. I see this as representative of the strategic thinking at Adobe that surrounds the acquisition. The market for print publishing software is essentially saturated in developed countries. The quantity of printed products shrinking significantly, hence the need for software to create it. Adobe may still find some growth potential in the less-developed countries (LDCs), where print publishing continues to grow modestly. However, the tendency even in these countries is often to skip a generation of technology—why start printing if you can offer access to the Web instead? (In the last several decades, many LDCs, lacking an infrastructure for ground-line telephones, simply have skipped straight over to mobile technology.)
3. Reflecting further on Adobe's revenue breakdown discussed previously, its markets for Creative Solutions and Knowledge Worker software *may not* be growing, even discounting the current recession. Adobe *must* deliver sales growth in the Enterprise and Platform segments, and the Omniture acquisition makes good sense if this assumption is correct.

Adobe's Downside

1. A mirror to my first point in the Adobe Upside section above was raised by one of the analysts at [FAM](#). Paraphrasing, the question posed was, "Despite the growth of Flash, the Adobe share of the overall video-on-the-web market is actually shrinking as video explodes and a plethora of new technologies other than Flash are also in use." The point is well-taken, although, employing the old clunker, "a rising tide lifts all boats."

2. Despite Adobe's fine record in melding acquisitions into the mother ship, there are enough differences in both the technologies and marketing strategies between Adobe and Omniture to raise concerns that the merger could be tough to successfully integrate. Still this is speculation at this point. There's no intrinsic evidence of a problem; it's simply too early to tell.
3. As discussed elsewhere in the report, the acquisition does not mark the end of the story. There will certainly be major counter-moves by competitors to each firm — Adobe's actions ensure this — and the extent of disruption that could be caused is at this point unknown.
4. Where is the economy headed? The two main opposing schools of thought are that either the recession has bottomed out and happiness is just around the corner, or that we're in for a prolonged era of sluggish growth and very high unemployment. Mark Garrett, Adobe's CFO, wisely chose not to vote with either camp at the FAM, delivering instead measured comments along the lines of "until we get a better handle on where the economy is headed..." Stock markets have exploded in value since early this year, but most other economic indicators are weak, or at best, contradictory.

Omniture's Upside

During the [Adobe FAM](#), James proffered the following graphic to explain Omniture's perspective on the proposed acquisition.



Source: Omniture

James expanded somewhat on this chart in his comments (some a paraphrased from my notes).

1. There's a "halo effect" being associated with the Adobe brand.
2. "Adobe knows how to build and market a software suite."
3. There are some quick wins, particularly with Flash and in "integrating the low-hanging fruit into Creative Suite 5."

4. Cross-distribution: Adobe derives a much larger percentage of its revenues (50%-range) from overseas than does Omniture (about 30%). For example, “Mobile is very big in Japan and is a growing opportunity for analytics.” Adobe is also much stronger than Omniture in both government and educational markets.
5. New products: The collaboration should benefit both firms with regards to new product development.

Omniture's Downside

It's the standard for publicly-traded companies in the United States to include a verbose “Risk Factors” statement in their annual reports (and generally in their quarterly filings as well). The risk factors traditionally cover everything including the price of tea in China, but careful reading often reveals some interesting snippets. Omniture's [2008 Annual Report](#) contains some 13,000 words on risk factors that the company faced that year. Among the headings that stand out are the following, with my occasional comments in square brackets.

1. We have a history of significant net losses, may incur significant net losses in the future, and may not achieve or maintain profitability.
2. The current economic downturn and uncertainty in the financial markets in the U.S. and internationally may adversely affect our business and our financial results.
3. We have derived a majority of our subscription revenues from sales of our Omniture SiteCatalyst service. If our Omniture SiteCatalyst service is not widely accepted by new customers, our operating results will be harmed. [But, as the discussion reveals, new products are gaining in acceptance.]
4. If we do not successfully integrate our recent acquisitions, or if we do not otherwise achieve the expected benefits of the acquisitions, our growth rate may decline and our operating results may be materially harmed. [Like Adobe, Omniture has grown substantially through acquisitions. Some critics of the firm believe that its track record on integrating acquisitions is unexceptional.]
5. The market for on-demand services, in general, and for online business optimization services, in particular, is at an early stage of development, and if it does not develop or develops more slowly than we expect, our business will be harmed. [Many observers of the Adobe acquisition of Omniture view it as a step towards the legitimization of this market. This implicitly endorses Omniture's risk statement.]
6. We rely on our management team and need additional personnel to grow our business, and the loss of one or more of our key employees or the inability to attract and retain qualified personnel could harm our business. [It is common in the aftermath of acquisitions for key employees to jump ship as soon as permitted by their agreements with the acquirer. This is a real risk for Omniture and Adobe.]

7. If we cannot maintain our corporate culture as we grow, we could lose the innovation, teamwork, and focus that we believe our culture fosters, and our business may be harmed. [It remains to be seen how the Omniture corporate culture will blend with Adobe's.]

[Omniture's Q3-2009 report](#) (10-Q) focuses on the competition in a more in-depth manner than its annual report. It is worth quoting here in its entirety (with my comment in brackets).

We operate in a highly competitive market, which could make it difficult for us to acquire and retain customers.

We compete in a rapidly evolving and highly competitive market. A significant portion of our business competes with third-party, on-demand services, software vendors and online marketing service providers, as well as multivariate testing providers, intra-site search vendors, merchandising solutions providers, channel analytics providers, product recommendations providers and survey providers.

