

## **Macromedia's Planned Takeover of Allaire Offers Significant Synergies**

**Mark Driver**

The planned acquisition of Allaire offers a strategy for Macromedia to expand beyond its traditional markets, although the deal will make it more difficult for Macromedia to manage some of its partnerships.

## NEWS ANALYSIS

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### Event

On 16 January 2001, Macromedia announced a definitive agreement to acquire Allaire for cash and stock, whose total value at the time of the announcement was \$360 million. Regulators and Allaire's shareholders must approve the deal, expected to close in 2Q01.

### Analysis

Macromedia will add 550 Allaire employees to its own 1,200 and will merge its market-leading design products (e.g., DreamWeaver and Flash) with Allaire's popular developer-focused tools (e.g., ColdFusion and JRun). The Macromedia product line will support a combined customer base of two million developers, ranging from Web designers to systematic Java programmers working on comprehensive e-business solutions.

Both companies have traditionally targeted "mass enterprise" markets, where they focused on low-price tools and technology, broad channels, short sales cycles, and features supporting rapid application development. Consequently, they have compatible sales and support channels as well as customer profiles. Moreover, the companies' cultures are also compatible, and Gartner expects Macromedia to retain a high percentage of Allaire's employees.

This acquisition also comes at an opportune time for Allaire. Despite market leadership, the firm has posted losses for several consecutive quarters and has struggled to remain independent in a rapidly maturing, consolidating Internet tools market: Allaire's shares have traded under \$10 for months — down from a 52-week high of \$92. Becoming part of Macromedia will infuse Allaire's customers with a needed dose of confidence and will curtail defections to competing vendors' products.

Acquiring Allaire instantly propels Macromedia into a leadership position in the Internet application-development tools market. More importantly, the deal establishes Macromedia as a visionary in emerging tools markets — that is, not just the traditional Internet market but also mobile and wireless devices, Web services, and e-business platforms.

However, the deal will also create some problems. Namely, Macromedia's DreamWeaver and Allaire's Cold Fusion and JRun Studio overlap in a small way. Moreover, Macromedia has established strong OEM and partnership channels with a number of companies (e.g., IBM and WebGain) that will become more direct competitors after the deal closes, but only at the high-end of the market. Macromedia must carefully foster its relationships with these vendors as it executes its own expanding tools strategy — a difficult proposition.

The combination of Macromedia and Allaire will create a significant synergy and will provide a better-rounded product strategy that will better support customers of both companies. Enterprises should view this deal as a positive step within the natural progression of a maturing market.

**Analytical Source:** Mark Driver, Java Strategies & Technologies

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