



Sphera Relaunch Is A Big Positive For Customers

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In June 2016 Genstar Capital, a corporate carve-out specialist investor, bought the IHS Operational Excellence and Risk Management (OERM) assets for an undisclosed sum. The investment firm understood that the OERM business, with revenues of just over \$100 million, was highly profitable but was also in the need of a reboot due to a long period of under-investment. Rebranded as Sphera, the new executive team led by President and CEO, Paul Marushka rapidly implemented a customer success initiative, developed a product roadmap based on customer needs and struck new partnership agreements with influential consulting firms. The acquisition of Rivo Software announced on April 6, 2017 demonstrates Sphera's intention to boost new business sales to mid-market and core enterprise customers. Verdantix believes that Sphera is pointed in the right direction to retain the majority of its chemicals, industrials, oil and gas, and US military customers by delivering product enhancements in the short-term and a new cloud-based, integrated EHS platform before the end of 2018.

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ORGANIZATIONS MENTIONED

3E Company, Actio, Airsweb, Anthesis, Atrion, Balfour Beatty, BOMcheck, cr360, CyberRegs, E2 ManageTech, Enablon, Enviance, ERM, ESP, ESS, EtQ, EY, Genstar Capital, Gensuite, IHS, Intellex, KMI, Medgate, MSDSOnline, ProcessMAP, Rivo, SAP, Sphera, Stork, TCS, Technidata, thinkstep, UL EHS Sustainability, UL The Weracs, VelocityEHS.

Sphera Relaunch Is A Big Positive For Customers

After several years of under-investment, the IHS Operational Excellence and Risk Management (OERM) business was slowly shrinking as customers switched to alternative providers with better technology. There was no guarantee that the carve-out of the business in June 2016 would bode well for customers since investors could have continued to run the assets as a cash cow. Verdantix analysis indicates that customers of the rebranded Sphera business should be in a much more positive mood than they were in April 2016. The Board are clearly committed to retaining the customer base, growing the Sphera business and investing in long overdue innovation. We believe customers should sit tight, demand multiple product enhancements for the next 18 months and push for an entirely new cloud-based, integrated EHS platform by the end of 2018.

Genstar Acquired EHS Software And Content Assets From IHS In Severe Need Of A Reboot

In June 2016, Genstar Capital acquired the IHS OERM business which comprises EHS software assets, product stewardship solutions and a team of highly experienced EHS experts. The acquisition resulted from a competitive bidding process. As a specialist in corporate carve-out deals, Genstar Capital's investors went into the deal with their eyes open given that they inherited a business which had:

- **Under-invested in the software which negatively impacted new customer wins.**
Over more than a decade, IHS acquired a portfolio of market leading EHS products by buying vendors like Atrion, CyberRegs, ESP and ESS. From 2013 onwards, it became increasingly obvious to customers that IHS was not committing funds to enhance the software assets. Verdantix EHS product benchmarks in 2012, 2014 and 2016 tracked the competitive decline of the IHS application portfolio (see Verdantix Green Quadrant: EH&S Software 2016). The decision to minimize investment in the OERM software assets was made by the IHS executive team which limited the room to manoeuvre for OERM management.
- **Failed to offer a cloud deployment option, mobile apps or a modern UI.**
IHS customers in the chemicals, oil and gas, and manufacturing sectors complained about the lack of a hosted enterprise EHS platform, the non-existence of mobile apps for processes such as incident reporting and safety, and a complete failure to upgrade a tired-looking "text and tables" user interface. The lack of innovation in the product architecture became a critical problem due to the rapid rise of a group of fast-growing, innovative vendors like Enablon, EtQ, Gensuite, Intellex, Medgate, and ProcessMAP.
- **Walked away from all but the biggest deals which upset prospects and partners.**
The IHS commercial strategy for its OERM assets was to bid only for large deals with multi-million dollar price tags. Whilst this makes sense in some business software markets, in the EHS market 95% of deals have a price tag below \$1 million. By refusing to even respond to RFPs in the \$300,000 to \$750,000 range, IHS cut itself off from the vast majority of new business opportunities. This commercial strategy was reflected in minimal investment in the new business sales team and product marketing.
- **Severed all ties with consulting partners and in-sourced services work.**
In 2011, IHS announced its plans to build an ecosystem of IT systems integrators and hired seasoned alliances and partnerships leaders from consulting firms like EY (see Verdantix IHS Launches Ecosystem For Sustainability Transformation). But in 2012, the IHS OERM leadership team took the decision to bring all services work in-house. Whilst the short-term result was to boost the revenues of the OERM business, this decision quickly back-fired as influential partners like ERM suddenly had to fill a hole in their project

bookings. The result? The consultants flocked to Enablon which had a strong enterprise-class EHS platform and sought implementation opportunities with SAP EHS.