Our current principal competitors include:

- Companies, such as Coremetrics, Inc., Google Inc., Microsoft Corporation, Nedstat Ltd., Yahoo! Inc. (which has acquired Tensa Kft., more commonly known as IndexTools) and WebTrends Inc. that offer on-demand services
- Software vendors, such as Epiphany, Inc. (acquired by SSA Global, which is now owned by Infor), Nielsen/NetRatings, a part of the Nielsen Online Unit of the Nielsen Company, Unica Corporation (which acquired Sane Solutions, LLC) and SAS Institute, Inc.
- Online marketing service providers, such as aQuantive, Inc. (acquired by Microsoft), DoubleClick Inc. (acquired by Google) and 24/7 Real Media, Inc. (acquired by WPP)
- Multivariate testing providers, such as Optimost LLC (acquired by Interwoven, which was acquired by Autonomy Corporation plc), Memetrics (acquired by Accenture), Kefta, Inc. (acquired by Acxiom Digital) and [x + 1], Inc.
- Intra-site search vendors, such as Autonomy Corporation plc, Endeca Technologies Inc., FASTSearch and Transfer ASA (acquired by Microsoft) and Google
- Merchandising solutions providers such as Endeca (ThanxMedia), Celebros Ltd, SLI Systems, Nextopia Software Corporation and Fredhopper
- Channel analytics providers, such as Truviso, Inc., Clickfox, Inc., Qliktech International AB and Aster Data Systems, Inc.
- Product recommendations providers, such as Aggregate Knowledge, Inc., Baynote, Inc., Certona Corporation, Rich Relevance, Inc. and Amadesa, Inc.
- Survey providers such as OpinionLab, Inc., iPerceptions, Inc. and Foresee Results, Inc.

Many of the companies that offer web analytics software offer other products or services and as a result could also bundle their products or services, which may result in these companies effectively selling their products or services at or below market prices.

Some of our current and potential competitors have longer operating histories, greater name recognition, access to larger customer bases and substantially greater resources, including sales and marketing, financial and other resources. As a result, these competitors may be able to:

- Absorb costs associated with providing their products at a lower price
- Devote more resources to new customer acquisitions
- Respond to evolving market needs more quickly than we can

Finance more research and development activities to develop better services

In addition, large software, Internet and database management companies may enter the market or enhance their web analytics capabilities, either by developing competing services or by acquiring existing competitors or strategic partners of ours, and compete against us effectively as a result of their significant resources and pre-existing relationships with our current and potential customers.

For example, Google offers a web analytics service free of charge, and acquired DoubleClick, one of our strategic partners, in March 2008. Also, Microsoft offers a web analytics service free of charge, and it acquired aQuantive in August 2007. Further, Yahoo! also offers a web analytics service based on its 2008 acquisition of IndexTools.

If our services achieve broader commercial acceptance and as we introduce additional services, we expect that we will experience competition from additional companies.

If we are not able to compete successfully against our current and future competitors, it will be difficult to acquire and retain customers, and we may experience limited revenue growth, reduced revenues and operating margins and loss of market share. [Clearly Adobe has assessed this risk, but there are unquestionably a wide and varied range of players here.]

The Annual Report also includes risks, under the category of Risks Related to Our Industry.

1. Widespread blocking or erasing of cookies or other limitations on our ability to use cookies or other technologies that we employ may impede our ability to collect information and reduce the value of our services
2. We interact with consumers through our customers, so we may be held accountable for our customers' handling of the consumers' personal information.
3. Domestic or foreign laws or regulations may limit our ability to collect and use web site visitor information, resulting in a decrease in the value of our services and having an adverse impact on the sales of our services.

4. Internet-related and other laws could adversely affect our business.

These issues are addressed further in this report in the section on Privacy Concerns.

The Customer Perspective

Customers of both firms were interviewed in research conducted for this report. I characterize their general mood as “positive but curious.” What else could they be? Neither firm has revealed sufficient details about exactly how this acquisition will play out to allow their customers to develop an informed perspective. As both companies have fine reputations in their respective fields, the general sense is, “it should be a good development.”

Adobe's customers have essentially nothing to lose — they will be offered new tools to enhance their work (although at a price yet to be announced). Omniture's customers have more reason for concern because they are used to dealing with a SaaS provider which deals almost exclusively with the Global 2000 Grade A customer base, while Adobe's customer base is much broader. Will Adobe in some way hobble Omniture's ongoing efforts to provide better software and services? This is surely not Adobe's intention, but balancing the conflicting priorities is bound to be a challenge for both companies.

Not surprisingly, one of Omniture's clearly happy customers is Adobe itself. [Historically](#), Adobe first started using Omniture tools in 2007 (and Macromedia was using them before then).

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Linda Crowe, who manages analytics of multimedia content at [Sun Microsystems](#), says that she has been using Omniture tools for 6 months and has been “very happy” with the results. She is interested in what might result from the merging of the two companies but wants to learn more. She has a “generally positive impression of Adobe,” and she feels that Adobe has “a pretty good handle on web-delivered services” and designs “great UIs (user interfaces).”

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Kevin Moore is the Director of Marketing and Analytics in the Media and Commerce Division of [Discovery Communications](#) (probably best known for The Discovery Channel, although this is only one of many offerings from the company). Moore has been with Discovery for nearly 6 years, and in his current role for about 6 months. Discovery is an Omniture customer, thus Moore says, “I look at it from the Omniture side. There's some optimism and excitement on our side.” Moore states unequivocally, “We're satisfied with Omniture. It's a good product. We've been with them for quite a while. We find them very responsive.”

His reaction to the proposed acquisition was, “Interesting. Unexpected. I'm not sure how it's all going to fit together, but it's starting to make sense.”

Moore makes note of an insight that others have proffered: “There's no shortage of data on the Internet...it's what you do with it that matters.”

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Adam Greco is both a long-time Omniture customer and a former Omniture employee. On his “The Omni Man Blog: A guide to using Omniture SiteCatalyst,” [there are some very well-considered comments](#) both for and against the acquisition.

A few of his points:

- I think that Omniture has some great products and even better people.
- I think that the two companies are a strange match.
- I think a good question to ask is why Omniture chose to sell now.

After some further analysis he concludes:

I wish both companies the best and hope to continue to be an advocate and champion of the Omniture products...

.....

Maria Guidice is the founder and CEO of San-Francisco-based [HotStudio](#). Among the firm's clients are The GAP, Charles Schwab, The San Francisco Museum of Modern Art, eBay, and Salesforce.com. "We use all of Adobe's tool for our creative work," Guidice says. From her perspective as a designer, she sees that the web analytics component will benefit her firm primarily for testing prototypes, for which they lack a good tool. This is because, as she points out, "Once we deliver, the analytics are in the client's control."

