

Publication date:

17 May 2023

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SWOT Profile – SoftwareOne

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Omdia view

Summary

In April 2023, Omdia attended SoftwareOne's first ever global analyst summit at the vendor's swanky new North American headquarters in Milwaukee, Wisconsin. The vendor unveiled aggressive plans to grow revenue from CHF1bn (\$1.1bn) as of fiscal 2022 (which ended on December 31, 2022) to CHF2bn in the next four to six years. SoftwareOne has come a long way from its roots as a value-added reseller (VAR) and plans to double down on its growing services business to drive differentiation and growth. This vendor profile highlights SoftwareOne's unique market positioning and identifies the opportunities and threats that it needs to overcome to reach its stated goal of doubling revenue growth.

SoftwareOne's VAR business provides a unique growth platform for the rest of the service lines

Enterprise procurement patterns are changing, and marketplaces are becoming mainstream as most find it easier to use and manage. SoftwareOne's marketplace offers a public catalog (project name Goatpath) of the most frequently purchased software and cloud products with standard pricing. SoftwareOne's marketplace business is one of its fastest growing areas. There is also a private catalog option (project name PyraCloud) that larger enterprises with more complex needs can customize, along with consulting services to establish the ideal catalog and onboard new vendors. It has 19,000 customers globally. SoftwareOne's marketplace business is popular because it enables resale of solutions from 9,300 publishers, including local, regional, and boutique independent software vendors (ISVs). SoftwareOne offers license management and professional services in 90 countries where it can provide boots-on-the-ground support locally. SoftwareOne is the largest commercial partner for Microsoft globally.

Professional and managed services will provide a long growth runway

SoftwareOne's CEO Dieter Schlosser stated in an interview in December 2022 that managed services is a key growth area for the company, which is on its way to achieving CHF2bn in revenue by 2028. SoftwareOne serves 65,000 customers, of which roughly 30% are services customers. It has significant relationships with software vendors and all three major hyperscalers that it leverages across its five major categories of services. These services are augmented by four horizontal practice offerings that are embedded across the stack (see **Figure 1**).

1. Figure 1: SoftwareOne’s portfolio of offerings



Source: SoftwareOne

These services are not new but well-established and highly competitive areas, as all global systems integrators (GSIs) have turned their attention and investments to these areas of growth in the past few years. What sets SoftwareOne apart is the foundational approach it takes toward the value stream. The vendor begins at the licensing and cloud contract layer, moving up the stack to more value-added services such as cloud migration, managed services, and application transformation (see Figure 2).

2. Figure 2: SoftwareOne’s inverted pyramid approach is unique

SoftwareOne point of view
 Invert to accelerate



Source: SoftwareOne

Most GSIs usually approach this from the application point of view and work their way down to the cloud migration layer. However, SoftwareOne’s license resale business provides it with deep insights into technology consumption and usage patterns, which it leverages to reverse engineer the transformation journey, thus removing cost that can be reinvested to fund larger transformational programs. Currently, most of the vendor’s customers constitute the long tail of small contracts – several thousand dollars per year – but it believes it can convert them into larger engagements based on the above. The following are some of the areas SoftwareOne has invested in and gained significant traction.

- **Expansion of application services and capabilities.** It has expanded its capabilities here largely through acquisition over the years and can now provide services throughout the entire application lifecycle, including modernization, cloud migration, custom application management, testing, and development. Some of its key acquisitions include InterGrupo, B-Lay, HeleCloud, and Predica, which have given it approximately 1,600 developers in key markets, including Spain, Warsaw, and Colombia. The latter has allowed it to compete more effectively in North America, leveraging both the cost and time-zone advantages. This expanded offering will allow it to compete in expanded digital initiatives of its customers.
- **SAP is a new area of expansion.** This is another focus area for all service providers as the SAP installed base is massive and touches on critical business processes that enterprises want to transform. SoftwareOne's relationship with SAP is relatively new as, historically, its largest commercial relationship has always been with Microsoft. This SAP relationship will significantly expand its addressable market and move it into a high growth area. SoftwareOne is making investments in major areas like SAP technology modernization (moving SAP to the cloud with lift-and-shift or full landscape modernization, including SAP S/4HANA system conversions and complex data source integration) and RISE with SAP (evaluating, migrating, and augmenting SAP technical managed services included in RISE with SAP across operations, monitoring, and optimization).

