Smarter Libraries through Technology:

Investing in the Industry

By Marshall Breeding

The big news this month concerns Innovative Interfaces, Inc. receiving a major investment from a pair of private equity firms. Until now, this company had often touted its independence from the influence of outside investors as one of its positive qualities. Innovative will need to demonstrate that its new ownership arrangement actually does mean "business as usual" or that any upcoming changes will result in substantive benefits to current and potential library customers.

With this change, private equity investors own in whole or part the top three companies in the industry, SirsiDynix, Ex Libris, and Innovative. As we explore the details of this transition at Innovative, it's also interesting to think about the broader issues regarding the interest of private equity investors for the library automation industry.

The sustained interest by private equity firms to invest in the library automation industry can be taken as a positive vote of confidence in its financial health and in its potential for growth. Investors at this level are looking for strong companies poised for additional growth. It seems to me that

these investors would become involved with companies only if they see opportunities to shape strategies in ways that will increase their overall revenue and profitability. Does that mean that costs will go up for libraries? While I wouldn't rule out that outcome, I would think that it's unlikely that new strategies will alter the prices that any given library will agree to pay for its technology products. It seems more likely to me that new investors would first seek opportunities to exploit new markets, expand product offerings, and to streamline operations in ways that will reduce costs.

In this issue we also cover the launch of a Soutron Global as a new competitor in the industry wholly owned by its founder. It enters the scene with an explicit position that without dependence on external investors it has more flexibility to be responsive to its library customers. Time will tell whether this flexibility will translate into a strong position in the industry.

Whether owned by the individual that founded the company or by external investors, almost all the companies in the library automation industry exist to generate a profit. The obvious exception, OCLC, is a non-profit membership organization with business strategies not that different from its for-profit competitors.

But whether the organization is for-profit or non-profit or if it works with open source or proprietary software, their long-term success depends on whether libraries will find value in their products and services. With all the pressures that libraries face today, they need more than ever strong technology products at reasonable costs. These new investors must understand the forces of change that impact libraries and the limitations of their budgets.

Libraries have an interest in the success of the organizations upon which they

depend for its technology just as those organizations have an interest in the success of libraries. While libraries do not want to be taken advantage of in the marketplace of automation software and services, they also need to build partnerships with organizations to create technologies to meet their needs today and into the future. A huge portion of libraries depend on products provided by companies under the control of private equity investors, and a lot is at stake for finding mutual bene-

fits. It's also a time when organizations under other ownership models can step up to demonstrate whether they can deliver better values and stronger products. In the end, the business model or ownership of the company is only one of many factors that come into play as libraries make technology decisions. The strength of products, quality of support, and a solid understanding of library futures are factors, I think, are more important differentiators.

Innovative Interfaces Joins the Private Equity Club

Innovative Interfaces, one of the veteran companies of the library automation industry, has been one of the major hold-outs in the wave of private equity investments that has reshaped the library automation industry over the last six years. The company has remained under the sole ownership of its co-founder Jerry Kline. That position now changes as a pair of private equity firms, Huntsman Gay Global Capital and JMI Equity have made strategic investments in Innovative Interfaces, Inc. and its sister company SkyRiver Technology Solutions. Following the transaction Kline retains partial equity in the company and will serve as the Chairman of the company's reconstituted Board of Directors and will continue involvement in the leadership of the company. Rich Lawson, co-founder and Managing Partner of Huntsman Gay serves as Vice Chairman and JMI Equity will hold a seat on the new Board. No changes in the executive management of Innovative or SkyRiver are planned.

While the move involves a substantial change of ownership in Innovative Interfaces, it does not point toward further consolidation of the industry. Both Huntsman Gay and JMI Equity invest primarily in North American companies across a variety of industries. JMI Equity focuses its investments on companies involved in software development, internet services, health care IT, and business services. Neither company has current investments in companies directly or indirectly related to the library automation industry.

Transactions Details

The specific terms of the transaction have not been disclosed. Both Huntsman Gay and JMI Equity both come to the table with substantial capital resources. Huntsman Gay, with a fund of 1.1 billion, typically makes investments in the $25-100 million range; JMI Equity manages a fund of 2.1 billion in committed capital and makes investments ranging from $10-100 million. This type of transaction involving multiple private

firms to gain a controlling interest in a company is relatively common arrangement, often termed a "club deal," but has not been previously seen in the library automation industry. Whether joined in partnerships or as sole investors, private equity companies do not engage with companies without sufficient control to execute strategies to protect and grow their investments.

San Francisco based Seven Hills Group LLC provided financial advisory services to Innovative leading up to this transaction (http://www.sevenhillspartners.com/).