However, in this Guidice spots an opportunity: "We're always trying to extend our relationship with our clients, to remain involved with them after the site is launched. Web analytics could be the tool that binds us."

She is concerned that designers are ill-suited to executing analytics, and she sees a challenge in bringing the necessary skills into HotStudio.

Statements from Adobe and Omniture Executives

Included in this section are verbatim quotes from two key executives representing each firm, Paul Weiskopf, Adobe SVP of Corporate Development, and John Mellor, Omniture Executive VP of Business Development and Corporate Strategy. Their remarks shed additional light on the reasoning behind and expectations for the acquisition. The interview was conducted by telephone with both executives participating.

Paul Weiskopf:

If you look at what happens today, it's pretty cumbersome: manual and costly.

We want to take disparate but related workflows and integrate them seamlessly and efficiently.

More exciting is bringing the ability to measure and optimize to an area where Adobe has leadership—the creative process.

For e-commerce, this can mean a higher close rate. For advertisers, a higher ROI. For video on the web, the ability to serve more targeted ads.

The world is increasingly complex and moving at a faster pace—we certainly see that in digital communications. Adobe has greatly broadened its toolset, allowing print and web designers to work more closely together.

We think that there are opportunities for PDF, but we don't see this as limited to any specific file format. We expect to be agnostic with respect to formats.

John Mellor:

The focus of web analytics has been e-commerce. What's the next horizon?

There will be a challenge in educating users.

There's a certain amount of testing at the initial stage of a campaign, but it should be ongoing. The whole process becomes an analytics strategy for the life of the site.

"A forethought" rather than an "afterthought."

Measuring is yesterday's news. Today our customers ask: But what actions can I take as a result?

The marketing seat is becoming more and more important because they have the best understanding of the customers.

When we look at what our top ten customers are doing with our tools, we see very different outcomes. This is exciting. The industry is very young.

The Open Source Conundrum

When I think about web site publishing these days, increasingly I think of Drupal. [According to its official site](#), “Drupal is a free software package that allows an individual or a community of users to easily publish, manage, and organize a wide variety of content on a web site. Tens of thousands of people and organizations are using Drupal to power scores of different web sites.”

My evidence is anecdotal but worth mentioning. Frequently I talk to web developers and find that Drupal is a key (if not the number one tool) that they are using to create more powerful web sites. Pieces of the Adobe Creative Suite still drive most of the graphics, but the engine is Drupal.

At the same time, open source and free [WordPress](#), intended initially for bloggers, is now powering an ever broader range of sites, including Canada’s answer to Time magazine, [Maclean’s](#), with some 2.8 million readers. Another key client is [The Wall Street Journal Magazine](#). An impressive, full-blown, non-magazine WordPress site is [www.verio.com](#). (WordPress’s [listing of key users](#) is available online.)

Privacy Concerns

While researching this report, a new report from the prestigious [Annenberg School for Communication](#) came to my attention regarding consumer attitudes about targeted advertising. Entitled, "[Americans Reject Tailored Advertising and Three Activities that Enable It](#)," the report was prepared with statistical process vigor by a prestigious team, led by Joseph Turow, PhD, the Robert Lewis Shayon Professor of Communication at the Annenberg School at the University of Pennsylvania. While the controversy over consumer antipathy to anonymous data collection has been gaining strength through most of the life of the Internet, I'm not aware of any study that *so clearly makes the point* about consumers now being at odds with marketers over their practices in collecting anonymous data and using that data surreptitiously to ostensibly benefit the consumer with targeted advertising-related messages. I suggest reading the report if this subject is of interest.

My key observation about the Annenberg report and the increasing awareness of consumers about their privacy is that this trend will at some point have an impact on web analytics firms, and then likely on the acquisition. Legislators are taking advantage of the increased awareness and controversy surrounding this topic to propose new restrictive legislation. This will no doubt impact Omniture at some point and, by extension, Adobe.

According to another October 1, 2009 [article](#):

The U.S. House may have an online privacy bill introduced as soon as November... that is, if Rep. Rick Boucher, chairman of the House Subcommittee on Communications, Technology and the Internet comes through with what he says he hopes to accomplish before Congress goes into winter hibernation.

"We are making rapid progress and hope to have a bill introduced before recess," he said in an interview with beltway pub The Hill on Tuesday.

"The key elements [of the legislation] are going to be that every web site will have to disclose every piece of information that they collect from visitors and how that information is used by the web site that collects it. And then users should have control over that process," added Boucher in the interview.

Omniture, it must be said, has extensive [disclosure on this subject on its web site](#). However, the fact remains that Omniture does provide its clients with the tools to anonymously collect data from their customers, not necessarily in the customers' best interests, while seeking to cleanse its palate by encouraging its clients to be respectful in turn of customer privacy.

It is very difficult to project how all of this will play out. However, as a provider of the tools that enable the invasion of customer privacy, Omniture may face restrictions on its practices at some point in the future, or perhaps it will find itself having to be more forceful with its clients around privacy laws and practices. This is a potential long-term negative outcome surrounding the acquisition.

The Decline in Online Advertising

On October 1, 2009, comScore (an Omniture partner) and Starcom USA released a report showing a 50 percent drop in the number of U.S. Internet users who click on display ads. [The report](#), titled “Natural Born Clickers” (somewhat oddly, as “Natural Born Killers” is the first entry that appears when using Google to search the words “natural born”) further reveals that only 8 percent of the Internet user base accounts for the vast majority (85 percent) of all clicks.