Throughout the event, SoftwareOne laid great emphasis on the core values that drive its business and organizational culture. One of the key values that the vendor, and reference clients at the event, stressed was its desire to do right by the customer and bring them value without compromising on quality. This was also evident in its presentations and interactions – the vendor takes pride in its ability to continually bring a personalized touch, incremental value, and optimization. This approach has enabled the vendor to reach CHF1bn (\$1.1bn) in revenue in 2022 with a near equal split between the licensing and services businesses. The vendor has set itself a very ambitious goal of reaching CHF2bn in revenue by the end of 2028 through organic and inorganic means.

SWOT – SoftwareOne

Strengths

- **Deep insights into existing technology and cloud investments and usage.** SoftwareOne operates as one single cloud and solution-agnostic marketplace for its customers globally, which provides myriad solution choices and significantly eases the procurement process for its customers. This allows customers to get analytics on procurement and overall license usage data that can be utilized to rationalize their cloud investments.
- **Technology-agnostic approach that puts the customer first.** SoftwareOne's marketplace business is also integrated with all the major global hyperscalers – with APIs also active or in-flight for integration into their marketplace platforms – and can provide license and cloud optimization services to customers. Moreover, SoftwareOne analyzes data from the license purchasing patterns of its customers to identify software and cloud requirements, triggers for client cloud journeys, and pain points, which it then aims to address through its services portfolio. This is a unique bottom-up approach that can potentially help organizations optimize existing investments, fine-tune roadmaps, and renegotiate cloud transformations at highly competitive price points, thereby enabling modernization and cost savings – a mix that is the CIO's idea of nirvana.

- **Licensing management and rationalization.** The vendor’s licensing and license management portfolio is its strongest suite. There is a lot of sunk cost and waste in the licensing space where enterprises buy more solutions than they need and most of those are not used. Rationalizing these licenses helps save money that can then be invested back into the business. SoftwareOne has been leveraging the data and insights gleaned from this line of business to upsell other parts of its portfolio, such as managed cloud services, application transformation and data/insights, app modernization on the hyperscalers, and analytics and artificial intelligence (AI)/machine learning (ML) services. By using a bottom-up approach, SoftwareOne positions itself as a partner that can help optimize and manage existing cloud investments, modernize and transform applications, and provide managed services to take the heavy lifting out of the process.

Weaknesses

- **Focus on small deals.** SoftwareOne’s major focus is on chasing after the segment of the market that is ignored by larger GSIs, and the vendor has been successful so far. However, these upper middle market clients are extremely price sensitive. SoftwareOne needs to be able to navigate this price sensitivity when upselling advisory and other higher-value services.
- **Willingness to partner in transformational projects.** SoftwareOne is very clear about which areas it wants to compete in. It also recognizes that it does not have industry expertise or business process experience that will allow it to engage with customers that require business transformation outcomes. Most mid-market customers will not be able to afford large-scale transformational consulting, but Omdia believes that some at the upper end of this market will be able to. SoftwareOne believes that the money saved from the rationalizing of software licenses and cloud spending will be diverted into transformational programs, which it aims to aggressively pursue. The vendor is seeing some traction here, but overall deal sizes still remain small compared to those of GSIs. SoftwareOne stated that it is willing to partner opportunistically with GSIs that its clients already work with.