The Latest in a Series of Private Equity Deals

Private equity investment is nothing new to the library automation industry. Most of the large companies are already under private equity ownership including SirsiDynix, Ex Libris Group, Civica, Infor, and Bibliotheca Group. But this transaction stands apart from others seen in the library automation industry. In the preceding acquisitions, a single private equity firm has taken full ownership of one or more companies:

- Vista Equity Partners acquired complete ownership of SirsiDynix in 2006. The consolidation of Sirsi Corporation and Dynix happened took place previously in June 2005 during the period when Seaport Capitol owned Sirsi Corporation.
- Francisco Partners purchased both Ex Libris and Endeavor Information Systems in 2006. Leeds Equity Partners acquired the consolidate Ex Libris Group in August 2008.
- Civica was acquired in May 2008 by 3i Investments.
- In the library RFID arena, One Equity Partners, a division of JP Morgan Chase & Co. acquired the Swiss company Bibliotheca RFID, UK-based Intellident, and US-based ITG to form Bibliotheca, a new global company.

The retention of partial ownership by Kline differs from these previous deals. This arrangement places the insight and experience of the company's longstanding owner and strategist in the mix along with any perspectives brought in by the new investors.

While private equity dominates the largest library automation companies, other ownership arrangements exist among the mid-sized players. Auto-Graphics, a wholly owned subsidiary of Agent Information Software, Inc. (AIFS.PK) is the only publicly traded company. Polaris Library Systems is owned by an investment led by its management. VTLS remains under the ownership of its founder Vinod Chachra. OCLC is a non-profit organization owned by its membership.

Business as Usual at Innovative

Kline states that Innovative will continue to conduct "business as usual" and that this change will not alter the company's commitment to its library customers. The existing management team will remain in place. Neil Block has led the Innovative Interfaces as its President since August 2010 when Kline stepped aside from the daily management. Block will retain his position following the transaction, as will his management team. The workforce of the company will remain intact.

Why now?

Although Kline has resisted bringing in outside investors in the past, he states, "This as an ideal time to bring in new stakeholders with vested interests in growing the company. I'm glad to be able to share the responsibility with new partners that will participate in decisions that impact our library customers."

This transition comes as Innovative is poised to deliver the next genera-tion of its strategic automation product. In May of 2011 Innovative announced its new Sierra library services platform. Though still in development but slated for release later this year, Innovative was successful in recruiting a substantial portion of its Millennium customer sites to sign contracts as early implementers of Sierra. This surge of sales stands as a strong vote of confidence from its library customers in vision that Innovative has projected for Sierra. The more open approach to technology embodied in Sierra's design apparently struck a positive chord.

The interest of private equity firms in Innovative Interfaces should be taken as a mark of the strength. While venture capital firms may invest in start-ups or other more risky ventures, private equity firms seek mature and stable companies with potential for significant growth over time.

What Next?

Private equity firms tend to hold on to their portfolio companies for five to seven years, but the period will naturally vary according to a variety of factors. These investments can draw to a close in different ways, but within the library automation industry, it's most likely that there will be a transaction involving new investors. Such was the case August 2008 when Leeds Equity acquired Ex Libris Group from the incumbent private equity firm Francisco Partners. While it's possible for a company to go public as it exits private equity ownership, that scenario seems unlikely given the relatively small size of these companies. While some might seem large within the context of the library automation niche, they are tiny compared to companies in broad IT sectors.

Position in the Industry

Innovative ranks as the third largest company in the library automation industry with annual revenues estimated at just under $90 million. The company employs more than 300. More than 1,400 installations of its Millennium ILS serve some 4,500 libraries in more than 50 countries. Innovative does about a third of its business outside the United States. The company has a broad array of products, serves a diverse mix of library types, and is involved in many geographic regions worldwide.

Throughout its long history, the company has seen a steadily growing base of library customers. Although in recent years Innovative has lost some Millennium sites to open source projects, its inflow of new customers have outpaced any leakage. While open source alternatives will continue to pose a challenge to Innovative, the open design of its new-generation Sierra platform may help abate future losses and attract new library customers.

In addition to its flagship Millennium ILS, Innovative offers a variety of other products, including the Electronic Resource Management application, the Encore Synergy discovery service, the WebBridge LR link resolver, a digital asset management system called Content Pro, the AirPAC products for mobile devices, and the INN-Reach and ArticleReach resource sharing environments. Innovative's products have been implemented in all types of libraries. In addition to large numbers of academic and public libraries, Millennium

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has been implemented in many school districts and special libraries, especially in the legal sector.