Heavy, Moderate, Light Display Ad Clicker Analysis
March 2009 vs. July 2007
Total U.S. – Home/Work/University Locations
Source: comScore

	Share of All Internet Users		Share of Click-Throughs	
	Jul-07	Mar-09	Jul-07	Mar-09
Total Clickers	32%	16%	100%	100%
Heavy Clickers	6%	4%	50%	67%
Moderate Clickers	10%	4%	30%	18%
Light Clickers	16%	8%	20%	15%
Non-Clickers	68%	84%	0%	0%

Source: comScore.com

Starcom and comScore try to put a positive spin on what would seem to most as very negative news. The notion each recommends is to stop measuring click-through as the sole metric of display ad success. Instead, advertisers are encouraged to consider evaluating campaigns based on their “view-through” impact, just like display ads in print media, and comScore just happens to have some data to support this theory. According to Linda Anderson, comScore VP of marketing solutions and author of the study, “Savvy marketers are moving to an evaluation of the impact that all ad impressions — whether clicked or not — have on consumer behavior, mirroring the manner in which traditional advertising has been measured for decades using reach and frequency metrics.” (Refer also to the [two interesting presentations](#) that comScore provides which have additional charts and justifications.)

This reasoning flies in the face of everything that the web advertising cabal has been pushing since Day 1 — measurability, instant results, far greater accuracy of impact measurement than traditional media, and so on.

My first thought was that they should just have hired some natural born killers and killed this report. However, I recalled that this declining click-through rate story is already well known. In a November 2007 [story in Business Week](#), for example, Catherine Holahan reports, “Click-through rates have been declining for years. The novelty of web ads that helped fuel higher responses in the beginning has worn off as online marketing hit the mainstream.”

Conclusions

Adobe's all-cash purchase of Omniture is certainly its most interesting and challenging acquisition to date. At best, it may represent a new era in how web publishing will be practiced. Combining the exceptional creative tools offered by Adobe with the industry-leading web analytics tools offered by Omniture is almost certainly a first; it is certainly a first at the operational level. The possibilities of such a game-changing undertaking would be exciting and invigorating to any corporation that wants to capitalize on its investments in its web properties. Looking back on this acquisition 5 years from now, it may be considered a milestone in the history of web publishing.

This will be Adobe's second largest acquisition, following its purchase of Macromedia in 2005. There is nearly universal agreement that Adobe has done a masterful job in integrating Macromedia technology and staff, following a software path that Adobe desperately required. The additional tools and technologies that Macromedia provided have moved Adobe's market position ever further away from print publishing towards becoming a leader in creative and infrastructure enablement for web publishing (without disenfranchising its existing customer base). However, it is still difficult to believe that the ROI on this investment has been achieved; reaching the Macromedia ROI target is clearly part of the strategy behind the Omniture acquisition.

Yet, many obstacles lie ahead for Adobe, both strategically and tactically.

The strategy of incorporating web analytics software into what is fundamentally a creative tools software company is audacious and unproven. The logic of the move has been well-articulated by both companies, although the practice is largely without precedent. Although it may be becoming a common activity among the 5,000 customers from the Global 2000 customer base that Omniture serves, it is certainly not a common practice among the estimated 1.6 million users of Adobe's Creative Suite.

Adobe excels in creating customer loyalty and in the range of effective educational tools made available directly and through third-parties to its customers. After the Macromedia acquisition moving its creative customer base from a print focus to a print and web focus, or a web-only focus, was a lateral move. Moving the same group from right-brain thinking about the creative to left-brain thinking about data analytics is certain to pose a far greater challenge. Educating the creative group will be just part of the problem. The larger barrier will be the organizational change required to encourage marketers to join the creative team (or vice versa). Some companies have already overcome this challenge, but most have not.

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The question of the blending of the corporate cultures of the two firms should not be taken lightly. Obviously the home states of each company, California and Utah, are very different from a cultural perspective. Although both firms have a plethora of regional offices and off-campus employees, Adobe has always appeared "very Californian" in its values and practices. On the contrary, some might view Utah as a separate nation from California. Some of Omniture's acquisitions were California companies, so this concern may be overstated.

The track record for successful acquisitions historically is not good and the greatest challenge frequently comes down simply to incompatible corporate cultures, regardless of what states host the head offices. Omniture is strictly an enterprise sales-oriented firm; Adobe's enterprise sales comprise well under 50 percent of its total revenue. On the plus side, as Johnny Loiacono pointed out in the recent [FAM](#), he very much looks forward to adding that enormous enterprise sales expertise to Adobe's available troops, but it remains to be seen how excited the 700member enterprise sales and support team at Omniture is to become part of a very different new organization.

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On October 5, 2009, the acquisition was cleared without comment through the Premerger Notification Program of the U.S. Federal Trade Commission's Bureau of Competition. Adobe continues to state that it expects the transaction to close in its fourth quarter of this fiscal year (ending November 28, 2009). As is common in large acquisitions, several lawsuits have been filed to block the deal, but no one appears concerned that these suits will block anything but some lawyer's paper shredders after they are dismissed or settled.

Adobe has priced its offer very cleverly, as an all-cash offer. If it had been some combination of cash and Adobe shares, a degree of uncertainty would have been introduced into the equation, in particular as Adobe's share price dropped slightly after the initial announcement (this has since recovered). The premium offered is substantial, but the effect has been to discourage competitive bids, which would have to be at a level that the market would judge as ludicrous. Had Adobe offered a lower price, it would have left the door open to a bidding war, quite possibly forcing the company to pay even more than the currently proposed \$1.8 billion. It has been nearly a month since the deal was announced, and no other bids have emerged. It is reasonable to assume that the acquisition will take place.

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I agree with the consensus view that Adobe's move is likely to spark a feeding frenzy of acquisitions and, to a lesser extent, mergers among the current wallflowers at the "Let's Acquire a web Analytics Firm" party. All of Omniture's competitors surely are trying on some new frocks and dusting off their boardroom tables, waiting for any Southern gentlemen to come calling.

Adobe is uniquely positioned as a suitor because it dominates the creative space, the place where digital assets are created. Adobe will soon enable creatives to place unique identifiers in these assets. At the [FAM](#), Johnny Loiacono referenced placing GUIDs (Globally Unique Identifiers) into digital assets, to provide "asset intelligence" at the front of the workflow. In this sense, Adobe has a unique competitive advantage in adding value to web analytics. Only Microsoft can be seen as having a similarly unique advantage, although few of its products compete directly with Adobe's.

It is difficult to predict how other types of vendors will be able to gain similar value from acquiring one of Omniture's competitors. However, surely that will not stop them from trying.

