

MARKET NOTE

Adobe's Acquisition of Figma Positions the Company to Innovate in the Space of Collaborative Design and Developer Tools

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: Adobe's Acquisition of Figma for \$20 Billion Underscores Importance of Collaborative Developer Tools

On September 15, 2022, Adobe announced plans to acquire collaborative UI design tool vendor Figma for \$20 billion in cash and stock, making it one of the top 20 largest acquisitions in the history of the tech industry. The deal values Figma at twice the \$10 billion valuation set in 2021 during its \$200 million Series E funding round and 50 times its annual recurring revenue estimate for 2022.

Key Takeaways

- Figma's ability to streamline collaboration between developers and designers reduces the friction specific to the handoff between designers and developers by empowering developers to access metadata about designs and their constituent components.
- Within Adobe's portfolio, Adobe XD is the closest competitor to Figma and claims much of the functionality specific to Figma.
- The acquisition positions Adobe to leverage the latter's advanced collaboration and sharing functionality to enhance its portfolio of design tools.
- Figma's prioritization of web-based platforms and collaboration has the potential to inspire Adobe to create an integrated, cloud-based platform of design and development tools that empower teams to collaborate in real time.

Source: IDC, 2022

IN THIS MARKET NOTE

On September 15, 2022, Adobe announced plans to acquire collaborative user interface (UI) design tool vendor Figma for \$20 billion in cash and stock, making it one of the top 20 largest acquisitions in the history of the tech industry. With this acquisition, Adobe has taken the opportunity to enhance its product portfolio and increase its top-line growth. The deal values Figma at twice the \$10 billion valuation set in 2021 during its \$200 million Series E funding round and 50 times its annual recurring revenue estimate for 2022. The 50x multiple is remarkable because acquisitions usually take place at multiples of 10x or 20x of the acquired company's annual recurring revenue (ARR). Figma's acquisition at an ARR multiple of 50x renders the acquisition price extraordinary and worthy of close examination with respect to the company's value to Adobe and its consequences for both Figma and the landscape. Terms of the acquisition stated that Figma would operate independently of Adobe as a separate business for the time being.

IDC'S POINT OF VIEW

About Figma

Figma's core offering is a canvas that can be used for UI/UX design, graphic design, or wireframing, with advanced features including auto layout, a design library for assets and styles, reusable design components, and third-party plug-ins and widgets integrated using the Figma Web API. It also features indigenous collaboration functionality and can integrate with Microsoft Teams and with Slack. Figma incorporates a tracking system for versioning designs, an administrative console for controlling user permissions, and a dashboard to monitor system usage. In 2021, Figma also added FigJam, an online whiteboard for brainstorming that the company calls "a lightweight version of Figma that's easier to learn and even more fun to use."

Figma has created a niche market space between graphic design, prototyping, and design workflow. The company emphasizes that the product makes it possible to "prototype while you design, and vice versa." Creating interactive prototypes in an environment that includes the ability to comment on designs is far more productive than the traditional approach in which designers handoff their designs to developers, who are then responsible for building the working version. With Figma, designers and developers can build interactive prototypes with multiple triggers, actions, transitions, and overflow behaviors. It also provides integration with more sophisticated prototyping tools such as Principle, ProtoPie, and Flinto.

In addition to Adobe XD, Figma's competitors include Sketch for UI/UX design, Canva and InVision Studio for prototyping, Framer for web page design, Microsoft's Fluent Design System for creating Windows-based GUIs, and Miro's collaborative whiteboard. Figma identifies Sketch as one of its key competitors for UX design, and InVision as one of its key competitors for prototyping. However, Figma notes that its product includes the tools for both design and prototyping, while Sketch and InVision do not.