SkyRiver's Status

SkyRiver, a much smaller company, will operate under the same new ownership arrangements as Innovative. Since its founding in September 2009, the company has steadily grown the number of libraries subscribing to its bibliographic services. The company recently announced it has reached 50 installations representing more than 350 libraries. Leslie Straus continues as President of SkyRiver.

The lawsuit initiated by SkyRiver and Innovative in July 2010 challenging OCLC remains unsettled, stalled since April 14 pending a judicial ruling.

Corporate History

The history of Innovative has been one of steady organic growth with minimal activity in mergers and acquisitions and has until now operated on its own revenues without external investors. Unlike its peers in the top of the library automation industry, the benchmarks of its history lie more in the new products and technologies it has created than with business transitions.

Innovative Interfaces was founded by Jerry Kline, Steve Silberstein, and Lachmann Sippy in 1978. Sippy's involvement with the company was short-lived. The company has followed a steady upward trajectory from its beginnings in a spare room in Kline's Berkeley, California home.

Innovative was managed jointly by the remaining co-founders through 2001, when Kline became the sole owner of the company, buying out the interests of Silberstein.

The company's original product was a "black box" that allowed libraries using the CLSI circulation system to connect to OCLC for cataloging records. This type of system-to-system interconnection was not common at this time of proprietary hardware, operating systems, and software, with no standardized communications protocols. The adjacent table shows key product benchmarks.

Industry Perspective

While this change is big news, its impact on the overall industry and to Innovative's customer libraries should not be overstated. We can anticipate continued progress with the strategies that the company has already placed into motion, possibly amplified through additional resources that come into play through the new investors.

Key Innovative Interfaces Developments

1982: Development of the INNOVAQ System 100, an acquisitions system for libraries with fund management and reporting capabilities.

1987: Launch of INNOPAC, adding a terminal-based online catalog module to the existing INNOVAQ system. INNOPAC evolved into a full-featured integrated library system.

1997: Innovative automates the large OhioLink consortium with a new architecture that will become the INN-Reach resource sharing platform. Millennium debuts, embracing the client/server architecture, based on graphical Java clients. As an early implementer of Java for desktop software, Innovative gained platform independence for its staff modules and less dependence on Microsoft software. The Millennium modules were released over the next few years and gradually adopted by customer libraries. Also, Innovative made its only strategic acquisition in its history when it acquired a UK-based SLS Information Systems, which developed the LIBERTAS library management system widely used in Europe at the time.

May 2011: Launch of Sierra, the company's latest generation of library automation software positioned to rapidly become its new flagship product.

March 2012: Innovative's ownership status changes following strategic investments by Huntsman Gay Global Capital and JMI Equity

Nevertheless, some libraries may have been attracted to Innovative due in part to the way that it had positioned itself as operating independently for the interests of its customers without the influence of external financial institutions. As Innovative opens this new chapter in its corporate history, it will face the challenge of maintaining the loyalty of its customers by continuing to deliver the products and services that have proven successful to date. The entry of new investors does not necessarily have to foster customer disillusionment. Other companies in this industry have seen substantial growth and positive customer relations as they come under new private equity owners.

The library automation industry remains highly competitive, despite the considerable consolidation through previous rounds of mergers and acquisitions. This change at Innovative does not contribute to industry consolidation. Today libraries continue to have choices in the types of companies to work with and an interesting variety of library automation products, spanning a range of conceptual designs and technical architectures. While this transition at Innovative does not immediately reshape the landscape among the library automation companies, we can also count on additional movement in the industry in coming years.

—Marshall Breeding

Soutron Global: New Competition in Special Library Automation

Industry veteran Tony Saadat has launched a new company Soutron Global that will specialize in providing library automation solutions for special libraries in the United States and Canada. This new company was founded in partnership with Soutron Limited, a UK-based company that has been involved in various aspects of special library automation since 1985. The companies will evolve toward a unified organization with its global headquarters in Encinitas, California.

Soutron Global was established under the sole ownership of its founder Tony Saadat without external financing. Soutron Limited likewise is wholly owned by its founder Graham Beastall. Saadat reports that without external investors the company will remain unfettered to shape its products and strategies to best respond to its customer libraries.

Soutron Limited and Soutron Global, though strategically allied remain separate companies. Saadat indicated that closer organizational structure may evolve in the future. Product development will continue primarily through Soutron Limited in the UK, under the leadership of Graham Partridge, Research and Development Director.

Soutron Global will market the library management solutions developed by Soutron Limited to special libraries in North America. The company's primary competitors include SydneyPLUS and EOS International, which currently stand as the market leaders for the special library sector. Saadat has served in executive positions in both of these companies. Soutron Limited has served as a distributor for Inmagic, now a wholly owned subsidiary of SydneyPLUS.

