

Riverbed Acquires OPNET; Meets a World of New Opportunities and Challenges in the APM Market

On October 29, 2012 Riverbed announced that it will acquire OPNET Technologies for more than \$900 million. The acquisition represents Riverbed's entrance into the application performance management (APM) market that is fast-growing and rapidly changing, but also consists of many different submarkets with unique dynamics and buying requirements.

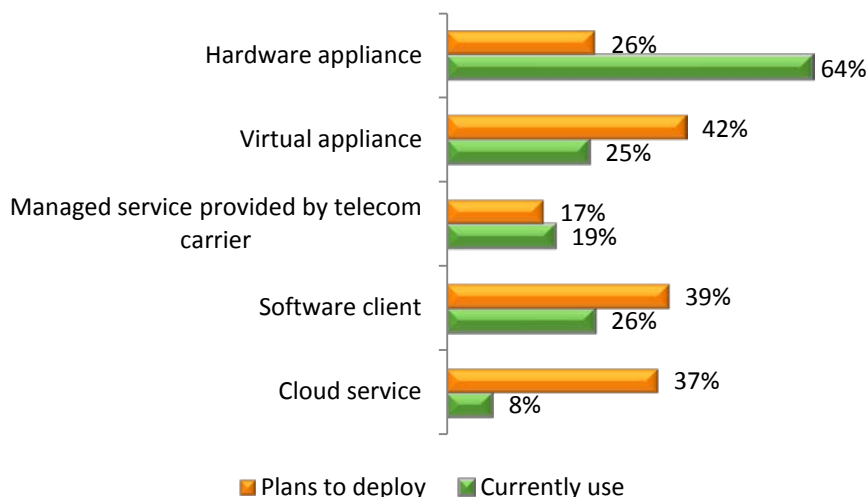
This report examines the background of the acquisition and the impact on the market, other APM vendors and alignment with key market trends.

Background

TRAC's recent research shows that the WAN optimization market is still growing at a significant rate, but the drivers of this growth have changed. New adoption of WAN optimization technology is being driven by the effectiveness of these solutions in supporting some of the current major IT projects, such as delivery of applications to mobile users, cloud computing and virtualization. Additionally, organizations are increasingly looking for WAN optimization technologies to become more than a solution for improving network throughput and response times or reducing a bandwidth cost. They are using the quality of user experience as the key metric for evaluating their WAN performance.

Furthermore, TRAC's research shows that even though WAN optimization solutions are currently being predominantly delivered as a hardware appliance, organizations are becoming more interested in new deployment methods, such as software based or cloud based services (Figure 1).

Figure 1: Deployment Methods for WAN Optimization



Source: TRAC Research, 2012

End-user requirements in the WAN optimization market are changing and new submarkets are emerging, which is making it increasingly challenging for Riverbed to be more effective than competitors in addressing each of these key use cases. For example, vendors like Exinda Networks and Ipanema Technologies are well positioned to answer end-user demands for managing end-user experience over the WAN through a single platform, while companies like Circadence have developed strong capabilities for managing the delivery of applications to mobile users. Also, vendors like Aryaka are providing new ways for organizations to deploy these services, which makes WAN optimization capabilities more appealing in variety of new use cases.

Riverbed's technology is still dominant in a large number of use cases for WAN optimization, but with new dynamics in this market and high expectations for growth that the company has set, it is becoming risky for Riverbed to bet their future success predominantly on the WAN optimization market.

APM as a Fuel for Riverbed's Future Growth

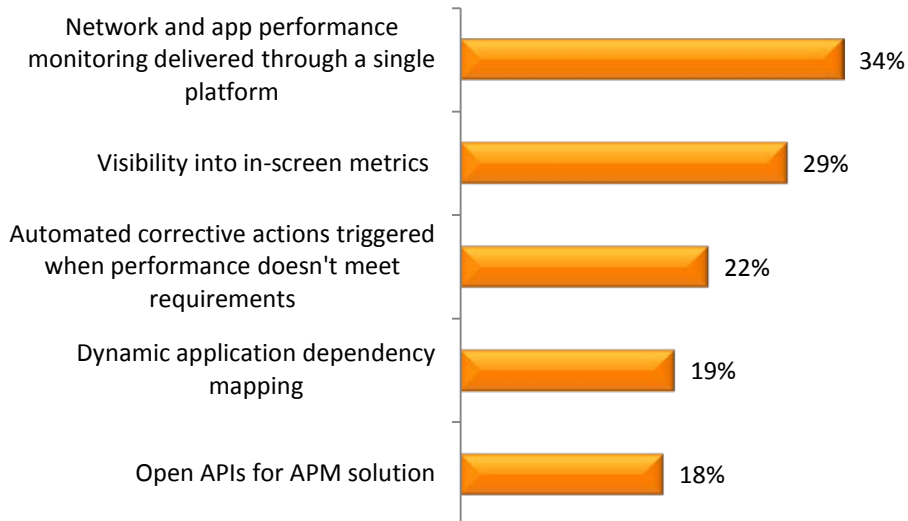
Riverbed has been growing at an impressive rate and the company needed another revenue stream to support market expectations. From the upside perspective, the company couldn't have picked a better market, as APM is one of the fastest-growing technology areas today. The value proposition of APM technologies is addressing most of the key items on CIOs agendas and organizations are becoming more mature when it comes to understanding how these technologies can help them address some of their key business goals. However, from the product positioning and go-to-market perspectives, Riverbed is entering one the most complex markets, which includes: 1) a large number of vendors with similar positioning, but significantly different offerings and underlying technologies; 2) a number of submarkets with unique dynamics and a variety of buyer profiles with different needs; 3) a large amount of confusion from end-users about capabilities that are the right fit for them.