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Google Analytics is an important wild card in any scenario that one could project around this acquisition. As detailed in the body of this analysis, Google is the market leader in total adoptions. It is

not the market leader in total revenues, as its offering is free. Free in this case leads to a “you get what you pay for” statement. Worth repeating is Forrester’s John Lovett’s comment:

Since [2007, Google Analytics] has significantly enhanced its enterprise capabilities with numerous product rollouts, such as the ability to create custom reports, perform advanced segmentation, and visualize data using an interface tool.

For this analysis, Google was contacted for a comment. The response, from a representative in Google’s Global Communications and Public Affairs office, was easy to understand:

We received your inquiry regarding Google Analytics and we’re not commenting on the proposed acquisition.

So what is Google thinking? Likely they are asking themselves how much market and mindshare they are willing to relinquish to Adobe, whether this deal represents an endorsement of Google’s efforts or might undermine Google’s position as top dog. Time will tell.

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Omniture is considered the leader in its field by several respected analysts. This is all to the good from Adobe’s perspective. Yet, as Forrester has indicated, other key enterprise players are each presumably using different technologies toward the same goal.

How will this impact Adobe down the line? Would it not be better for Adobe, historically a leader in the standards communities, to try to bring the disparate players together to establish standards for at least the GUIDs associated with tagging digital assets? Why exclude other key and emerging players from working with Adobe, at least to some extent as Omniture will? Adobe is laying the groundwork for the opportunity to make its creative tools THE tools for working with web analytics technology (and its successors).

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This forces us to think about the acquisition in terms of the dreaded “p” term, “paradigm shift.” If Adobe succeeds in melding its practices with those of Omniture and creating a web analytics strategy while building new sites, an enormous shift in industry practices and a great win for everyone will be achieved. Despite the challenges involved, Adobe is well positioned to succeed in this undertaking. Therefore, I view the acquisition very favorably and, with the above-stated reservations, look forward to the outcome.

Appendix A: Additional Resources

1. “The [International Association of Privacy Professionals](#) (IAPP) was founded in 2000 with a mission to define, promote, and improve the privacy profession globally. It is committed to providing a forum for privacy professionals to share best practices, track trends, advance privacy management issues, standardize the designations for privacy professionals, and provide education and guidance on opportunities in the field of information privacy.

“The IAPP is responsible for developing and launching the first broad-based credentialing program in information privacy, the Certified Information Privacy Professional (CIPP). The CIPP remains the leading privacy certification for many thousands of professionals around the world who serve the data protection, information auditing, information security, legal compliance, and/or risk management needs of their organizations.”

2. A good 5-minute online video interview with Omniture CEO Josh James is available [here](#).

Tales of the acquisition game, [discovered on WebMasterWorld](#):

I’m going to share some recent history about the irony of this Omniture acquisition.

A bunch of people that used to work at Macromedia spun off and started Avivo (Atomz Search), an enterprise site search; this was before Abobe bought Macromedia.

Then the following purchases happened in this order:

- Webside Story bought Avivo
- Visual Sciences bought Webside Story
- Omniture bought Visual Sciences

Now, Adobe purchasing Omniture puts some of those same ex-Macromedia people right back at Adobe, where they were heading in the first place! :)

Appendix B: Analysts Comments

I've collected over 70 commentaries since the announcement of the acquisition. I considered presenting a score-sheet to show the total "in favor" versus those "against," but realized that this might represent spurious statistics. Most people's reactions were quick (and perhaps premature). Nonetheless, several of the comments offer insight. This appendix presents the most informed comments that I gathered and connects them to the original source. Most were issued soon after the announcement of the acquisition.

1. From the [Adobe Press Release](#), September 15, 2009

Adobe's acquisition of Omniture furthers its mission to revolutionize the way the world engages with ideas and information. By combining Adobe's content creation tools and ubiquitous clients with Omniture's web analytics, measurement and optimization technologies, Adobe will be well positioned to deliver solutions that can transform the future of engaging experiences and e-commerce across all digital content, platforms and devices.

The combination of the two companies will increase the value Adobe delivers to customers. For designers, developers and online marketers, an integrated workflow — with optimization capabilities embedded in the creation tools — will streamline the creation and delivery of relevant content and applications. This optimization will enable advertisers, advertising agencies, publishers and e-tailers to achieve greater ROI from their digital media investments and improve their end users' experiences.

"Adobe customers are looking to us for solutions to deliver engaging experiences and more effectively monetize their content and applications online," said Shantanu Narayen, president and chief executive officer of Adobe. "This is a game changer for both Adobe and our customers. We will enable advertisers, media companies and e-tailers to realize the full value of their digital assets."

"Omniture's mission has been to enable our customers to optimize every digital interaction," said Josh James, CEO of Omniture. "By joining forces with Adobe, we will accelerate our ability to deliver on that vision and together bring new innovation to the market that improves content engagement, advertising effectiveness and the overall user experience, which will drive more advertising dollars online."

Expanded Opportunities for Adobe and Omniture

This acquisition will significantly expand Adobe's addressable market and growth potential, broadening solutions Adobe provides to the rapidly growing Internet advertising, e-commerce and digital media markets.

The combination will also expand Adobe's offering of mission-critical solutions to the enterprise customer. Adding the capabilities of Omniture will further enhance Adobe's offerings and ability to appeal to online marketers, including chief marketing officers.

The acquisition of Omniture will further diversify Adobe's business, adding a scalable SaaS platform that captures over a trillion transactions per quarter, an expansive partner ecosystem, and a recurring revenue model.

For Omniture, joining Adobe will provide global operational scale and the ability to more quickly penetrate new geographies and markets, thereby accelerating its go-to-market strategy and growth potential.

2. Adobe/Omniture, Excerpted from [The Financial Times](#), September 16, 2009

Beware Silicon Valley executives boasting of game-changing deals (emphasis mine). Adobe Systems' \$1.8bn all-cash offer for Omniture, a Utah-based web group that helps companies track user behavior across internet sites, is the latest puzzler to emerge. Adobe wants to add Omniture's number-crunching products to its array of popular creative software, such as Photoshop and Flash.

