

MARKET NOTE

HCL Software Now Operational with Launch of New DX Platform

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EXECUTIVE SNAPSHOT

FIGURE 1

Executive Snapshot: HCL Software Now Operational with Launch of New DX Platform

This IDC Market Note discusses the first operational quarter of HCL's new software division, and the launch of HCL Digital Experience 9.5, its first product release built around IBM Software WebSphere. It also provides IDC's take on the future outlook for HCL Software and the company's direction in digital transformation (DX).

Key Takeaways

- HCL Software became operational in July 2019, after the deal closed for the acquisition of seven IBM Software packages. In its first quarter of operations, HCL Software has already reported greater revenue contributions within the HCL Products & Platforms segment, particularly within financial services (2.1%), retail and consumer packaged goods (0.5%), and telecommunications and media (0.4%). HCL Software registered overall 1,500 sales transactions between new licenses and renewals, with global reach in 61 countries.
- HCL Digital Experience 9.5 is the first product launched by HCL Software. Its new features and innovations are built upon the IBM WebSphere portal and aim to considerably enhance customers' digital experiences.
- A key highlight in HCL's second quarter results is the rise in demand for digital transformation within markets such as financial services, healthcare, and retail. With 15 transformational deals signed in the quarter and a new DX product release, the company's direction seems to be in line with IDC's take on increased spending for DX in the coming years.
- Provided that HCL can build on the positive results it obtained within its first quarter of operations, and — as it did with Digital Experience 9.5 — innovate and modernize IBM's previously divested software, HCL can become a credible player in a highly competitive software market.

Source: IDC, 2020

IN THIS MARKET NOTE

This IDC Market Note comments on the launch of HCL's new software division and its first major product release, HCL Digital Experience 9.5 management platform. HCL Software became operational in July 2019, soon after the closing for the acquisitions of IBM's software products was announced. In its first quarter of operations, HCL Software reported over 1,500 sales transactions, including new licenses and renewals in 61 countries, while onboarding approximately 1,300 partners within its network. In conjunction with starting operations, the company recently introduced its first product: HCL Digital Experience 9.5, a DX solution for enhanced digital experiences. According to Head of HCL Software Darren Oberst, the new software solution provides users with unmatched time to market and cutting-edge experiences to all digital touchpoints.

HCL Software Overview

In December 2018, HCL announced a \$1.8 billion software acquisition deal with IBM for seven software packages within security, marketing, commerce, and digital solutions. The deal was completed at the end of June 2019, shortly after the new HCL Software business unit launched and became operational in what was defined by HCL as a truly exciting quarter for the company. The new software division will play a key role in HCL Products & Platforms, the company's product-focused business segment in the development and provision of modern software.

The HCL Products & Platforms segment currently has the highest year-over-year growth (57.9%) followed by IT and Business Services (17.4%) and Engineering & R&D Services (15%). It is also the only segment that saw accelerating growth for HCL in 2Q19, rising 3.9 percentage points to 11.7%. Engineering and R&D remained flat at a growth rate of 16.9%, whereas IT and Business Services decreased by 3.9 percentage points to 71.4%. HCL Software's results in its first quarter of operations played a considerable part in the HCL Products & Platforms segment's quarterly growth. An extensive network of software sales teams was established within the North America, Asia/Pacific, Europe, and Latin America regions. New customers have been approached through a combination of channels, including thousands of face-to-face meetings, webinars, and social media reach.

First quarter results report over 1,500 sales transactions between new licenses and renewals, over 9,000 new customers, and a network of over 1,300 partners and resellers providing global reach. Despite only starting to trade in July 2019, HCL Software has delivered enhanced revenue contributions within its Products & Platforms segment across financial services (2.1%), retail and consumer packaged goods (0.5%), and telecommunications and media (0.4%). Initial results for HCL Software this quarter have been positive, especially considering its entry into a competitive market and negative perception around the announcement of the acquisition of IBM Software, which led to a 7.6% share price decline for HCL.

Digital Experience 9.5 Platform

At the start of October 2019, HCL announced its first product release in its Software division with HCL Digital Experience 9.5. This new software solution for enhanced digital experiences is built on top of the former IBM WebSphere portal software, a platform delivering personalized social experience to customers. The new HCL Digital Experiences release, as presented in the company's webinar, includes four major updates aimed at enhancing overall digital experience:

- Updated design and interface
- Brand new demo site with content management
- Containers on Red Hat OpenShift

- A new set of application programming interfaces (APIs) enabling additional microservices and enhanced delivery

The new developments grant significant benefits to the user, both technical and business-outcome related, focusing on accelerated time to market for customers, achieved through containerization by Kubernetes and Docker. HCL claims that this results in customer deployments happening as much as 10 times more quickly. The Kubernetes operator enables automation of complex tasks, which can now be completed in minutes as opposed to days or even weeks. With Kubernetes orchestration, total cost of ownership (TCO) is also substantially reduced through load balancing, autoscaling, and self-healing. Another development is represented by a new set of REST APIs, which are designed for modern application development and delivery of additional microservices. According to HCL CFO Prateek Aggarwal, these additional developments embody the themes that HCL seeks to increasingly bring across its portfolio within the coming quarters.