- **Experienced gradually falling revenues as customers switched to alternatives.**

Shrinking revenues were the accumulated result of a lack of product investment in a competitive market, a highly restrictive new business strategy and the termination of influential partnership deals. IHS financial releases suggest the OERM business was shrinking at approximately 3% per year from 2013 onwards.

The under-investment in the IHS OERM business was a rational decision by the parent business to generate as much profit as possible from the software assets over a three year period. By the time the business was put up for sale it still had revenues above \$100 million, EBITDA above 35% and approximately 500 employees. In 2016 the IHS OERM business was the largest and most profitable standalone EHS and product stewardship software vendor.

The New Sphera Solutions Strategy Is Built Around Customer Priorities

When Genstar Capital acquired the IHS OERM assets in mid-2016, they bought a business which had critical mass and products with a strong legacy but faced a significant number of strategic challenges due to the lack of investment in the business for several years at IHS. To turn around this gradually shrinking business, the Sphera team, led by new President and CEO Paul Marushka, has:

- **Rapidly implemented a customer success initiative to prioritize essential fixes.**

Recognizing the urgent need to connect with its 550 customers, Sphera moved several EHS consultants into a new, non-billable customer success team. This group, along with Sphera executives, has visited dozens of customer locations, managed white-boarding sessions to build technology roadmaps and collected feedback to prioritize product investments. This engagement programme has stabilized wobbly customer relationships and provided reassurance to customers that they are key to the vendor's future.

- **Developed a technology roadmap backed up by a significant funding commitment.**

Given that most customers feel they have not received any product innovation in return for paying software license maintenance fees for 3 or 4 years, there is a burning need for Sphera to demonstrate that they have the cash to deliver product enhancements. The customer engagement programme has framed the high-level requirements for the technology roadmap. Sphera has reassured its customers, for the time-being, that it will live up to its plans by disclosing the very significant funds made available by Genstar. This roadmap covers cloud, mobile, platform integration and user interface upgrades.

- **Replaced smoke and mirrors marketing with three easy-to-understand propositions.**

When the OERM business was owned by IHS, product marketing was primarily aimed at covering over the cracks and attempting to make the disconnected, legacy apps look like a single integrated platform. Nobody who had a close look at the software – or indeed used one or more of the apps on a daily basis – ever believed this smoke and mirrors marketing. The new messaging from Sphera is simple and accurate. By categorizing products into operational risk (health and safety), environmental performance and product stewardship, Sphera is honest about the separate product architectures.

- **Exploited a fortuitous state of flux in the services market to strike new partnership deals.**

Genstar invested in Sphera with the intention of growing software revenues not consulting bookings. Due to the prior strategy of in-sourcing all services work, the Sphera team needed to start from scratch with services partner relationships. Changes in information solutions leadership roles at ERM and E2

ManageTech as well as the entry of the likes of Anthesis, EY and TCS into the EHS technology consulting market facilitated the partnering strategy for Sphera. This will improve customer relationships as well as enabling new business sales.

Rivo Acquisition Shows Commitment To Customers And Enhances Strategic Positioning

When Genstar bought what is now the Sphera business it was plain to see that they had taken on a significant turnaround challenge. The new Sphera executive team has moved impressively quickly to engage with customers, build trust with the wider ecosystem and lay out a credible product plan for the next two years. The announcement on April 6, 2017 of the acquisition of Rivo software gives Sphera:

- **Critical mass in the UK market.**
The acquisition of Rivo adds 60 employees to the existing 550 Sphera employees. Post-acquisition Sphera will have more than 10% of its employees located in the UK. With the UK and continental European economies on a more positive growth trajectory this looks like a well-timed acquisition. By bringing on board an established commercial and product team in the UK, Sphera has the critical mass to become one of the largest EHS software and product stewardship vendors in the UK alongside Airsweb and UL EHS Sustainability.
- **Complementary safety and risk management functionality.**
Rivo primarily focused on developing applications to improve worker safety and risk management. The Verdantix Green Quadrant published in 2016 found that Rivo had strong scores for incident management, safety observations, audits, inspections and risk analytics. These worker-centric capabilities complement the process safety capabilities in the existing Sphera applications for operational risk. They also align well with the significant number of “zero harm” initiatives at firms like Balfour Beatty and Stork.
- **Cloud and mobile capabilities for the core enterprise and mid-market segments.**
The Rivo multi-tenant product architecture is designed to meet the configurability and budget needs of mid-market firms with revenues from \$250 million to \$1 billion and the core enterprise market with revenues from \$1 billion to \$5 billion. By acquiring Rivo, Sphera can now boost new business sales to these two segments which are unlikely to buy the existing outmoded, on-premise applications inherited from IHS. Smaller Sphera customers with the operational risk apps may even consider migrating to the Rivo platform from 2018 onwards.