The idea is not as quixotic as eBay's attempt to marry online auctions with Skype's voice-over-internet telephony. Advertising agencies may well be interested in software that combines creative production with analysis. But the deal still looks pretty wacky, especially the price. Adobe is paying a 24 per cent premium – or 29 times last year's earnings before interest, tax depreciation and amortization – for loss-making Omniture. It paid a 25 per cent premium when it bought Macromedia for \$3.5bn in 2005 in an all-share deal, its biggest acquisition to date. But Macromedia's web design software was a natural fit with Adobe; Omniture may prove more awkward.

3. Adobe – A House of Mud? Excerpted from [The Motley Fool](#), September 21, 2009

Adobe Systems, Inc. (NASDAQ: ADBE) is acquiring Omniture, Inc. (NASDAQ: OMTR) for \$21.50 per share in cash.

When I first read the Foolish news, my initial reaction was why? Not why would Adobe buy Omniture, why would Adobe pay \$21.50 for a company worth about \$2.00?

Admittedly I wasn't certain that I had Omniture valued at all, but upon checking I found that I did indeed have an Omniture worksheet, and that yes, I had place a reasonable value estimate on the company stock at slightly more than \$2.00.

I looked through my worksheet which is based on the company's latest SEC 10-K filing for year ending December 31, 2008, and found that the company has a Tangible Book Value of \$1.22, Shareholder Equity of \$8.65, and generated \$0.26 in Free Cash Flow.

Why was Adobe paying \$21.50 per share for Omniture?

I looked a bit more and found that the company generated 1.70% Return on Equity and less than 7% Return on Invested Capital. In addition, almost 67% of the company's Total Assets were made up of Goodwill and Intangibles.

Why was Adobe paying \$21.50 per share for Omniture?

I read through the transcript of the conference call with the analysts that follow Adobe and then I read through Omniture's Schedule 14D-9 filing. And still I had no clue why Adobe would pay \$21.50 per share for Omniture.

I even scanned through the CAPS site to see what was being said, and there was nothing. It was like nobody was paying attention.

And then out of nowhere, the light came on. At last, I had my answer.

Adobe is paying \$21.50 per share for Omniture because they can. Which I guess is as good a reason as any.

4. [Adobe buys Omniture and we can kiss our privacy goodbye](#), Excerpted from DSLReports Security Forum, September 22, 2009

This news surprised most ... but the impact will be far greater than most people are reporting. Omniture (2o7.net) is the largest paid-analytics company (data miners) ... Adobe is the largest (besides its other products) application (aka Flash) which allows websites to track users via "flash cookies"...

Now you combine these two giants and...say good-bye to your privacy. The biggest reason is the way "flash cookies" (local shared objects) are stored and the dubious actions that are allowed on your machine without your knowledge...

This just strongly reinforces my decision to never use Flash Player and not allow it to be installed on my computers. If that breaks some websites so be it. I will complain loudly to the site that does this. Combining the already sizable security problems with Flash Player and the virus ridden ads it shows on many sites with this acquisition by Adobe and what that means for the privacy of users, I am appalled. Omniture has a very bad history for being sneaky and getting around folks who block most cookies by using third party aliases to set cookies on unsuspecting users computers. Now combined with Flash Player Adobe is set to rival Google in its data mining of users.

5. [Adobe Buys Omniture: What Were They Thinking?](#) Excerpted from Wall Street Journal, September 16, 2009

Adobe Systems Inc. says its \$1.8 billion acquisition of Omniture Inc. is a "game changer." But it may not be the change Adobe is hoping for.

While it's a good sign for the tech world – and for the economy generally – that Adobe is feeling confident enough to part with some cash and pay a healthy 24% premium for Omniture, the deal also presents potential pitfalls.

There are almost no cost-savings expected from the synergies in the deal. Rather, Adobe is hoping to build sales by offering customers a one stop shop of website creation software and Omniture's web measurement business.

Adobe said it "plans" to develop code into its web creation software that will allow users to tap into Omniture's services of measuring website traffic and user patterns.

The key word is “plans” to build. While the strategy makes sense on paper, it could prove difficult pull off, especially if the combined web-measurement and website creation software prove cumbersome for customers to use.

Analysts have mixed emotions about the deal:

Credit Suisse's Philip Winslow: Although we have maintained a positive view of Omniture's long-term prospects due primarily to the combination of its product/technology leadership and growing recurring revenue base and we forecast the acquisition to be accretive to fiscal 2010 estimates, we struggle to find the revenue synergy between Adobe and Omniture from a product standpoint. Instead, we expect Adobe to attempt to leverage its large channel and direct sales force to drive increased adoption of Omniture's services.

Morgan Stanley's Adam Holt: web analytics is a new market opportunity for (Adobe) and moving into new markets tends to be challenging. Omniture is Adobe's largest acquisition since buying Macromedia for \$3.4B four years ago, and large acquisitions can be difficult to integrate into existing operations. The web analytics market is highly competitive, and vendors like CoreMetrics, WebTrends, and Google Analytics could look to capitalize on any disruption to Omniture's business caused by the proposed transaction. Omniture offers its solutions through a software-as-a-service model, which is a relatively new model for Adobe and might create additional challenges if Adobe needs to adapt existing business practices and processes.

Jefferies & Co.'s Ross MacMillan: Adobe's proposed acquisition of Omniture certainly has some complimentary, but we don't see material synergy between the businesses and it's not as obvious a fit as Macromedia. Mgmt guidance and our analysis suggest the Omniture deal will be accretive, but not significantly in the absence of a material improvement in growth or higher than assumed cost savings.

6. [Adobe Channels its Inner Larry Ellison and Goes Shopping](#), Excerpted from Fortune Magazine, Fortune Investor Daily, September 16, 2009

Omniture sells a subscription service to its customers that enables them to monitor the effectiveness of online properties and advertising (CNNMoney is an Omniture customer).

If that doesn't sound like anything resembling creative software, that's because it isn't. And this is where, in their argument for buying Omniture, Adobe sounds a lot like Oracle.

