

MARKET PERSPECTIVE

SoftServe's Approach to Intelligent Application Services is Driving Rapid Organic Growth

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: SoftServe's Approach to Intelligent Application Services is Driving Rapid Organic Growth

This IDC Market Perspective summarizes the main points during the SoftServe Analyst Day, held in New York on March 15, 2019. Senior executives discussed SoftServe's business strategy and opportunities through the forthcoming year. IDC also heard from long-term customers, as well as key partner Google Cloud Platform (GCP), about how they are jointly attacking the white space for custom application development around Google Cloud.

Key Takeaways

- Speed, agility, and technical strength are key factors behind SoftServe's 40% year-over-year (YoY) organic growth.
- Innovation and challenge is key to the SoftServe model, with engineers incentivized to innovate on customer deals, and employees encouraged to question each other and customers.
- SoftServe supports cloud migration, but its sweet spot is designing and productizing digital innovations. IT often takes the long-term view on opportunities to support customers when they are ready to adopt.
- Recruiting top talent from universities in Ukraine, Poland, and Bulgaria is key, alongside investments in training and education to ensure long-term career retention.

Recommended Actions

- Understand the dynamics behind rapid growth in digital engineering and product innovation to explore how your business can benefit from this shift in the application services market.
- Providers should consider how aligned their internal app development cultures are to rapid innovation. They must have dynamic and agile teams, as well as on-demand availability and access to the right talent in the right location. This is where smaller innovators can disrupt incumbents.
- Providers must constantly look to the future, investing in training and scaling talent to win today and tomorrow. This means being prepared to take a hit on profits, which will be a major challenge for publicly listed players.

Source: IDC, 2019

NEW MARKET DEVELOPMENTS AND DYNAMICS

This IDC Market Perspective summarizes key points during the SoftServe Analyst Day, held in New York in March 2019. SoftServe senior executives – including Chief Executive Officer Chris Baker, President Harry Propper, Chief Technology Officer Alex Chubay, and Senior Vice President Andrew Warden – discussed the company's business and strategies. We heard from key partner GCP and long-term SoftServe customers, which presented demos of new product innovations in augmented reality/virtual reality (AR/VR) and payments.

IDC'S POINT OF VIEW

SoftServe is a new type of application services provider. It builds and implements cutting-edge digital products for customers and migrates their legacy applications and infrastructures to the cloud. It's a fast-growth space, where customers are being driven to innovate rapidly to stay ahead of the competition and seek out new technology-led growth opportunities.

Some facts and figures that emerged during the day are:

- SoftServe is growing rapidly, driven entirely by organic growth from new and existing customers. Revenue in FY18 was up 39% to more than \$250 million, and this is expected to accelerate to 40% organic YoY growth in FY19.
- SoftServe is growing much faster than the wider European custom application development market, which IDC estimates is growing at a 3.3% compound annual growth rate through 2022.
- New logo wins are SoftServe's primary driver for growth, with 132 this year versus 98 last year. SoftServe has enviable customer retention, which is also driving 27% growth within its existing portfolio.
- SoftServe claims that its Net Promoter Score (NPS) stands at a 69, above the industry norm and ahead of tech leaders Apple and Amazon. The strength of NPS is considered by management to be a key factor in driving revenue and growth in new customers.
- SoftServe maintains a large bench so that engineers are available to jump on customer projects at short notice. Having unutilized staff is costly, but it's an important differentiator for SoftServe, providing the flexibility to spin up teams rapidly based on customers demand.
- SoftServe is entirely privately owned by its five founders, which are Ukrainian academics. Without pressure from external shareholders or the stock market, SoftServe has more freedom to absorb higher costs when required to support its business objectives. This is particularly important when delivering innovation to customers that might not generate immediate payback.

Pivoting to a Digital Product Engineering Strategy

SoftServe has a 25-year history in software product engineering for major ISVs such as Cerner and tech giants such as Cisco. Its strategy has changed over the past three years to focus on becoming an "advisor and provider" to a broader range of customers wanting to get innovation done fast. SoftServe now uses this strength and depth in engineering and delivery to support enterprise customers faced with fierce competition from digital-native and incumbent competitors.

Cutting-edge innovation runs through the core of SoftServe's strategy, although it still focuses on cloud migration challenges. This is driven from the top down, with SoftServe President Harry Propper managing customer programs and CEO Chris Baker taking a two- to three-year view on technology developments and opportunities.

SoftServe's customer base is made up of global IT consultancies and enterprises across newer verticals such as health, financial services, media, retail, and technology. Referrals are a key factor for the expansion, a strong endorsement of SoftServe's delivery record.