Sphera Will Retain Customers With Quick Upgrades And A Cloud-Based Enterprise EHS Platform In 2018

The Rivo acquisition is a positive for Sphera but it doesn't fix problems with the legacy apps such as out-dated user interfaces, on premise deployment, weak mobile apps and limited integration. Sphera will stabilize and grow the core business across environmental, operational risk and product stewardship by:

- **Deploying meaningful product enhancements for the existing EHS apps in 2017.**
By launching a customer success initiative, Sphera has listened to customers and acknowledged their issues. This has bought the new team goodwill and a window of opportunity to fix a long list of upgrade requests. For Sphera to succeed, it is imperative that multiple meaningful product enhancements are delivered in 2017. Deploying upgrades to hundreds of customers with customized on premise installations is not a trivial project. The action-oriented leadership team at Sphera are very committed to rapidly delivering the most important fixes, upgrades and enhancements to keep customers loyal.

- **Sharing details for the next generation Sphera EHS platform.**

Sphera executives fully understand that to be a competitive player in the rapidly evolving (and consolidating) EHS software landscape they need to articulate a vision for an integrated, cloud-based EHS platform. By over-communicating on this strategy, sharing plans early on, and getting existing customers excited about the vision for the new product, they will be granted the 18 months required to develop the platform. An absence of significant EHS regulatory change in the US over the next 3 years means Sphera has enough breathing room to launch a next generation platform in late-2018 and still retain the bulk of its customer base. Considering the frenetic pace of mergers and acquisitions in the broader EHS software market, switching to a smaller vendor in 2017 which may be swallowed up and disembowelled in 2018, is not a risk to be taken lightly.

- **Clarifying the unique capabilities of the product stewardship solutions.**

Approximately a third of the Sphera business is composed of the different product stewardship software and content offerings for chemical management, product compliance, SDS authoring and hazardous materials management. Whilst there are many vendors in this segment, Sphera mostly competes with 3E Company, SAP and UL The Wercs. For years, these product stewardship solutions were buried in the mass of IHS information solutions which stymied new business growth. Peep behind the kimono and its clear to see that these products have very high renewal rates. Sphera should highlight in a new marketing campaign the unique capabilities on offer such as the military-grade hazardous materials management system and its powerful automated regulatory processing engine.

- **Launching new propositions which integrate EHS content and workflow functionality in a way which competitors can't match.**

Over the last three years, a number of vendors have combined content-centric product stewardship apps with workflow-centric EHS apps. UL bought The Wercs and cr360, SAP developed its EHSM product and acquired Technidata, VelocityEHS combines MSDSONline and KMI, Enviance acquired Actio, thinkstep added BOMcheck to its portfolio with SoFi. Freed from the shackles of short-term profit targets, Sphera can develop a new cloud-based platform for integrated chemicals management as part of its innovation strategy. This would link up compliance assurance and chemical inventory management with product compliance and regulatory content.

VERDANTIX CAPABILITIES: RESEARCH, ADVISORY & EVENTS

Through our research activities and independent brand positioning we provide clients with:

- ✓ **Research relationships based on an annual research subscription**
- ✓ **Confidential advisory services such as commercial due diligence**
- ✓ **Thought leadership studies for brand building and lead generation**
 - ✓ **Executive summits, roundtables and webinars**
- ✓ **Advisory workshops to rapidly increase your sector knowledge**
 - ✓ **Multi-country and complex customer survey projects**
 - ✓ **Marketing campaign support with analysts and content**

VERDANTIX MARKET COVERAGE

EHS Information Management

Focuses on the software and services markets that enable corporations to improve their performance across environment, health and safety including compliance, risk and performance.

Product & Supply Chain Stewardship

Focuses on software, content and services which support corporate strategies and systems that target product compliance and risk management up the supply chain.

Real Estate & Facilities Information Management

Focuses on software, intelligent building technologies and consulting services that enable real estate and facilities executives to optimize the value and performance of their building portfolios.

Energy & Maintenance Software

Focuses on software and related hardware for energy usage optimization and equipment maintenance management across all types of energy consuming assets.

WHY VERDANTIX?

Verdantix is an independent research and consulting firm with a focus on innovative technologies that optimize business operations. We have expertise in environment, health, safety and quality as well as energy, real estate, facilities and maintenance.