“Adobe's Creative Suite products and Flash platform help customers create and deliver engaging experiences,” Narayan said following the acquisition announcement. “The addition of

Omniture's online marketing suite will help customers help measure, analyze, and optimize the impact and value of those experiences, creating a continuous feedback loop.”

Like Oracle in its business, which aims to sell you the software and hardware to manage all your data, Adobe wants to be a one-stop shop. You buy the software to create your online universe, and now Adobe can sell you a service (likely conveniently embedded into its tools) to

help you analyze which image, which video or advertisement you just made is performing the best by whatever measurement you choose.

It makes a good deal of sense, especially given the steps Adobe took five years ago in its acquisition of Macromedia. On the plus side it expands Adobe's market. In its last quarter ending June 30, Omniture pulled in about \$88 million in revenue, and a loss of almost \$5 million. While Adobe CFO Mark Garrett doesn't expect the acquisition to result in cost-savings, he said the deal will be "accretive" to Adobe's earnings in its fiscal 2010, and grow from there. In other words, Omniture isn't likely to boost earnings at Adobe dramatically for some time.

Another benefit of the deal will be Adobe's ability to plug into Omniture's software-as-a-service model. Don't expect to see the entire Creative Suite lineup available via online subscription tomorrow, but you can see parts of it headed in that direction. Shrink-wrapped software has become the exception, and while Adobe still makes a living at it, even it knows there are other business models it needs to explore. Omniture helps it do that.

Did Adobe offer too much? That is a debate that now begins, and it will have an impact on the stock. You can expect Adobe to bump along in a tight range before the dust settles.

7. [Adobe Founders Guided Omniture Bid from Early Days](#), Excerpted from Wall Street Journal, MarketWatch, September 25, 2009.

Adobe Systems Inc. co-founders John Warnock and Charles Geschke have been well in the background in recent years, with the software maker pushing ahead under new leadership.

But the co-founders, engineers who are widely revered in Silicon Valley, were helping foster Adobe's audacious, \$1.8 billion bid in its earliest days for Internet-analytics firm Omniture Inc., according to a filing with the Securities & Exchange Commission...

Renny Ponvert, chief executive of management-research firm Management CV Inc., said the fact that Warnock and Geschke appear to have been supportive of the Omniture bid was remarkable. Former executives and company founders who slide into board positions often prove reluctant to embrace significant change, Ponvert added.

8. [Adobe Omniture Acquisition: Innovation is Key](#), Excerpted from Solution Analytics, September 23, 2009

So I have had some time to think about the Adobe acquisition of Omniture and wanted to relay some of my thoughts on the merger. I, like most, was extremely surprised at the move. This definitely feels like a good partnership, but an acquisition? It was a little hard for me to swallow. When I left Omniture almost one year ago I was asked to drop everything and work on integrating metrics tracking into flash communication server. I had scoped the work, but at the last moment decided I was ready to move on.

Halloween was my last day and I got to see the execs shelling out money to rent “little people” as Munchkins for their Wizard of Oz theme. Every year the execs rented midgets and it made me snicker (4 years total).

Like I said in previous posts, I was sad to leave, but Omniture wasn't going in a direction that I wanted to go (at least the department I was in). Omniture does have a strong culture, but even that was morphing into something other than what I had grown to love. There was always a sense of oppression at Omniture that everyone was ok with because at some point we were “destined to make it big”.

So, let's speculate on what happened at Omniture. The one thing that gave me comfort at Omniture was that Josh James was shooting for the moon. He was looking to do 1 Billion in Revenue. I still remember at an Omniture Summit when he announced his vision and Eric Petersen, while explaining the importance of a vision, said soon afterward “I don't think that will happen, but at least Josh has a vision”. I don't think Eric was invited again then after. Well, looks like Eric is right, at least in part.

Josh's high expectations were comforting because it meant the company was going all the way. We were looking to be the next IBM or Oracle and it was part of our vision. I was on board 100 percent. If they were shooting for the moon like this why did they sell? Someone was feeling the pressure and I don't think it was the executive team. Those guys were hyper focused on building the company to be the next Salesforce. I think the execs had confidence that the stock would rebound. Or, I have to question, did they? With Google and others putting extreme pressure on clients to switch and creeping costs they may have been feeling the pressure.

My guess is that the executive team still had the same vision. But with clients leaving for Google and Unica (maybe even Tealeaf) and with the difficulty in keeping costs low, the Omniture board voted to take a bird in the hand. My guess is there was an offer to enhance Adobe's own position and the Omniture board took the bait. At this point the executive team is just making the best of the decision.

That's what I think happened, but I've been wrong before, sometimes very wrong.

9. [Adobe to Buy Omniture, Gain Differentiation and Integration](#), Excerpted from Gartner, 18 September 2009

Outcomes for Adobe include:

- * The addition of native support for analytics during authoring, enabling greater progress toward user-centric application design and monetization of Flash content

- * Omniture's extensive operational experience, which will benefit Adobe's existing SaaS initiatives

- * Recurring revenue growth from Omniture's successful SaaS model

* Differentiation against Microsoft Silverlight, which competes directly against Flash but does not offer native analytic capabilities

The availability of Omniture capabilities may encourage developers to consider analytics during design, but these capabilities will not satisfy the broader industry need for standards-based universal tagging. Without business model changes, tying Flash and other Adobe web media products to the proprietary Omniture technology may limit its adoption by the developer community and drive some lower-end Adobe customers to competing technologies.