Building a Culture of Accelerated "Front End" Innovation

SoftServe's strategy revolves around what it calls "front end" development, which often comprise innovations on customer products and services via the Internet of Things (IoT), AR/VR, artificial intelligence (AI), and analytics. This differentiates SoftServe from its much larger global IT services competitors, which are more bound by legacy engagements and operational back-end business rather than leading in front-end innovation. That is changing, however, with companies such as Accenture spending billions on digital design and custom build capabilities delivered out of its Liquid Studios innovation centers. Other rivals such as TCS, Cognizant, and Capgemini are also moving fast into this space, albeit less aggressively.

Examples of SoftServe's custom development work include:

- **Design and development of a machine learning (ML) platform for Google Cloud's oil and gas sector business.** This platform can automatically process different types of files, extract meaning, and provide advanced analytics capabilities. It helps automate routine manual work previously performed by geophysicists and speeds up the process of building basin models and other reports by 10 to 30 times.
- **Development of a mobile homecare application built on Windows 7 for a global healthcare software provider.** This application supports both online and offline real-time synchronization to ensure patient information is kept up to date. The app is used by therapists and clinical teams out in the field to support their day-to-day jobs, freeing up time and improving customer care.

SoftServe is also increasingly spending time innovating for clients, investing time and resources in developing a product prototype. This goes some way to embedding innovation into the culture, with products it can then showcase at trade fairs and events to raise its profile. Some of these are:

- **Development of a product called "Touch My Heart."** Touch My Heart uses AR, mid-air haptics, and biometric sensors to simulate the touch and feel of a human heart. This demo is being pitched at the healthcare and clinician sectors to support surgeons during training.
- **Development of a minimum viable product (MVP), built on Google Cloud, for monitoring and managing IoT mobility devices (e.g., vehicle telematics, traffic lights, and road sensors).** SoftServe plans to turn the MVP into a production-ready vehicle-to-everything (V2X) system that can identify potential road hazards and help prevent road accidents.
- **Development of a banking product built on the Magic Leap One AR/VR headset.** This headset offers gesture-based controls for personal banking, enabling the user to view, manage, and make payments via the headset.

Google Cloud Partnering for "Speedboat" Agility

SoftServe is smaller than many of GCP's global IT services partners, but it has a rising profile within GCP. Alongside client projects for cloud application migration services, SoftServe is also working on increasingly strategic initiatives for GCP that involve its custom development capabilities.

Google's Choon Aun Quek, who heads GCP's largest region in central North America and Canada, points to SoftServe's cultural fit, the high level of training that its teams go through, and rapid time to value as factors that give it the edge over larger competition such as Accenture. "They're like a speedboat that can go around the Titanic several times," said Aun Quek.

The relationship has come a long way and evolved in just three years – SoftServe is now among GCP's nine global partners. It has a pipeline that supports significant growth prospects in the current year.

Customer View: SoftServe Seamlessly Integrating into the Team

We heard interesting comments from a customer CTO about SoftServe's strengths and weaknesses.

The CTO has personally worked with SoftServe over the past 20 years, as his career has moved across three different companies. In this time, he has also worked with big Indian providers, where he said he had been treated as if coming from a very small company. But he wanted a true partner relationship with a supplier that could "join the team" and become part of the extended organization. He tested SoftServe out against the incumbent supplier TCS and found SoftServe "blew them away."

Among the things the CTO likes about SoftServe is the quality of its engineers, which he claimed matched engineers from leading U.S. universities. He also found that SoftServe brought its own best practices to improve the quality of his internal team. In this way, SoftServe's team has been very adaptive, and it has evolved from simply being a supplier to a true partner willing and able to challenge and make proactive suggestions for where things could improve. It's this challenging nature and the sense of ownership from engineers that helped SoftServe outperform his expectations.

But there are challenges to address, too. A key factor he learned in keeping the relationship on track is to visit the team in Ukraine twice a year and for the Ukrainian team to visit him in the U.S. twice a quarter. This adds cost and effort on both sides, but he said this is critical to cement the relationship and to affirm joint objectives, as well as to make sure the vendor partner is treated as a full equal to internal teams.

Another challenge he faced is that as SoftServe grew, its response speed slowed. Sometimes, it will now be four- to six-week wait for a great engineer, when it used to be one week. Even so, this is still faster than the competition.

Eastern Europe is Key for Talent, Training, and Culture

Lack of access to the right talent and skills, and lack of empowerment for teams to innovate are holding back progress in digital innovation. However, SoftServe's strengths lie in these areas. Having been set up and owned by five academics from the Ukraine, it has established long-term relationships with universities in the Ukraine, more recently expanding this model into Poland and Bulgaria.