IDC'S POINT OF VIEW

HCL Software: A Positive Start Against the Odds

In the report *HCL Investing in Software to Achieve Non-Linear Growth* (IDC #EMEA44583818, January 2019), it was debated whether the company was ready to embark in the journey as a software provider. The announcement of the acquisition of IBM's software packages in December 2018 was accompanied by a generally negative perception, to which corresponded a 7.6% decrease in HCL's share price. Despite this, IDC's take on the acquisition and HCL's ability to successfully enter the software market has been positive and confident. The main argument for this take is that HCL wasn't starting from scratch; it had a prior evolving experience with IBM's software through a two-year IP partnership. This enabled the company to learn about the selected software packages, understanding their features and how to modernize them.

A key example is the new Digital Experience 9.5 platform, which is built on top of the IBM WebSphere portal software. HCL entered in the IP partnership with IBM for this software in 2016, along with four of the other acquired packages. It has innovated the platform considerably with new features and fixes, which it is expected to continue to release in the future. Digital Experience 9.5 was just released in October, and it's too early to measure results in terms of sales. It will be interesting to see these results and future developments in the following quarters, but HCL's capability in software innovation is already transpiring.

The other key reason IDC had positive feelings about the deal was related to the significant exposure to new customers HCL was onboarding because of the deal. HCL historically has a limited number of clients, but through this deal, HCL gained access to 5,000 new client engagements. HCL's recently released quarterly earnings indicate over 9,000 onboarded clients, with massive results from the company's outreach efforts; social media impressions in the quarter reached 10 million, while 50 webinars hosted by HCL reached over 8,000 customers – overall, a positive start in terms of onboarding new clients and connecting them to HCL Software.

Digital Transformation Opportunity

The first major release for HCL Software is a DX platform that provides digital customer experiences. Within this quarter, HCL has also announced the signing of 15 transformational deals in the financial services, life sciences and healthcare, manufacturing, and retail and consumer packaged goods industries. Examples in Europe include a contract for workplace transformation for an oil and gas company and a deal with an energy and utilities business for the deployment of a suite of DRYiCE software products to drive automation in ITOps. The financial sector is also increasingly shifting toward DX. According to HCL's President of Financial Services division Rahul Singh, a lot of deals are driven by digital transformation within different elements such as user

experience (UX), user interface (UI), and microservices. Recent product developments and the 15 transformational deals signed in this quarter indicate the strong direction that the company is taking toward digital transformation. In the webinar hosted by HCL for the launch of Digital Experience 9.5, the company mentioned three key focus areas under which it plans and will design future developments:

- Reducing TCO
- Empowering users
- Increasing agility

These themes are in line with what IDC identifies as drivers of the future enterprise, particularly agility and customer centricity (which can be associated with user empowerment) expected to play a key role for enterprises in products and services delivery. As users and customers become more accustomed with technology, they want to have increasingly more control over it. In substance, customers are demanding service providers to guide them in their transformation journeys rather than just executing and implementing the software, and user empowerment will thus become more and more a key focus aspect. Regarding agility, IDC sees innovation and agility being intrinsically linked. With end customers increasingly demanding integrated and complex solutions, applications need to be constantly developed and improved.

Future Outlook

This section presents a brief commentary on what the future looks like for HCL's Software business and HCL Digital Experience Platform. Regarding the former, it is fair to say that despite overall positive results in its first quarter of operations, additional time is required for a more complete judgment as the nature of the software market is highly competitive; hanging onto new customers meeting their expectations is a complex yet stimulating challenge for a company that has just entered the market. As mentioned previously, HCL's proven track record of successfully working with and innovating existing software, as demonstrated with the IBM partnership, makes IDC think that HCL has all the requirements to achieve positive results in the medium to long term. The newly released Digital Experience 9.5 represents HCL's capability to innovate and modernize software packages, but this will need to be backed up with healthy sales figures in the following quarters, and this success will need to be replicated across other software releases. Only time will tell if the company will be able to do so with the other six software packages it acquired from IBM; with five out of the seven software packages being in double-digit growth markets, HCL would strongly benefit from its current success and consolidate itself as an important player in the software market.

Regarding the future of its Digital Experience platform, developments will focus on the addition of new features and the release of cumulative fixes, of which 17 have already been implemented, with the eighteenth already on its way to be released. Within its webinar, HCL outlined four features it would like to introduce in the next version:

- A media library
- Production APIs
- New content UI
- More Kubernetes

The media library, which is already in development, is expected to include lightweight asset management capability and video management. More Kubernetes will lead to more scenarios covered by the operator, and Amazon Elastic Kubernetes Support (EKS) support is also expected to be added. Regarding long-term developments, HCL is using its three themes of reduced TCO, user empowerment, and increased agility as guidance to plan future additions for the product.

Examples include increased containerization for reduced ownership costs and the discovery of new digital touchpoints to take experiences further for increased agility. Going forward, it will be interesting to follow the development of HCL Digital Experience 9.5 and keep a close eye on what HCL will do with its other acquired software products.

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Synopsis

This IDC Market Note provides an update on closing of HCL's deal for IBM software packages. It also comments on the first quarter performance of the new HCL Software division and the release of its first product, the HCL Digital Experience 9.5 platform. This document provides IDC's take on HCL's digital transformation efforts in terms of products and signed contracts.

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