TRAC's upcoming APM Spectrum report identified 9 sub-markets of APM, many of them defined by the needs of different job roles. Specifically, there are major differences in the effectiveness of different solutions based on whether or not they are deployed by IT Operations or Developers. For example, TRAC's research shows that IT Operations roles are 4 times less likely to be deploying (or plan to deploy) application instrumentation techniques (for both Java and .NET) as compared to developers, QA teams, and engineers.

However, Riverbed selected the right vendor to enter into the market with, as OPNET has been experiencing success in the APM space after making a successful transition from being mostly focused on network performance monitoring into a legitimate APM player. Even though OPNET provides capabilities for active monitoring, the company's presence in the APM market has been centered around network-based APM, as well as transaction-centric APM and user experience monitoring. TRAC's research shows that network-based APM is one of the fastest growing areas of the market, as end-user organizations indicated that the ability to monitor network and application performance through a

single solution is the number one APM capability they are looking to deploy in the next 12 months (Figure 2).

Figure 2: Key Capabilities Driving New Adoption in the APM Market



Source: TRAC Research, 2012

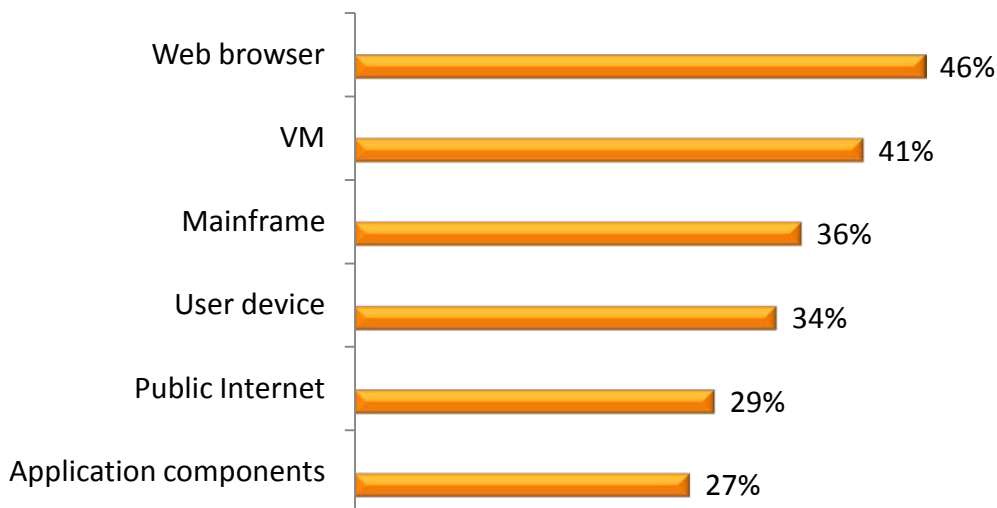
This area includes a number of vendors that range from companies that provide broader APM offerings, such as Compuware, CA and Quest Software (acquired by Dell), to vendors that are specializing in network-based APM, such as INETCO, ExtraHop Networks, Network Instruments, Visual Network Systems or NetScout.

The OPNET acquisition is a good strategy for Riverbed for entering into the APM market, as they selected a company that can allow them to have an immediate success in this space. TRAC's recent research shows that organizations who are deploying OPNET's APM capabilities are doing so predominantly for their ability to outperform most other APM vendors in addressing some of the key challenges of APM such as:

- **Troubleshooting** - OPNET's ability to combine performance and forensic data, triage capabilities and facilitating information sharing between networking and application support teams
- **Proactive management** - frequency of data collection and capabilities for automated baselining
- **Usability of data** - OPNET's Federated Analytics architecture, accuracy and timeliness of alerts and capabilities for building dashboards
- **Ease of ongoing management** - ease of administration and product upgrades, attributes of the training process and low overhead

However, in order to repeat their success in the WAN optimization market in the APM space, Riverbed still has to add major pieces to their portfolio. TRAC's research shows that visibility into the performance within the web browser is the key blind spot for having end-to-end visibility into application performance. Additionally, organizations are also looking to gain more visibility into how the performance of virtual machines, back-ends and the public Internet are impacting the quality of end-user experience. Finally, enterprises are looking to have more robust capabilities for monitoring mobile application performance (Figure 3). In order to become an end-to-end APM solution, Riverbed will have to keep adding capabilities to their new APM portfolio.

