



Paul Grabscheid

InterSystems' Acquisition of MSM

by Paul Grabscheid

On June 18, 1998, InterSystems Corporation acquired the MSM software product family from Micronetics Design Corporation. Since then, discussion about the potential impact of this acquisition has been a major topic in the M development community. The following article answers key questions and reviews the issues tied to the acquisition.

Why did InterSystems acquire MSM?

In two words: critical mass. The addition of MSM and key Micronetics staff will add to our critical mass and enhance our capacity to compete worldwide. When we acquired DSM from Digital Equipment Corporation in 1994, we explained that the acquisition gave InterSystems "the critical mass to extend its lead in enterprise client/server technology and to compete more effectively in the worldwide database market." Further, we pointed out that "with a single marketing and sales organization, we optimize our distribution costs and make greater resources available for research and development. And, with a larger pool of developers, we have much greater opportunities to carry out true research projects—to put the 'R' back in 'R & D'."

That's exactly what happened. Over the last three years, in the largest R & D effort in InterSystems' history, we have built the new Caché post-relational database. With its unique combination of multidimensional object database, object application server and object-enhanced SQL technologies, Caché is ideally suited for today's complex TP applications.

Last autumn, we launched Caché in our largest-ever marketing effort, winning the Software Marketing Journal's Best New Product Launch award against much larger competitors. In fact, our first year promotion efforts for Caché will exceed the cumulative promotion efforts for M by all vendors since M Technology's inception. None of this would have been possible without our prior acquisitions.

Now, we are scaling up our sales capacity. We've proven that we can beat Oracle, Sybase and Microsoft in head-to-head database competition, even when forced to compete on purely relational database grounds. (As an example, we recently replaced Sybase—running an SQL application written for Oracle and Sybase—at a 1,400-user installation. We did this by demonstrating dramatically better performance and scalability, even though we were using Caché strictly as a relational database accessed via ODBC.)

What is the future of MSM?

InterSystems will continue to sell and support MSM. Our development efforts for MSM will be focused on tactical enhancements—just as they are for DSM, DTM, and ISM. In parallel, our strategic development efforts for Caché will be extended to embrace MSM, making it easy for MSM customers, if they wish, to migrate to Caché.

Will InterSystems drop MSM and force customers to move to another product?

No. We will continue to offer MSM as long as there is substantial demand for it. We want Caché to be a desirable destination for MSM users, because they see value in the unique capabilities of Caché. (Given the M upward compatibility and migration features built into Caché, the move from MSM should be an easy one.) But the decision to move to Caché or continue to use MSM is not ours to make; MSM customers will decide which product best meets their needs. Note that this is exactly the same as our strategy for DSM, DTM and ISM.

How does the acquisition of MSM fit into InterSystems' strategic plans?

InterSystems' focus is on high-performance database systems for complex transaction processing applications with rapid application development. Our strategy is to:

- Build advanced technology that our clients can easily adopt, in order to ensure that new and existing customers can effectively develop and deploy world-class applications
- Create broad acceptance of Caché among industry analysts, press, and end users, in order to increase the acceptance of Caché-based applications
- Sell Caché to new accounts, in order to increase the number of developers building new applications with our technology

The acquisition of MSM is consistent with this strategy and, by adding to our critical mass, it will accelerate all of these activities.

Will the existing Micronetics offices remain open?

The Micronetics offices in Germany and in the U.K. have been closed, and the MSM staffs from those facilities have moved to the local InterSystems offices. In the U.S., the Micronetics office in Rockville, Maryland, has been closed, but InterSystems will be opening a new office nearby in the Washington, D.C. area. In addition to housing some MSM staff, this facility will enable InterSystems to better serve some of our government customers.

Isn't choice of vendors key to the benefits of M Technology? Doesn't this acquisition reduce choice?

Competition, and the choice it yields for customers, plays a vital role in promoting technology evolution and in keeping prices in line with value. For many years, this worked extremely well in the M community, as InterSystems, Digital, Micronetics and other M Technology vendors competed intensely, viewing each other as their main competitors. However, this intense competition, combined with a strong language standard specification, came with a price. Differentiation was focused almost solely on price and performance, with an expectation that major functionality improvements would have to await

specification and ratification of the standards body—a notoriously slow process. In the meantime, the rest of the database world was not standing still and the M vendors' duplicate development and sales efforts left little resources to promote and sell the technology outside its existing circle of customers.

Over the last five years the market has changed dramatically. The competition is even more intense, but with a broader range of vendors. Customers and prospects no longer ask, "Why should I use your M implementation, instead of someone else's?" Rather, they ask, "Why should I use Caché instead of Sybase or Oracle or Microsoft's SQL Server?" As they answer this question, traditional M customers face a wider, not narrower, range of choices. And, in this intensely competitive world, we believe it is essential for M to have the focused development and marketing effort that a single dedicated company can achieve.

Micronetics has a reputation for doing a good job with small systems. Is InterSystems doing anything to address this market segment?

I agree that InterSystems needs to focus more effort on the needs of small customers and small systems. We will. In fact, we have tried with Caché to establish more aggressive low end prices with our Caché Workgroup offering. Consider, for instance, the (U.S.) list prices for small client/server systems in Figure 1 below.

The DTM and DT-MAX prices are for 1993, before InterSystems acquired DataTree. The MSM prices are for Windows NT systems with networking.

Note that both the DTM and MSM prices are for M-only products, without the advanced SQL and object capabilities that are built into Caché. As you can see, our Caché prices are quite competitive, both with M systems and with products such as Microsoft SQL Server.