Consequences of the Acquisition

Adobe's acquisition of Figma positions the company to consolidate its leadership in the space of front-end development tools. Figma's ability to streamline collaboration between developers and designers reduces the friction specific to the handoff between designers and developers by empowering

developers to access metadata about designs and their constituent components. In addition, Figma enables developers to not only explore designs but also leave comments for designers. Figma's support for multiuser collaboration empowers developers and designers to richly collaborate on the transformation of design into code in real time and thereby see and react to comments from team members without waiting for local files to sync with the cloud. Because Figma stores all files natively within the cloud, developers and designers need not concern themselves with the minutiae of syncing local files to the cloud. Figma's strengths in collaboration and cloud-native development position the company favorably among both developers and designers, given the distributed quality of contemporary development teams and attendant needs for developers to richly collaborate with one another.

Within Adobe's portfolio, Adobe XD is the closest competitor to Figma and claims much of the functionality specific to Figma. That said, as a desktop and mobile app, Adobe XD is less conducive to developer agility than Figma because users need to download and customize the application to contribute to a design or development conversation. Another important difference between Adobe XD and Figma is that local files need to be synced to Adobe Create Cloud to share them in case of Adobe XD. Moreover, additional updates to a local file must be synced to the cloud again and shared to become accessible to other collaborators. All this means that Figma's collaboration functionality is richer than Adobe XD's at present and more capable of accelerating developer velocity, streamlining collaboration, and creating a richer developer experience.

The acquisition positions Adobe to leverage the latter's advanced collaboration and sharing functionality to enhance its portfolio of design tools. Tactically, Adobe may well decide to foreground Figma as its design tool of choice. Another possibility involves enriching Figma with Adobe XD's strengths and subsequently deprecating Adobe XD as a standalone product. Yet another option for Figma's future involves creating web-based versions of more of its products and subsequently integrating them with Figma. The deepened integration of Adobe's products into web-based, cloud-based, collaborative products has the potential to foreground the cloud as the de facto platform for front-end design and development and thereby disrupt the existing dominant development paradigm that relies largely on on-premises integrated development environments (IDEs) and code editors that are installed on local machines.

With the acquisition of Figma, Adobe has the opportunity to build on both companies' strengths to foreground the importance of user interface design to the ultimate success of digital solutions. The users of enterprise apps are also consumers who are used to interacting with the polished user interfaces of consumer apps. The quality and appeal of an enterprise app's user interface can affect the adoption and use of apps in a way that has a material impact on the app's ROI. Adobe and Figma are well positioned to champion and enable user centrality in the design of enterprise apps.

The acquisition also gives Adobe the opportunity to champion the importance of DesignOps in the development process. DesignOps focuses on the standardization and optimization of the design process to enable the creation of high-quality user experiences at scale. DesignOps has not been as widely adopted as DevOps, despite its potential to significantly improve the early stages of the development of digital solutions by focusing on the user interface as the locus for multidisciplinary collaboration. DesignOps can improve the success rate for apps, both in terms of the ability to create apps that actually solve business problems and in terms of the ability to drive user adoption of the app.

In the event that Adobe succeeds in integrating products such as Photoshop with Figma, it stands to disruptively transform contemporary software development practices in ways that have the potential to

amplify innovation and productivity and embed collaboration into the development experience. For example, whereas Figma understands design and associated development practices as a multiplayer sport, contemporary development practices remain – to continue the metaphor – largely single-player sports despite the proliferation of pair programming tools and technologies. Put differently, the creation of net-new applications, today, follows the Romantic paradigm of the individual artist or writer as a creator, in contradistinction to a model whereby a multitude of developers can see and access the code that other developers are writing and have the ability to comment on and modify it as they see fit. Admittedly, the DevOps revolution has led to distributed development practices characterized by a multitude of developers working in parallel and contributing code for different – or the same – branches of a code base, but this practice is still qualitatively different from a model of collaboration that permits developers to see and contribute to what their peers are working on from a single pane of glass in the vein of Figma. All this means that the acquisition of Figma has the potential to transform Adobe's product portfolio and competitive differentiation in ways that ineluctably transform the software development industry at large.

