

Comment

Nuance acquired PSRS on September 28. The deal was worth €66m (roughly \$96m), and part of the payment will be deferred to be paid in cash in September 2009. Nuance has been rapidly expanding its presence in the healthcare market as a speech technology and transcription provider. This acquisition will help it to gain customers and partners in Europe and bring in new revenues for the business.

Why did Nuance acquire PSRS?

Nuance has made a number of significant investments in the healthcare market over the last couple of years, and is committed to developing its speech and transcription solutions for this sector. It acquired eScription earlier in 2008; Focus Infomatics, Commissure and Vocada in 2007; and Dictaphone Healthcare Solutions in 2006.

Until now, Nuance's healthcare division was focused mainly on the US market. The company has a strong presence in Europe for its mobile, automotive and contact center automation solutions, but PSRS has been dominating the healthcare speech market in this region. Nuance is expected to gain a larger presence in Europe, and will inherit new language capabilities from PSRS's flagship product, SpeechMagic. These languages include Danish, Greek, Swedish and Portuguese. PSRS provides Nuance with a large installed base that it can use to cross-sell its other healthcare solutions as well as a list of partners both in EMEA and the US: these include medical transcription vendors, imaging equipment providers, and resellers. Where Nuance and PSRS have shared languages, Nuance can use the data sets to improve the accuracy of its speech recognition engines. Nuance will gain specialized vocabularies for the legal sector in Europe alongside healthcare in markets such as the UK, where it did not previously have any specific solutions. It has the opportunity to push speech solutions into this sector, where digital dictation is growing, and can leverage its professional services team to gain customers and cross-sell its other products.

The potential challenges facing Nuance

Although Nuance has a dedicated team for integrating acquisitions and ensuring brand consistency, the fact that it has made so many recent acquisitions is a challenge. Nuance needs to develop clear roadmaps on how it will be integrating solutions. It should focus on providing bundled packaged solutions for the healthcare industry that include capabilities such as transcription, speech recognition, and critical test management. Where there may be confusion between product sets, Nuance needs to explain to customers the differentiators between PSRS's SpeechMagic and its own Dragon NaturallySpeaking speech recognition engines, until the products become fully integrated. There will be some overlap in the languages supported and specialized healthcare grammars, which could be challenging to integrate, and Nuance may eventually phase out one product. Nuance must present a clear message to its customers: the acquisition will help it to improve grammars and refine algorithms in order to provide a more accurate engine, but integration and updates will take time.

Nuance may also face challenges with integrating two different business cultures. It has been very US-focused, while PSRS has its base in Austria and the majority of its employees in Europe. The differences between public and private healthcare systems in Europe compared to the US may also pose a difficulty for Nuance: the needs of a public health service differ from the private equivalent, where there are both providers and insurers. Nuance will need to reconsider its sales strategy in Europe and should maintain PSRS's partner relationships, particularly in regions where it did not previously have a presence, such as Scandinavia.

What does this mean for the speech recognition market?

Through this acquisition, Nuance is set to dominate the healthcare speech industry. However, it may spend the next few months focusing on integration rather than innovation, meaning that market developments slow. The lack of other major players could also lead to less competitive pricing. However, as long as cost pressures do not hinder adoption, customers can benefit from an integrated speech solution across multiple areas within healthcare. Outside the healthcare industry, Nuance is not without competition. Its key competitors for embedded and contact center speech recognition include IBM, Microsoft and Loquendo. The addition of PSRS gives Nuance a greater presence in the European healthcare speech industry, but it will still face strong competition for its mobile and customer care divisions.

Summary

Nuance has made a large number of acquisitions in speech recognition and healthcare solutions over the last couple of years, and this move appears to be a final push to dominate the healthcare speech market. This is an aggressive move to gain a greater presence in Europe, and Nuance should succeed in this aim with the new customers and languages that it has acquired. This is a good move for Nuance, as long as it can successfully integrate products and utilize its new partners. However, it will take time to integrate the products and get the most value from the new data sets and languages, and therefore Nuance must also focus on organic growth and educating the healthcare market on speech technology. Nuance must continue to support its customer base in the US and communicate to its customers that the acquisition will also help to enhance its speech capabilities and services.

Ask the analyst

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