VMware's Acquisition of Digital Fuel Flames Interest in IT Financial Management

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VMware's expansion of its management portfolio continues, in line with its IT-as-a-service strategy. The planned acquisition of Digital Fuel is intended to bolster the IT financial management capabilities in VMware's IT business management segment.

Key Findings

- Digital Fuel, a company formed in 2000, started with on-premises Service Level Management solutions, such as a service catalog, and, during the past three years, transitioned to a software-as-a-service (SaaS) solution, focusing new development on IT financial management.

- Digital Fuel's customers chose its SaaS IT Financial Management solution due to its modularity, such as showback/chargeback, vendor management, IT costing, SLA and budgeting modules.

- Most of Digital Fuel's customers have transitioned from an on-premises solution to a SaaS-based subscription solution.

- Before this planned acquisition, VMware had a gap in the financial management area that is part of its embryonic IT business management segment of management solutions.

Recommendations

- Digital Fuel's acquisition by VMware will be beneficial to its current customer base, as it will be part of a much larger and financially stable vendor.

- Prospective buyers and customers should request a technology development road map from VMware for the IT Financial Management solution, particularly to track heterogeneous capabilities and to understand the future of Digital Fuel's service-level reporting capabilities.

- Customers of VMware vCenter Chargeback should expect it to become a data collector for the newly acquired Digital Fuel IT Financial Management solution.

- VMware customers looking for a portfolio of management solutions from VMware should consider this solution, as IT financial management was missing from VMware's portfolio.

- Customers looking for a business-oriented IT financial management solution should also look at other third-party, independent vendors and solutions in the IT financial management market.

What You Need to Know

VMware announced its intention to acquire Digital Fuel to plug gaps in its embryonic focus area of IT business management, chargeback and IT financial management. VMware will use this technology to help its customers understand the cost of virtual machines, drive better utilization of resources and provide cost optimization information.

Event

Event Facts

On 13 June, VMware announced its intention to acquire Digital Fuel, a privately held IT financial management SaaS solution vendor with investments from various venture capital companies. Terms of the acquisition were not disclosed. The acquisition is scheduled to close in July 2011, subject to conditions.

Analysis

VMware announced its intention to acquire Digital Fuel to extend its capabilities in the IT financial management area that is part of its IT business management segment, a focus area for investment in 2011. This segment currently includes only VMware Service Manager (from EMC's acquisition of Infra) and VMware vCenter Chargeback. VMware vCenter Chargeback will continue to be a tactical product in VMware's IT business management segment. It lacks the depth of functionality found in Digital Fuel's solution, and will likely become a data collector for Digital Fuel's SaaS IT Financial Management solution.

The acquisition of Digital Fuel enables VMware to plug a gap in its offerings, and thus understand cost drivers, initially at the infrastructure layer, such as vCenter, and use that for IT budgeting and demand management. This is an important investment for VMware, because increased transparency into the cost and value of IT investments will be required to support new IT funding and operating models (for example, cloud computing) during the next few years. With Digital Fuel, VMware can offer customers a tightly integrated IT financial management solution that gives them greater flexibility in how they can bill for services like infrastructure as a service (IaaS). Better visibility into IT costs and value is essential to improve IT efficiency, balance IT resources with business demand and make informed decisions about the use of IT.

Digital Fuel has approximately 100 employees and approximately 130 customers. VMware's acquisition of Digital Fuel will be beneficial to these customers, as its products will now be provided by a much larger and financially stable vendor. Digital Fuel is headquartered in California, with a development center in Israel. It started its product line with on-premises service catalog offerings to document and track service contracts with service-level reporting capabilities. The majority of its

revenue and installed base was in the service provider segment. Through 2009, Digital Fuel focused its R&D attention on IT financial management, adding modules to its portfolio. It also increased its focus on the enterprise segment and changed its offering from on-premises software to SaaS. The majority of Digital Fuel's customers have made the transition from an on-premises offering to a SaaS solution.

When Digital Fuel first turned its attention to IT financial management, the market segment was not widely recognized. Even now, IT financial management is an immature set of practices in most IT organizations, with limited adoption and limited understanding of financial concepts by IT staffers. Therefore, Digital Fuel continues to get a significant portion of its revenue from its "bread and butter" service-level reporting products. New pressures to accurately evaluate the costs and benefits of alternative IT infrastructure models, such as virtualization and cloud, will strain IT staff with traditional IT roles and skills. While most IT organizations would like to be more customer- and service-centric, they struggle in this area, because it is difficult to change IT processes, roles and culture, which limits the addressable market for IT financial management products.

Technology uncertainty should not be an issue for existing Digital Fuel customers, as VMware will continue investment in product development — in particular, the IT budgeting and demand management areas of IT financial management at the infrastructure and application levels. The acquisition will also accelerate SaaS adoption of the tool, so the few remaining Digital Fuel customers with on-premises implementations will have to prepare to migrate to a SaaS delivery model.

Digital Fuel's product was designed for a heterogeneous computing environment and, while those capabilities will not cease functioning, Gartner expects that more of VMware's future R&D investments will undoubtedly be on optimizing the solution for vSphere, vCloud Director and other VMware environments by developing more out-of-the-box templates and adapters. Clients should request future development road maps to understand whether VMware will continue Digital Fuel's platform- and infrastructure-independent capabilities, or narrow the focus of Digital Fuel's IT Financial Management solution to VMware platforms only.

VMware has developed its own ecosystem of go-to-market partners, and some of them overlap with Digital Fuel's partners (for example, BT and Siemens). However, Digital Fuel's partnerships will be re-evaluated, potentially with an increased opportunity of cross-selling into the existing VMware customer base and the prospective customer environment.

With this acquisition, the IT financial management market has lost a pure-play vendor with good visibility, and the other pure-play vendors in this market will find a window of opportunity in scenarios where customers are not looking for a large suite of management tools or tools from a infrastructure vendor, but for a best-of-breed point solution.

Recommended Reading

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"Chargeback Cost Recovery: Moment of Truth"

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