Meanwhile, for Adobe, the acquisition of Figma represents much more than the addition of another product into its portfolio of design tools. Not only does Adobe have the opportunity to derive accretive revenue stemming from Figma's meteoric growth over the past 10 years, but it also stands to transform and modernize a portfolio of design tools that have faced stiff competition from a cadre of start-ups such as Sketch, Canva, and Carrd. Figma's prioritization of web-based platforms and collaboration has the potential to inspire Adobe to create an integrated, cloud-based platform of design and development tools that empower teams to collaborate in real time and subsequently create and update stunning digital products in a fraction of the time that was previously required. All this means that the acquisition of Figma represents far more than the neutralization of the competitive threat posed by a visionary start-up that was achieving meteoric growth in recent years. Rather, its acquisition has the potential to accelerate Adobe's transition to cloud-based development tools and correspondingly, its use of cloud-based products such as machine learning as a service and cloud-based voice and natural language-based tools to enrich user experience.

One important consequence of Adobe's acquisition of Figma involves the company's impact on the ecosystem of vendors that specialize in transforming Figma-based prototypes into applications. For example, Bravo Studio empowers developers to transform a Figma-based app into a native mobile app without writing a single line of code. Developers can connect databases and back-end functionality to their app by means of APIs, and thereby create a functional app subsequent to digitizing the prototype that was designed using Figma. Adobe's acquisition of Figma raises important questions about what happens to this ecosystem of low-code and no-code vendors that transform Figma-based prototypes into applications. Will Adobe choose to acquire one or two of the leaders in the Figma to app transformation space? To what extent will this ecosystem of vendors be able to render their products compatible with Figma's product development progress, subsequent to the acquisition? While acquiring a low-code vendor that can seamlessly transform Figma prototypes into applications with zero to minimal writing of code constitutes one possibility for Adobe, another path forward involves ensuring the continued ability of low-code vendors to transform Figma prototypes into functional applications, even as Figma experiences various enhancements and updates under Adobe's ownership.

Another important consideration related to the acquisition involves Adobe's post-acquisition strategy for monetizing Figma. One obvious option involves bundling Figma into the Creative Cloud, while another option involves monetizing Figma after Adobe decides to expire its free, out of the gate pricing model. Given the steep price of the acquisition, the monetization of Figma is critically important to

Adobe's realization of the price of the company's investment. While Figma has the potential to replace or complement Adobe XD, its immediate ability to add accretive monetary value requires specification. What is clear, however, is that Figma opens the door for Adobe to play more fully in the space of collaborative software development and concomitantly play a leadership role in front-end development. The expansion of Adobe's ability to actively participate in contemporary software development transforms it from a vendor that specializes in design, into one that has the potential to provide leadership in collaborative development practices that are based in the cloud. All this means that the acquisition of Figma is less about replacing or complementing Adobe XD, and more about transforming Adobe into a cloud-native developer tools vendor that specializes in design and the delivery of personalization at scale. As such, the acquisition is suggestive of the prescience of its understanding that development practices will ultimately transition to the cloud and increasingly leverage multiplayer teams that richly collaborate in ways that accelerate developer velocity, amplify innovation, and foreground the importance of rich, personalized user experience to all digital products and form factors.

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Synopsis

This IDC Market Note discusses Adobe's recent acquisition of Figma for \$20 billion.

"Adobe's acquisition of Figma positions the company to richly leverage Figma's collaboration functionality that empowers a multitude of designers and developers to work in parallel. This ability for a multitude of developers and designers to collaborate in real time via Figma's web-based platform has the potential to enable Adobe to extend these collaboration capabilities to its other products and services, thereby rendering development a "multiplayer" sport as opposed to a single-player activity," noted Arnal Dayaratna, research vice president, Software Development, IDC. "As such, the acquisition positions Adobe to lead with respect to development of cutting-edge, collaborative experiences for developers in ways that expand its total addressable market of products and services, as opposed to merely strengthening its existing product portfolio."

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