Flagship product: the Soutron Library System

The Soutron Library System has been developed on the Microsoft.Net platform and Microsoft SQL Server. Featuring multi-lingual support, it has been designed to accommodate both large and small special libraries and information centers. In 2009, it was sold as SoutronSOLO and SoutronGLOBAL to reflect different needs. The current Soutron Library System can be configured to accommodate the full range of special libraries.

The Soutron Library System is a full featured integrated library system designed especially for special libraries. It includes all of the traditional library management features, including acquisitions, circulation, serials/electronic serials, cataloging, search, online catalog, reviews and ratings, security classification, reporting. The company has developed the SoutronTHESAURUS that for the consistent management of terminology and controlled vocabularies. This product can be used with the Soutron Library System or as a standalone application.

Although Soutron Limited was a distributor for Inmagic, in recent years it has focused on developing its own line of automation products entirely independent of Inmagic's technologies.

Older products created by Soutron based on Inmagic's DB/TextWorks will be phased out as the company's customer sites migrate to Soutron Library System.

Soutron Limited Background

Soutron Limited was founded by Graham Beastall. Following a variety of positions with other computing firms, Beastall joined Sydney Development Company in 1985 to launch that company's library management system to the UK special library market. Sydney Development Company fell into hard times and eventually landed in bankruptcy. That company's products were acquired by Ron Aspe and have evolved into the current offerings of SydneyPLUS.

In January 1989, Beastall established his own company, Soutron Limited, initially to support the Sydney products, with a shift after a couple of years to Inmagic, and in recent years to develop and market products based entirely on its own technologies. Through this cycle of products, the company has maintained a constant focus on special libraries. In 1991 Soutron became established as the exclusive distributor of Inmagic's library automation products in the UK and Ireland. As the largest volume distributor of Inmagic's products, Soutron not only

provided sales and support, but also developed customized products for the UK special library market. The 2020 automation system, for example, was an automation solution for small special libraries Soutron developed based on Inmagic DB/TextWorks.

In the 1990s Soutron also marketed products of other companies to this market, including the C2 ILS from Contec Data Systems.

In 2001 Soutron merged with Esprit, another UK company specializing in library automation. The partnership did not last long, dissolving in 2003, as Esprit was acquired by Dokimas Group Limited, which included DS as a wholly owned subsidiary. Esprit Founder and Managing Director Jim Burton became managing director of DS as it was acquired by Axiell Group.

Since 2009, Soutron has focused its development resources on the development of SoutronSOLO and Soutron GLOBAL, based on the Microsoft.Net platform, now offered as Soutron Library System. In 2009 Soutron Limited stopped marketing Inmagic's Genie product, but continued sales and support of the DB/Text products.

Background of Tony Saadat

Tony Saadat has been involved in the special library automation sector for over 25 years, with a career beginning with Sydney Development Corporation, followed by executive positions with SydneyPLUS and EOS International.

Now business partners, Tony Saadat and Graham Beastall were both involved with Sydney Development Corporation, a precursor of SydneyPLUS. Following the bankruptcy of SDC, Saadat joined SydneyPLUS International in 1989 as director of client services, and advanced to director of sales and to vice resident of sales and marketing, and later was promoted to executive vice president. Saadat left SydneyPLUS and joined EOS International as chief operating officer in 2001. In 2002 Saadat advanced to chief executive officer as incumbent CEO and company owner Scot Cheatham continued as Chairman of the Board.

In the transition of EOS International in June 2001 from ownership by Dawson Holdings PLC to primary ownership by founder Scot Cheatham, Saadat also acquired partial equity in the company. Saadat left EOS International in April 2009.

Kate Noerr joins as Board Advisor

Industry veteran Kate Noerr has lent her support to the new company as a board sdvisor. Noerr was previously involved in the library automation industry as president of IME which she founded in 1982 and which was acquired by EOS International in 1996. She was director of sales and marketing of Geac from 1997 through 1999, and was vice president of sales and market-

ing for Ameritech Library Systems. Noerr is currently chairman, co-founder, and past CEO of MuseGlobal, a technology company specializing in content integration and aggregation technologies.

Maria Phipps Joins Soutron Global

Soutron has also announced that Maria Phipps has also joined the company. Phipps, founder of Ontario, Canada-based Phipps & Associates has previously been involved as a distributor of Inmagic products in Canada. Phipps coms to Soutron Global with an extensive network client contacts that she has developed since founding her consulting firm 28 years ago.

Competitive Perspective

Over the last few years there have been several changes that have reshaped the landscape among the companies that provide automation products to special libraries.