	DTM	DT-MAX	MSM for Windows	Caché Workgroup	SQL Server
5 users	\$950	\$1,425	\$1,150	\$625	\$1,588
10 Users	1,900	2,850	2,240	1,250	2,327
20 Users	3,300	4,900	4,155	4,200	3,218

Figure 1

On the product front, two of our important efforts for the next (3.1) release of Caché are a brand new installation procedure and a significantly smaller footprint. Both of these are aimed at making Caché better for small system users.

Will this transaction impact InterSystems' market position?

Yes, InterSystems projects that the MSM acquisition will increase both immediate and long-term revenue and growth rates, helping us to become even more efficient and to reach critical mass, particularly in key international markets. InterSystems has been consistently profitable over the twenty years of its existence, it will be profitable again this year, and it remains financially strong.

Our business has been accelerating since the release of Caché, with first quarter license growth two-and-one-half times the database market average, dramatically outpacing the results of Oracle, Sybase and Informix. Even without the MSM acquisition, we are on track for substantial growth over the next year—growth in our core business that is equal in size to the total revenues of Micronetics. This growth will enable us to invest even more in the development, support and promotion of Caché.

Does this acquisition indicate that InterSystems will continue to acquire other products and companies?

InterSystems has no immediate plans to make any other acquisitions. Our focus is on integrating the MSM products, customers and staff into InterSystems as quickly and smoothly as possible. Once this is complete, we will review potential acquisitions as we always have: by examining whether they enhance our strategic position and our vision of high performance database with rapid application development.

Product and Support

When will we know more details about product plans?

Although people are (understandably) anxious for decisions about product development plans, I want to take the time to make careful and well-informed decisions. Our review will concentrate in areas outside of the core M Technology, such as SQL, GUI and Web connectivity, where InterSystems has new technologies that may be of immediate benefit to MSM users.

I am going to visit 15-20 representative MSM customers

<http://www.mtechnology.org>

on five continents during July to learn first-hand about their plans and product requirements. With that input, we will make and announce detailed plans in August.

Who will provide support for MSM?

InterSystems is assuming all MSM support responsibilities. Existing support contracts for MSM remain in effect and customers should use the support numbers that they are accustomed to calling for assistance. If these numbers change, we will provide advance notice—we want to minimize any disruption. If you are not sure who to call for support, our MSM Hotline (1-617-577-3676 or mmsm@intersys.com) can help. The InterSystems Worldwide Response Center (1-617-621-0700) is also available 24 hours per day.

How long will InterSystems support MSM?

InterSystems will support MSM for as long as there is an active customer base using the product. Realistically, that will be for many, many years to come. (We are, for instance, still supporting numerous PDP-11 systems that were installed more than a decade ago.)

Is Caché M?

While evolutionary software development is the norm, all technologies need a periodic revolution if they are to remain vital. Caché is InterSystems' most recent revolution and our key strategic direction.

In building Caché, we set out to create a natural evolutionary path for M users, but also to leapfrog relational databases and deliver a product that is appealing for brand new customers with no M experience. The result is a system with familiar M elements and the ability to run M programs unchanged, but with a much richer range of technologies.

The question, "Is Caché M?" is analogous to, "Are today's computers the same as those of ten years ago?" In the sense that both generations of computers have CPUs, disks and other familiar components, one might say "yes." But in terms of what they can do and how they do it, they are worlds apart.

Is InterSystems committed to enhancing the M language?

InterSystems is committed to aggressively enhancing Caché to meet the evolving needs of complex transaction processing applications. This includes extending the glob-

al module—our core multi-dimensional database technology—to support even larger database sizes and user counts, and enhancing our programming language technology, to add advanced object capabilities. We're also adding dramatic new language capabilities—procedures with local variable encapsulation, block structured flow control commands, and freedom to add white space and split lines, to name just a few—all in a fully upward compatible fashion.

What does this mean for the M Technology Association?

MTA is a user-focused organization—not a vendor-focused one—so this acquisition should have little or no direct impact on it. Whether MTA is successful (and we hope it is) depends on how well it satisfies users' needs and expectations.

InterSystems continues to participate in MTA activities, including the June conference in Boston.

Will InterSystems change the name of MSM?

InterSystems has no plans to change the name of MSM.

Sales and Order Processing

Will pricing be affected?

InterSystems has frozen MSM license and maintenance prices at their current levels for 1998. This will provide a smooth transition for customers.

Future pricing decisions will be guided by two factors: fairness to our customers, consistent with our long-term partnership with those customers, and the competitive price environment we face in the database software market.

What about discounts?

MSM discounts will remain unchanged for 1998. After that, discounts will be set based on total purchases of InterSystems products.

What about existing MSM licenses?

MSM licenses granted by Micronetics remain in full force and effect.

Will there be pricing incentives for MSM customers to move to Caché?

Yes. InterSystems will offer the same Caché migration program for MSM as it does for DSM, DTM and ISM—just as if those MSM licenses had been purchased from InterSystems.

Where can I go for additional information?

An MSM hotline has been set up at InterSystems headquarters. Any MSM questions or issues can be directed to InterSystems via telephone (1-617-577-3676) or email (msm@intersys.com). Information is also available on the InterSystems Web site at www.intersys.com. **M**

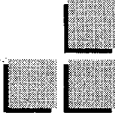
Paul Grabscheid, Vice President of Strategic Planning for InterSystems, Corp., has used his expertise in database and application development tools and technologies in a variety of product planning and marketing roles at InterSystems. His master's degree is from the Sloan School of Management at M.I.T.



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