Demand is such that in 2019, SoftServe intends to hire 2,000 people in total, the majority of whom will be Ukrainian graduates. The importance of this grassroots recruitment and training in SoftServe's business model can't be underestimated. It must continue nurturing these relationships to ensure it is able to recruit, train, and hold on to the right talent in this increasingly competitive market.

Lviv in Ukraine is SoftServe's key center for graduate recruitment; for instance, it opened a new robotics lab on campus in January 2019. SoftServe's university program is where graduate recruits are trained, given the freedom to innovate, and work in pods and centers of excellence (COEs) alongside senior team members. They are placed in customer projects where they are encouraged to innovate and use their skills to build custom prototypes.

Culturally, this works well since young employees are eager to learn, gain experience, and work hard to enhance their career development and earning potential. It means they are constantly looking to innovate and deliver something new for their customers, often outside the core scope of the contract. It fosters a proactive culture, with teams encouraged to question and challenge clients and themselves on what is possible.

Can SoftServe Become a \$1 Billion Business?

SoftServe has the opportunity to grow and become a \$1 billion revenue business, much like larger independent competitors such as EPAM. However, that means it must bet on the right new markets and geographies to continue expanding, and with that ensure it can access the right people to deliver.

In our view, SoftServe's sweet spot to date is in the large enterprise and technology sectors. To remain successful, SoftServe should stick to its strengths, expanding its core customer accounts and seeking adjacent innovation opportunities in areas such as healthcare and financial services.

There's no reason it can't expand into the midmarket as its salesforce grows and if it has success increasing brand recognition in the market. This is clearly on the agenda, since management is actively looking at emerging destinations such as South America, where it sees significant potential over the next two decades.

However, it must tread carefully, expanding while maintaining the agile culture it has worked hard to build organically. It will be a tricky problem, considering SoftServe's cultural roots remain in Eastern Europe while the majority of its clients are in the U.S. It means SoftServe must scale development teams, management, and client support in new local territories; it risks attempting to grow too fast and potentially spreading itself too thin.

Conclusion

SoftServe is a new type of disruptor within the emerging intelligent application services (IAS) market (see *Intelligent Application Services: Redefining the Market for the Digital Era*, IDC #EMEA44912219, March 2019). IAS providers redefine their core application services propositions around digital, cloud, AI, and analytics. They are also innovating in cutting-edge technology products to help clients compete and differentiate in their sectors.

SoftServe is a successful innovator and disruptor across digital custom development and cloud migration, punching well above its weight in the global market. However, it undoubtedly fights for visibility and brand awareness in the markets it operates, which will only become more of a challenge as it seeks further geographic expansion. As a small player in a much bigger pond, it could find it hard to retain its edge by losing talent to competitors or start-ups or becoming the target of a takeover.

While demand for digital custom prototyping and engineering is on the rise, SoftServe isn't the only player in town. Rivals such as U.S.-based Slalom (which pioneers a new build-as-a-service approach to cloud-native software and product engineering), larger players such as EPAM, and global IT services providers now firmly have this sector in their sights.

SoftServe's people and culture are its biggest strength. Despite management's assurance that a trade sale is off the cards, merger and acquisition activity within this sector is rife, with a number of SoftServe competitors – including Syntel (by Atos) and Luxoft (by DXC Technology) – having been acquired since late 2018. As the big guys push into this emerging sector, they will seek to pick up opportunities here. It's possible therefore that SoftServe could have a better chance at making it to the \$1 billion club if it were part of a much larger global brand such as Accenture, Deloitte, or Cognizant.

LEARN MORE

Related Research

- *Intelligent Application Services: Redefining the Market for the Digital Era* (IDC #EMEA44912219, March 2019)
- *SoftServe: Leveraging Digital Technologies and Software Product Engineering Services to Realize \$1 Billion Aspiration* (IDC #US44411218, November 2018)
- *Western Europe IT Services Forecast, 2018-2022* (IDC #EMEA44432218, November 2018)
- *SoftServe Cranks up the Volume With Bold Views of Digital Transformation and Company Culture at London Event* (IDC #lcEMEA44373118, October 2018)

Synopsis

This IDC Market Perspective provides a view of SoftServe's overall strategy of its services business, presented during its SoftServe Analyst Day, held in New York on March 15, 2019.

"SoftServe is a fast-growing disruptor within the digital product engineering space that can deliver accelerated front-end innovation around new technologies such as IoT, AR/VR and haptics," said John O'Brien, research director, European Intelligent Application Services. "As a midsize player, SoftServe brings agility, dynamism, and speed to the product innovation sector, which helps it punch above its weight. Retaining this nimble culture will require SoftServe to take a measured approach to expansion while ensuring investments remain high in core client support and customer intimacy activities, which should help it retain its edge over competition from much larger global IT services providers."

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