Figure 3: Key Blind Spots for APM



Source: TRAC Research, 2012

The OPNET acquisition puts Riverbed in a good position to compete in the APM market, but it should be noted that there are many areas of APM that were not core strengths of OPNET's technology or those that the company wasn't focused on. Riverbed will be able to compete in APM for IT operations and has a compelling message for organizations that are looking for horizontal tools, but there is still a number of use cases that other vendors might be more effective in addressing.

Additionally, OPNET has been putting more focus on building capabilities that would resonate with developers through improvements of its AppInternals Xpert and introduction of Transaction Trace Warehouse. However, the company still might find it difficult to compete in the APM market for IT developers with the likes of Compuware dynaTrace, AppDynamics, CA or IBM. This could also deteriorate Riverbed's competitiveness in emerging APM use cases, such as supporting DevOps, where vendors like AppFirst have built dedicated capabilities for addressing some of the key issues.

Impact on competitors

The acquisition will impact APM vendors on different levels. It is expected that, in the short-term, technology vendors providing horizontal solutions for APM are more likely to be impacted by the acquisition.

Potential Significant Impact	Potential Moderate Impact	Not Impacted
NetScout VNS ExtraHop Networks Compuware Quest CA	IBM HP INETCO Network Instruments BMC OpTier	AppDynamics Compuware dynaTrace Nastel New Relic

Open questions

As previously mentioned, the acquisition is certainly a positive move for Riverbed, but it still leaves several questions open.

The Impact On Riverbed's Channel Strategy and Position

Riverbed's channel network of over 1600 value added resellers is a powerful resource. However, the company's channel is mostly aligned with providing network based value to enterprises and will need to adapt their approach to new buyers, new customer pain points and new solution values.

Cultural Fit

OPNET now becomes a part of Riverbed's Cascade business unit. Cascade, previously created from the roots of Mazu Networks and focused on network performance management, has a very different sales and marketing culture than OPNET. It will be critical that the merging of the two sets of staff, messaging, and technologies is done carefully, or Riverbed runs the risk of stalling the adoption, market traction, and leaving a significant opening for their competition in both the NPM and APM markets to take advantage of.

Technology Overlap

While OPNET did not often find itself competing against Cascade in the field, there is still a good deal of technology overlap between the two solutions. Riverbed will need to turn an honest eye to their now consolidating performance management and monitoring capabilities, and decide which stay and which

go. Unlike previous acquisitions for the firm, these two technology stacks don't have independent futures and will need a roadmap merge that maximizes their feature value and market impact.

Ability to Co-exist With Other Solutions

Unlike, WAN optimization, the APM deployments often consist of different solutions that are addressing different aspects of application performance management, such as user-experience monitoring (often 2-3 different types), transaction-centric and infrastructure-centric APM. For example, there are number of organizations that are using horizontal solutions like OPNET, vendors like CA as a vertical solution, multiple types of user experience monitoring solutions such as SmartBear and Catchpoint or Knoa Software and Reveille. Riverbed will have to adjust their strategy and enhance their ability to co-exist with different solutions or compliment them, as very few organizations are getting all of their capabilities from a single vendor.

What happens next?

It is expected that this move will be answered by either other APM vendors that will look to enhance their APM capabilities or other larger vendors entering this market. After this acquisition, a list of independent companies that can make good acquisition targets to enter into this space becomes even shorter with two key prospects being AppDynamics and ExtraHop Networks.

Additionally, with Riverbed making a significant investment into the performance monitoring space, it is expected that the company will continue to grow this business and expand their capabilities into collecting cloud performance and user-experience data.

Key takeaways

The best way to look at this acquisition is that Riverbed is entering a new market with technology that is well positioned to fuel the company's future growth. It is not expected that there will be any major technology integrations with their other business units, other than in areas where it makes sense to "borrow" technology concepts from OPNET's offerings to enhance their other product lines. The best example of that might be improvements on the company's WAN optimization RiOS platform that are based on parts of underlying technology behind their Cascade products. However, it is important to mention that these products are still being provided as separate offerings, not a part of a unified platform.

Riverbed is building a track record of entering new markets through acquisitions and is significantly growing their presence in these markets. The Mazu Network's acquisition that has increased the company's presence in the network performance monitoring market by a significant margin since becoming a part of Riverbed is a good example. Other examples include the acquisitions of Zeus and Aptimize, where Riverbed had a clear understanding that modern Web Application Delivery

Market Events

management included both application delivery controllers and front end optimization, and acquired both companies at about the same time.

With that said, it is expected that the combination of OPNET's technology, Riverbed's marketing and channel muscle, and developing market trends could cause a significant power shift in the fast-changing APM market.

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TRAC Research is a business-to-business (B2B) market research and analyst company that specializes in IT performance management. The company's research approach is based on four key attributes of true market research: Trusted, Relevant, Actionable and Credible. Our mission is to facilitate open conversations between technology vendors and end-users centered around unbiased, primary market research. Areas of coverage include: managing application performance over the WAN, application performance monitoring, Business Service Management (BSM), network monitoring, end-user experience monitoring, application delivery, managed network services, virtualization management, Cloud management and data center management. For more information about TRAC Research visit www.trac-research.com.