10. [Why Did Adobe Buy Omniture?](#) Excerpted from Anil Batra's blog

Following are the ways that I think Adobe might use Omniture:

- Measurement Ready Interactive Media – Flash, PDF, and Adobe AIR application will all come ready with Omniture tags for measurement and optimization.
- Self optimizing flash widgets/ads – Designers will be able to put all assets (copy, images, etc.) in a flash file/Adobe Air application and the application will automatically arrange them on the fly based on customer's interest, intent, day part, etc. This will be driven by both Site catalyst and Test&Target. However designers might have a hard time dealing with this concept.
- Self optimizing landing pages – Same as above but will be more on site. Flash on the landing page will change based on who the customer is.
- Self guiding PDF – Ability to modify/adjust the pdf content on the fly based on who the customer is, what have they done in past on site or with other content etc. Think about A/B testing or targeting within a PDF document.
- PDF Tracking – Creators of pdf content will not only be able to see how many people downloaded a particular piece of content but they will also be
 - Find out about the circulation of the content. Did a person who downloaded the paper sent it to others?
 - Find out, how far did the reader go through the file?
 - Find out, if reader searched for something in the pdf?
 - What were the keywords?
 - Tie the content analytics with site analytics to optimize and target the site side experience as well as arm the sales force with the information.
- Adobe products as SaaS- Omniture brings SaaS expertise to Adobe which adobe might be able to leverage to sell their products as SaaS.

11. [The Adobe Omniture marriage is a pipe dream](#), Excerpted from Dennis R. Mortensen, VisualRevenue

I and the web analytics Industry in general was flabbergasted by the announcement of the Adobe Omniture marriage and there's been a big 'huh?' debate going on since; which I see no reason to elaborate on. Eric does (as usual) some good analysis/commentary in his two posts [Thoughts on Adobe + Omniture](#) and [More color on Adobe + Omniture](#).

However; I would like to set free my long term belief about this, as I can see some positive momentum in justifying the deal - people getting lulled into thinking that it might make sense (it does not).

To put it politely, I am probably less optimistic about the value of this particular acquisition than most are (quite honestly, I believe it's broken). I am happy to see that we all agree about this not being a deal about revenue and/or bettering the overall margin of Adobe product sales, which is something that Omniture cannot help with, quite the opposite actually. So it must be about the technology, and there is no doubt about the fact that uniting content and tracking is an inevitable next step for the analytics industry.

That said, in the desire to unite content and tracking (and the subsequent optimization) I assume that those involved (Adobe) understand that the current data-collection methodology – primarily Script/Pixel tagging – is a HACK. It was never intended to be more than an intermediate delivery mechanism and a way of circumventing the IT department until we got true access to the data stream. So the future should not, and is unlikely to, include a, as some put it “installing tags” task (something which we debated vigorously at X change earlier this month). If we think about the task (detailed event tracking) at hand for a second and extrapolate today's web-page status into a future of web-applications (which is happening as we speak). In this scenario we must also accept the arrival of a web OS of a kind – which could be the browser, which is what we are seeing today, but it could also be something like Chrome OS or a Adobe AIR permutation if you like (to keep a positive tone in this post). In this scenario, which I again believe is inevitable, we have some history to draw our conclusions from, which is, if I use MS Windows as an example, 25 years of event handling and logging. You would NEVER dream of tagging a windows application. Why? Because the whole application is built around an event log which you can choose to tap into, if needed. The web OS (in whatever shape or form it arrives) will most certainly and without doubt include the same thinking.

In the above situation, buying a JavaScript tagging company (this might be too harsh a statement) based on yesterday's idea is worthless; what they needed was actually to build this themselves. For adobe this is (must be) an inherent part of their future thinking, if they want to play in the web OS game. Building it themselves could include acquiring a company for the engineers and analytics understanding; and for this, Omniture and their limited and by that calculation very expensive few hundred engineers doesn't count....

12. [Jefferies & Co. downgrades \(Adobe\) to hold from buy](#), BusinessWeek, September 16, 2009.

After the announcement of this pending report I found myself in conversation with a Jefferies & Company analyst on the topic of this report. Financial analysts understand the financials better than I do; I tend to know the relevant technologies better than they do. Quid pro quo. So my contact at Jefferies offered me a copy of its September 16, 2009 advisory, which downgraded Adobe from “buy” to “hold.” After the October 6 FAM, I asked my contact if Jefferies has revised its recommendation and received an email response:

It does make us see the rational and business plan better. But we don't see any immediate synergies, so the benefits will take a while to come in. I doubt if they can add a lot to CS5 at his point.

13. [Robert W. Baird upgrades to outperform from neutral; raises price target](#), Excerpted from BusinessWeek, October 8, 2009

Predicting an earnings recovery in the second half of next year and following an upbeat analyst meeting, Robert W. Baird analyst Steven M. Ashley upgraded Adobe Systems on Oct. 8 and boosted his target price on Adobe's shares to \$40 from \$35. He expects the software maker's earnings to recover thanks to the release of Creative Suite 5 next year.

The Creative Suite software package brings in the bulk of Adobe's revenue. Aimed at professional designers and developers, it includes Photoshop, Flash and web design software Dreamweaver, among other applications. The most recent version was launched last fall, in the midst of the economic turmoil that dampened demand for it. Analysts generally expect this pent-up demand to drive sales of Creative Suite 5 higher.

Ashley also expects Adobe's acquisition of Omniture Inc. to close as expected and provide a long-time benefit to the San Jose, Calif.-based company.

Both [Barrons](#) and [The Motley Fool](#) subsequently vouched for Baird's strong track record on its ratings.

Appendix C: Disclosures

1. I am sole proprietor of The Future of Publishing.
2. I have had numerous business dealings with Adobe Systems since the late 1980s in a range of capacities. I would categorize most as being in “the ordinary course of business.” Most significantly, during my five-year tenure as program director at Seybold Seminars I frequently booked Adobe executives to speak in conference sessions. Both firms benefitted from this. I was paid for my work by Seybold Seminars and did not receive any compensation from Adobe. I have frequently reviewed Adobe software for various publications, sometimes positively, sometimes negatively, and as is the industry custom receive the software for free, but have received no compensation from Adobe. On one occasion I was reimbursed at cost for travel expenses in connection with attending a seminar in New York to learn more about upcoming Adobe products.
3. I have known the executives and certain staff of Vitrium Systems for about one year. I have not done any paid consulting for the firm, but have been reimbursed for travel expenses incurred while making introductions of Vitrium’s CEO to potential partners and customers. The Future of Publishing is paying the full list price for the Vitrium protectedpdf technology used to protect this report.
4. I have never been paid for work with Omniture nor with any of the other companies (aside from Adobe and Vitrium) mentioned in this report.