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The Impact Of A GXS/Inovis Merger

The Combined Unit Will Target Managed Services, SaaS-Based Solutions, And Cloud Computing

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EXECUTIVE SUMMARY

The proposed merger between GXS and Inovis will combine the resources of two of the largest business-to-business (B2B) service providers. Forrester does not believe that this development should be any reason for concern among existing customers or those who are considering becoming customers of either of these two B2B providers. In fact, this move could lead to a combined entity that is better able to support higher levels of managed services, SaaS-based solutions, and cloud computing alternatives.

THE BIG GET BIGGER

On December 8, 2009, GXS and Inovis jointly announced their intention to merge. The two are scheduled to complete the deal in the first half of 2010. What does this mean for existing customers and those considering either of these two vendors for future deployments?

First, this is a merger of industry-leading firms. GXS and Inovis scored first and second, respectively, in our recent Forrester Wave™ evaluation of B2B service providers comparing product features and vendor strategy.[1] Market data captured during this effort indicates that GXS is the largest B2B service provider, processing more than 8 billion documents per year. Sterling Commerce and EasyLink come in tied for second place; each processes approximately two billion transactions per year. Inovis is in fourth place with more than one billion transactions per year. Looking at providers beyond these top four, transaction volumes drop off rapidly.

We do not believe that economic necessity is driving this merger. While neither of these firms publish financial data (they are both owned by private investors), all indications are that both have been performing well in the current market.

A forward-looking strategy is the driving force behind this merger. Enterprises are looking for a wide range of integration solutions from a single vendor, and the ability to obtain these services via multiple channels — software licenses, managed services, software-as-a-service (SaaS)-based software solutions, and cloud computing alternatives — is becoming increasingly important. GXS's and Inovis' combined resources will be able to deliver these types of flexible integration solutions better than either provider could on its own.

Each Vendor Gains From The Merger

What will each vendor gain from the merger? For GXS, the initial answer is new customers. Even factoring in existing customer overlap, GXS stands to gain an additional more than 10,000 new customers. Beyond that, GXS will now be able to provide its customers with access to the extensive retail expertise that Inovis acquired via its acquisition of QRS several years ago. In particular, the Inovis Catalogue has been instrumental in helping many organizations with their retail data synchronization needs. GXS also gains the expertise of Inovis' experienced and proven development team.

The advantages for Inovis are twofold. First, GXS offers unsurpassed global reach with major operations in Europe, Asia Pacific, and South American regions. The second issue is scale. Inovis will go from being the fourth-largest provider (as measured by the number of supported transactions) to being part of the largest B2B provider in the world. The additional resources this merger will provide will enable Inovis to bring new managed services, SaaS-based solutions, and cloud-based alternatives to market quicker.

Potential Roadblocks Are Unlikely

Even though GXS is already the largest B2B service provider, it is unlikely that there will be significant regulatory hurdles that would stop this merger, as there are still a large number of providers offering competing services. Traditional competitors including Sterling Commerce, EasyLink, and nuBridges have been joined by aggressive new entrants to the market such as Axway/Wipro, Crossgate, HubSpan, Seeburger, and SPS Commerce. In this environment, it would be difficult to support a claim that the proposed merger would diminish competition.

WHAT IT MEANS

STAY THE COURSE — FOR NOW

It will take several months for this merger to achieve regulatory approval and several more for the impact of the combined development resources to hit the market. GXS and Inovis' proposed merger does not represent any type of threat to their existing base of customers, and these firms should not be concerned. At the same time, enterprises looking to upgrade their B2B integration capability should take a closer look at the expanded managed services, SaaS-based solutions, and cloud computing alternatives that the new entity will provide to the market during the next year.

ENDNOTES

[1] Forrester recently evaluated 12 leading B2B service provider offerings. On a scale of 0 to 5 (with 5 being the highest), GXS had a combined product offering and strategy score of 4.69, while Inovis had a combined score of 4.53. For more details, see the October 29, 2009, "The Forrester Wave™: B2B Service Providers, Q4 2009" report.