

Information Technology

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A Platinum Atlassian Partner Describes Sluggishness of TEAM Investments

Atlassian Focused Q&A w/ Platinum Atlassian Partner 9/19/24**Moderator: Greg Irwin, greg@bwgstrategy.com****Technical Writer: John Cording, jc@bwgstrategy.com**

Key Takeaways

- BWG hosted the Director of Enterprise Solutions at an Atlassian (TEAM) focused consulting firm to share his perspective on TEAM's pace of activity, the state of cloud migration, and an update on TEAM's efforts to expand beyond IT departments and branch out into ITSM use cases, competing head-to-head with market leader ServiceNow (NOW), Freshworks, (FRSH) and others.
- The executive reports a continued slow pace of activity for TEAM, with clients delaying, rather than cancelling, projects, which he attributes to macro headwinds and pre-election uncertainty. "I'm not super worried, but there's definitely a bit of a slowdown this year." Finance and Procurement teams are "more involved and getting involved early" in the sales process, "asking for a better business case or pushing the budget item to next year." Noting that TEAM has lowered its growth targets and positioned itself as a 20% y/y grower for the next three years, he remains 'cautious' meaning 60% probability of TEAM maintaining a 20% annual growth rate. His company's growth targets are slightly below 20%, and while he feels that TEAM "is headed in a growth direction," he would feel much more confident in a 15% forecast.
- Roughly 40% of the executive's projects are focused on cloud migration, which is a "relatively easy sell" for customers experiencing performance issues with Datacenter. Cloud migration "seems really easy" but for large organizations with thousands of developers and projects, it can be a 6-9-month project with multiple go-lives, and "quickly becomes a daunting project." Some customers are struggling with Datacenter, but for others "it's fine" and the unknowns about cloud migration are manifesting as "foot dragging."
- Selling Atlassian JSM IT Asset Management and Service Management is a more complicated sale, because it involved organizational process changes. His JSM practice represents his greatest growth potential, but many deals are being delayed or phased into multiple steps. He feels that as TEAM works to expand into ITSM among enterprise clients, many of which already have ServiceNow in place, success will depend on the depth of the ServiceNow deployment and the relationship with TEAM. Many of his JSM projects are for large companies that are already using TEAM and looking to move away from NOW because of cost. Where NOW is more deeply embedded, "it's almost always a co-exist scenario." He's had "dozens" of ServiceNow clients adopt JSM, including organizations in which NOW is the "big ITSM platform," with "JSM for the developers and one-off teams with 10-30 users who may want to spin up their own service desk." He feels that "The mid-market is JSM's sweet spot right now." Users can save on ServiceNow licensing, and in many ways, "Jira can do what ServiceNow can do, and in some areas it's better from a pure ITSM perspective." That's why SMBs are his "hottest growing

(...)

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Key Takeaways

segment.”

- Regarding TEAM’s efforts to expand beyond the IT pigeonhole, the executive acknowledges the perception of TEAM in the market as “an IT and developer tool,” but he is quick to point out that “the core platform is open to configuration and making it a good fit.” TEAM must do a better job of messaging against this perception in his opinion, but he notes that “the product supports it, and that’s the most important thing.”
- On the AI front, the executive feels that AI code assistance is very new, and he has not yet heard from customers that it’s a major part of their go-forward strategy. He has not seen any changes in developer count or seat purchases as a result of AI, so he does not believe that AI assistants are reducing developer counts yet. This is consistent with BWG’s survey work that suggests respondents have no plans to reduce developer census. He hopes that code assistants “would allow developers to be more efficient rather than replacing jobs.” He can imagine AI replacing other functions, but less so core application development. However, AI “could introduce a new class of developer that requires skills in prompt engineering rather than object-oriented programming,” for example.

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- The executive has been in the Atlassian ecosystem for over 8 years, and his company is among the leading Atlassian service providers nationally.

Pace of Activity

- He is finding that clients are delaying, rather than cancelling, projects, which he attributes to pre-election uncertainty. "I'm not super worried, but definitely a bit of a slowdown this year."
- Finance and Procurement obstacles are a trend. Finance and procurement are "more involved and getting involved early." Procurement is asking for a better business case or pushing the budget item to next year.
- His projects are about 40% cloud migration from on-prem. It's a relatively easy sell for companies that are struggling with performance on Datacenter. However, it's still "a scary prospect."
- ITSM is more complicated, because the need is not as urgent. He's still selling JSM, the practice is doing well, and it still represents his greatest growth potential, but many deals are being delayed or phased into multiple steps.
- Cloud migration "seems really easy" but for large organizations with thousands of developers and projects, it can be a 6-9-month projects with multiple go-lives, and "quickly becomes a daunting project." Some customers are struggling with Datacenter, but for others "it's fine" and the unknowns about cloud migration are manifesting as "foot dragging." He's generally optimistic, and he's more optimistic this week than last. He's 70% confident that we'll get through the election, interest rates will come down, and clients will return to growth.

Competitive Landscape

- MSFT is probably the biggest competitor to Jira Confluence, but he does not see a direct comparison, and he does not see any disruption of Confluence's growth among developers.
- He "barely sees anybody other than ServiceNow" in ITSM competition. He's hearing more about Freshworks, but he's not encountering them in the field. "It's Jira and ServiceNow and everything else."
- Cost is a major factor among his clients, and the conversation lately has been how to phase out projects, starting small and then growing. 6-8 months ago, more people were willing to "do a big bang" with everything in one SoW. He feels that will return in the coming months.