Opportunities

- **Potential to convert advisory engagements into larger deals.** Advisory services have been a key starting point for transformational engagements and a key investment area for SoftwareOne across all its five major portfolios of services. Almost 75% of advisory engagements have been converted to larger contracts usually involving several additional services and possibly more add-on software. This has allowed the vendor to expand its relationships with existing customers and create engagement with new logos. This aligns with market trends where all service providers have invested heavily in expanding their consulting capabilities and resources.
- **SAP migration to public cloud and conversion to SAP S/4HANA.** This is a high growth area, and SoftwareOne estimates that 60% of SAP ECC (ERP Central Component) customers have not yet purchased SAP S/4HANA licenses, and even more have not yet moved to the public cloud. Enterprises also struggle on several fronts with the rising complexity, choosing a hyperscaler, and working through the SAP RISE model. Its dedicated SAP Advisory is set up to help customers work through these challenges with managed services wrapped around it. Omdia believes that the monetization opportunities here are massive and should be a priority investment area for SoftwareOne.
- **Professional and managed services upsell.** This is a key growth area for SoftwareOne, especially managed cloud services with a special focus on the mid-market and lower-enterprise segment

(which it defines as companies between 5,000 and 25,000 employees). Some of its customers require additional integration and managed services as they procure additional ISVs from its marketplace and Omdia believes this to be a platform that can help the vendor grow relationships from resale and license management to integration and outsourced managed services. This upsell model had enabled SoftwareOne to achieve over CHF500m (\$550m) in annual service revenue for 2022 and has the potential to bring in higher margin revenue in the coming years.

- **Talent acquisition to expand capabilities.** SoftwareOne has made six acquisitions over the past few years that have focused on SAP on cloud. There is a fierce battle among all service providers for SAP talent given the rise in demand. SAP workloads are also business process centric. Enterprises are also keen to transform business processes as they migrate to the cloud.

Threats

- **Risk of aggressive growth.** Aggressive growth and expansion plans bring risks, including under-pressure sales and delivery teams cutting corners or compromising on quality and the personal touch. Moreover, SoftwareOne's license resale business does not always command higher margins, even though it forms the foundation that the other offerings are built on.
- **Balancing core differentiation and culture.** The managed services business is where the bulk of the value-driven growth (and profitability) would ideally come from, and which would require SoftwareOne to diversify into more markets and the larger enterprise segment where the larger contracts lie rather than chase the long tail of small deals. This is a fine balance that the vendor will need to manage to maintain significant differentiation and the core values and culture that make it unique.

Recommendations

- SoftwareOne has reached the CHF1bn (\$1.1bn) mark by focusing on a very long tail end of small deals across small and mid-sized organizations or by taking on the smaller deals in large organizations that the GSIs do not chase. Although this has worked very well so far, the vendor needs to set its sights on competing for larger, more complex deals independently if it wants to reach its stated double-growth goals.
- The licensing and resale business that has fueled growth is also one where margins are low and will continue to get lower as an external market trend, so depending on that to propel future profits is unwise.
- While SoftwareOne is focused almost solely on technical advisory, it should pick up business process expertise through its future acquisitions to address some of the demands of its customers as the conversations are increasingly integrated. Here is an area where SoftwareOne can choose its battles and punch above its weight.
- The vendor needs to build up capabilities beyond SAP and Microsoft to bolster long-term prospects. While both SAP and Microsoft represent a massive installed base, adding Salesforce and Adobe capabilities along the way would come in handy as customer experience fits in neatly with the digital workplace offerings for which there are ample growth prospects.

Appendix

Further reading

“A new normal for digital transformation?” (May 2023)

Market Landscape: Technology Solutions to Help Enterprises Achieve Sustainability Goals (May 2023)

Digital Enterprise Services: Earnings Analysis and Trends – 2H22 (April 2023)

2023 Enterprise Insights report – State of Sustainability (March 2023)

Professional Cloud & IT Services Strategy Assessment: DXC Technologies – 1Q23 (March 2023)

CIOs need to be scenario planners more than strategists (March 2023)

Market Landscape: Automation in Enterprises (February 2023)

Data-Driven Transformations Must Address Pervasive AI Bias (January 2023)

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