One of the most noticeable changes involves the consolidation of several companies under SydneyPLUS. It acquired LawPort in 2008, Cuadra Associates in 2008, Questor Systems in 2010, and the DB/Text and Genie products from Inmagic in 2011. In early 2012, SydneyPLUS also acquired the Presto product line from Inmagic. As a result of these mergers, SydneyPLUS has a wide arsenal of products targeting different aspects of the special library technology market.

EOS International has relied on organic growth of its customer base and not been active in mergers and acquisitions since the mid 1990's. EOS deploys an increasing portion of its installations as hosted services. It has recently launched a version of its EOS.Web for academic libraries, and has reported some traction with small academic libraries.

As Soutron Global enters the US and Canadian special library market, it faces significant competition from well-established companies with strong brands with mature and well-established products. Most of the libraries in this sector will have automation solutions already in place, so Soutron Global will have to build its customer base through convincing libraries to migrate away from competing products. While Soutron Global may be a new player in this arena, its founder Tony Saadat is well-known through his past leadership positions in both key competitors. The success of Soutron Global in this market will depend on the relative strength of the products and on the ability for the company to draw new customers away from existing relationships with competing organizations. The recent upheavals in the special library automation sector may have created enough uncertainty to present opportunities for a new player.

—Marshall Breeding

Library Technology News in Brief

ChiliFresh announces Facebook application

LAS VEGAS, NV, March 6, 2012—ChiliFresh, a global provider of patron social networking, book reviews, and cover art, announced today a new application (app) for integrating the library catalog and patron book review functionality within the library's Facebook page.

The App, which is available with the Connections social networking suite, will work with any integrated library system (ILS) software, including SirsiDynix, Innovative Interfaces, Evergreen, Polaris, and more. With the App, patrons have full catalog functionality, including catalog searching, the ability to place holds, check their account status and pay fines. The App will also allow users to write and post book reviews using the ChiliFresh Reviews Engine from within the library's Facebook page.

OCLC completes transfer of licensed databases to EBSCO Publishing

DUBLIN, OH, March 1, 2012—OCLC has transferred to EBSCO Publishing (EBSCO) the rights to license publisher-owned databases that are currently available through the OCLC FirstSearch reference service. This transaction is intended to complete the cooperative's transition out of the role of content reseller. OCLC is focusing on management and access to libraries' full collections through the OCLC WorldShare Platform.

In March 2010, EBSCO acquired the NetLibrary Division of OCLC as well as the rights to license a select number of publisher-owned databases available through FirstSearch. The current transaction completes the transfer of OCLC's rights to license publisher-owned databases on FirstSearch that began under the 2010 agreement.

EBSCO has agreed to host, distribute and support these licensed databases, and plans to load the databases and begin providing access to users on EBSCOhost. OCLC and EBSCO are working together to ensure a smooth transition for users, and uninterrupted service for customers.

FirstSearch remains part of OCLC's discovery and delivery services. As these services become part of the OCLC World-Share Platform, FirstSearch users will see improved integration and workflows. OCLC will continue to provide access to World-Cat and other databases published by OCLC, such as Article-First, OCLC WorldCat Dissertations and Theses, SCIPIO and Electronic Books.

"OCLC's strategy is to provide a neutral platform that libraries can rely on to manage and offer access to their collections," said Chip Nilges, OCLC Vice President, Business Development. "Instead of hosting and reselling content, we want to partner with content providers so that we can incorporate their collections into the OCLC WorldShare Platform, help our members automate their collection workflows, and improve access to content."

Ingram's Vital Source launches e-textbook Building Block for Blackboard Learn Platform

NEW YORK, NY—Ingram's Vital Source is now providing access to its leading e-textbook platform through Blackboard Learn, one of the most used learning management systems. The Blackboard Building Block for VitalSource gives institutions a comprehensive tool to implement digital textbooks for students in mobile, online and offline environments.

"We are pleased the VitalSource platform will be available to all Blackboard Learn users worldwide, providing anytime, anywhere access to the content that educators and students use most," said Kent Freeman, Chief Content Officer, Vital Source Technologies, Inc. "The integration of Ingram's VitalSource platform into one of the most-used learning management systems will improve the experiences of millions of students worldwide."

The new Blackboard Building Block for the VitalSource platform developed collaboratively with both educators and publishers, gives higher-ed institutions and their students an efficient and cost-effective way to acquire content from the world's leading publishers through the Blackboard Learn platform. Through the Building Block, students and educators have immediate, one click access to VitalSource's comprehensive content library with more than 80,000 titles, and the functionality of the platform, including integrated notes, highlights, annotations and sharing capability through a single sign-on environment.

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