Competition with ServiceNow

- As TEAM works to expand into ITSM among enterprise clients, many of which already have ServiceNow in place, success will depend in the depth of the ServiceNow deployment and the relationship with TEAM.
- Most of his JSM projects are for large companies that are already using TEAM and looking to move away from NOW because of cost. When NOW is more deeply embedded, "it's almost always a co-exist scenario."
- Some organizations will integrate JSM with ServiceNow to allow developers to leverage JSM even if the broader organization is ServiceNow focused.
- He's seen "dozens" of clients adopt JSM even with ServiceNow in place. NOW is the "big ITSM platform, you have JSM for the developers" and one-off teams with 10-30 users may want to spin up their own service desk, and JSM is a good fit.
- The mid-market is JSM's sweet spot right now. Users can save on ServiceNow licensing, and in many ways, "Jira can do what ServiceNow can do, and in some areas it's better from a pure ITSM perspective." That's why SMBs are his "hottest growing segment."
- He believes that there is sufficient opportunity in the mid-market and SMBs, and if all he had was SMB and Mid-market growth, "it would be a good year for sure."

Pricing

- Atlassian just announced price increases on cloud products, including a 10% increase on some products (up from 5% last year), and a 15% increase on JSM. Enterprises "definitely don't like them" but they are "just the realm of SaaS software offerings now." Price increases do not surprise customers, and he "does not believe it's ruining the value prop yet."
- He feels that there's still room for price increases in the mid-market, and he does not feel that price increases will impact TEAM's competitive position over Freshworks and other mid-market vendors.
- He notes that Atlassian has done a good job of assigning sales reps to customers of every size. This is relatively new, and there used to be "no negotiation," and Atlassian still posts pricing on its website. Transparent pricing is "core to TEAM's vision," so he does not expect significant discounts.

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Growth Targets

- Noting that TEAM has lowered its growth targets and positioned itself as a 20% y/y grower for the next three years, he feels that we're "coming out of something." He's cautiously optimistic, and 60% confident in TEAM's 20% growth target.
- He feels that TEAM is headed in a growth direction, and he's more confident in 15% growth. AI will not have a great deal of impact next year, but there may be more significant growth in year 2 and year 3.
- His "definitely looking for growth" in his Atlassian practice. Many projects have been delayed, and he's hoping for reactivation in 2025. His current growth is "a little under 20%."

AI

- The executive feels that AI code assistance is very new, and he has not yet heard from customers that it's a major part of go-forward strategy.
- He's adding users and adding seats, but he does not feel that this is attributable to AI. He has not seen any changes in user count purchases as a result of AI, so he does not believe that AI assistants are reducing developer counts. This is consistent with BWG's survey work, that suggests respondents have no plans to reduce developer headcount.
- AI work is a skill in prompt engineering, and it could be a major requirement in the next 5 years. He hopes that code assistants would allow developers to be more efficient rather than replacing jobs.
- Code development is "intense" in his opinion, and "you want a person there, even if GPT can get you started." He could see AI replacing other functions, but less so in core application development. AI could introduce a new class of developer that requires skills in prompt engineering rather than object-oriented programming, for example.

"Is Software Dead?"

- Regarding the question of whether or not "software is dead" in the context of rapid AI development, the move from seat-based to consumption-based pricing, and competitive factors impacting SaaS vendors, monetization will be necessary to offset AI service delivery focused capital investment.
- He's already seeing customers that want training and consulting on Rovo and Atlassian Intelligence. There are already products on the market that were using AI, and it became the forefront of GTM strategies.
- He feels that all of the large software companies will "feel each other out over the next couple of years" on pricing strategies.
- Customers are embracing AI and paying for it if they need to, but the big players will determine what strategies work in the marketplace.
- He has reached out to his top 5 customers on AI, and all are interested in Rovo. One client is "already in this" and is paying for software. Companies are willing to pay for these products, in his experience.
- There's a difference between "are you going to pay for ChatGPT, vs. What ServiceNow, Atlassian, and Microsoft are offering." He feels "it's going to be an interesting time" for the next couple of months. This reinforces BWG's survey work that suggests an uptick in AI service investment.

Turnover at TEAM

- Noting executive churn at the Atlassian sales org, he feels "it's too early to tell" if there will be significant impacts. Atlassian reassess rep assignments every year, so we'll have to see how executive changes impact that process over the next 6 months.
- He's happy with the environment over the last 6 months or so.

Application Platform for the Enterprise?

- Noting that NOW created the concept of an enterprise application platform and TEAM is following the playbook to break out of IT use cases, he feels comfortable with TEAM's chances for success. He has multiple customers who built on Jira because the developers use it.
- The perception of TEAM in the market is that it's an IT and developer tool, but the core platform is open to configuration and making it a good fit. The platform can support it, but TEAM must address this, which it's been trying to do with its messaging. "The product supports it, and that's the most important thing."

FedRAMP certification

- He notes that FedRAMP Moderate for Atlassian Cloud is coming, and he and his customers are looking forward to it.



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