

Ariba to Buy Alliente, Enter the Procurement BPO Market

David Hope-Ross

Ariba, which sells procurement software and services to manage enterprise expenditures, will buy Alliente, a vendor of business process outsourcing (BPO) for procurement. The vendors will likely get modest benefits.

NEWS ANALYSIS

Event

On 7 January 2003, Ariba announced an agreement to acquire Alliente. Ariba expects to close the deal in January 2004. It said that most of Alliente's more than 100 employees will stay on with Ariba. It did not release further details about the transaction.

Analysis

This acquisition will position Ariba to benefit from growing interest in procurement BPO. The deal continues Ariba's transformation into a solution provider — it has been broadening its service capability for several years. The mix of applications, transaction delivery, strategic sourcing and category expertise will differentiate Ariba from traditional application vendors, especially the enterprise resource planning vendors. With the Alliente deal, Ariba will also get some opportunities to upsell customers. *In particular, Alliente's managed service offering will appeal to midsize enterprises and to firms that haven't reformed their procurement as quickly or successfully as they want.*

Challenges for Ariba:

- The acquisition deepens Ariba's capabilities in indirect procurement (materials that don't feed directly into production, such as office supplies or professional services), a traditional area of strength. But the deal provides limited opportunity for expansion into (potentially lucrative) direct procurement.
- Procurement BPO entails long and difficult sales cycles, and the market for these services is emerging slowly. The acquisition of a small vendor will not ensure Ariba's success in the BPO market. Ariba will have to drive market demand and refine its sales and marketing.
- The shift from selling applications to offering a mix of software and services has inherent complications. Services historically have lower profit margins, and service vendors tend to have different stock market valuations. In addition, services often end up competing for resources with software to meet R&D demands (although Ariba actually increased R&D during 2003.) Ariba will have to maintain the right balance of resources allocated to its products.

Recommendations:

- **Alliente customers** have won a more secure future under Ariba. You don't need to plan for transition. As always, though, check contracts to understand your rights and options in an acquisition. Review your service-level agreements and their enforcement mechanisms.
- **Ariba customers** don't need to change their strategies, except in the few cases where the Alliente offering may boost faltering procurement reform.
- **Ariba prospects** should recognize that Ariba is becoming less of an application vendor and more of a solution provider, with a different value proposition. Understand the difference between these business models before you buy (see www.gartner.com/1_researchanalysis/vendor_rating/vr_ariba.html).

Analytical Source: David Hope-Ross, Gartner Research

Recommended Reading and Related Research

- "Strategic Sourcing Applications Magic Quadrant, 1Q03" — The market for strategic sourcing applications remains fractured along functional lines, and no vendor has yet achieved leadership. **By David Hope-Ross, Chad Eschinger and Andy Kyte**
- "Management Update: E-Procurement Approaches Its Plateau of Productivity" — Those considering e-procurement should be conservative in gauging their ability to implement best practices and should evaluate e-procurement alongside other tools and process re-engineering. **By David Hope-Ross**

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