

I D C V E N D O R S P O T L I G H T

Australia Small-Medium Vendor Profile – Sparx Systems: Setting Sights on the World Stage

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This report focuses on Sparx Systems, an Australian software vendor offering modelling solutions to automate software development in a Model Driven Development (MDD) environment.

I. Introduction

This profile assesses the achievements of Sparx Systems, an Australian software vendor in the applications development software market. As part of the assessment, the success factors and challenges faced by the rising vendor to sustain long-term growth will be discussed.

Local Independent Software Vendors (ISV) play an active role in supplying the Australian software market. These companies are typically innovative and deliver competent solutions that effectively compete and supplement offerings from global service providers. Most importantly, ISVs develop products that are highly relevant to the local business and technological conditions. Along with tailored local expertise, the key value propositions of local ISVs include practical domain knowledge, competitive price points and geographical penetration.

Many Australian ISVs are successful in the local small and mid-markets however penetrating the enterprise marketplace continues to be a difficult issue due to the dominance of large multi-national companies. A number of Australian ISVs have looked offshore for blue-sky opportunities, and some (such as FNS, Mincom and IBA Health) have developed an international presence within their target industries.

This report profiles Sparx Systems, an Australian ISV that has established a strong international business. Sparx Systems has a relatively low profile on Australian shores however the company's software has been deployed internationally in 60 countries – a significant achievement.

II. Benefits

Product Application

Sparx's leading solution is Enterprise Architect, which has been used in a versatile manner. Customers range from small enterprises to large Forbes 2000 corporations, who have applied the tool both within and outside of the application development cycle. The following are some cited examples:

■ Model Driven Development

As a traditional CASE tool to model an application's process flow and generate class shells to accelerate development. Traditional uses include design, design analysis, refactoring of object-oriented applications, organisational modelling and building use cases.

Beyond these typical usage scenarios, the product provides extensive Model Driven Architecture (MDA) related functionality, specifically to facilitate model-to-model transformations that automate many aspects of the traditional modelling process.

■ Managing complex requirements

In managing a single, very complex project, Enterprise Architect can be utilised to act as the requirements manager. In this instance, the development team and the business analysts can collaborate utilising the same tool to evolve and deliver the project.

Typically the requirements model is then used in conjunction with the tool's automated reporting and documentation frameworks to deliver specifications to stakeholders.

■ Enforcing traceability

Enterprise Architect can be used as a tool to ensure codes delivered by developers are aligned with the business requirements. End-to-end traceability can be achieved when the tool is used for requirements modelling and management through to testing, where developers feed trial cases into an automated testing platform.

■ Business process modeling

Enterprise Architect enables business process diagrams to be defined using standard notations, such as UML Activities, Eriksson-Penker and the Business Process Modeling Notation (BPMN), ensuring that workflow patterns can be understood by all business users.

■ Reverse engineering of applications

The tool helps the redevelopment team discover the logic of applications. By converting a legacy code base into standard graphical notation such as UML, interested parties can readily see the "big picture" and communicate the design to a wider audience

Pricing Strategy

Pricing is one of two key components that comprises Sparx Systems' corporate strategy. Enterprise Architect is priced such that cost does not become the prohibitive factor for larger deployments of the tool – i.e. it follows a volume discounting approach. By marrying the volume pricing strategy with appealing product features, Sparx is attempting to promote wider adoption and use of its software. The volume-driven approach may sacrifice short-term profitability, but builds the foundation for future opportunities within a large, committed user base.

III. Trends

There is optimistic potential for long-term growth in the market for model-driven software development tools. IDC's survey of professional developers revealed significant new demand for modelling tools, driven by MDD's evolution in the coming decade as the focal point of application development. This provides the right growth conditions for applications and tools that support software development in an MDA framework.

Some of the trends and drivers impacting market development opportunities in MDD tools include:

- Greater requirement for application development tools to accommodate frequent business-driven changes without adding substantial IT investments or extensive retesting.
- Increasing pressure to find solutions that enable business applications to adapt to changing competitive conditions quickly and flexibly.
- The growing realisation that MDD tools are most promising for creating reusable components, enterprise services and mobile applications efficiently.

IV. Vendor Profile

Established in 1996, Sparx Systems is a privately held Australian-based business. Having had over 20 years in the industry, Sparx can point to a history of continued market experience. The company's management team is very focused on the software development industry, with good experience in relevant technologies and Sparx has focused heavily on product development with approximately 80% of its workforce devoted to this area. Until 2005 Sparx maintained a relatively low marketing profile in Australia. In that year, the company's Enterprise Architect modelling software was named one of the winners of the Consensus Software Awards, a government-supported Award program for software developed in Australia and New Zealand.

In 2006, Sparx's growth outstripped the market average of 10% in Australia's Application Development Software market. By comparison Sparx has demonstrated close to 50% annual revenue growth over the last three years. The company's international business is particularly strong where 95% of customers are offshore, with the majority based in the US and Europe. An analysis of Sparx's customer data also indicated that Forbes Global 2000 companies accounted for a large proportion of the 100,000 active Enterprise Architect licenses.

Products and Pricing

Sparx Systems is tightly focused on developing modelling tools based on the Unified Modeling Language (UML) standard. While these tools have originally been used in the software development domain, they are increasingly being adopted in a wide range of sectors for hardware, business processes, and workflow modeling. Sparx markets the following three sets of products:

- Sparx Enterprise Architect 6.5

This is the company's core product. Positioned as a platform for software development, Enterprise Architect is a UML-based modelling suite that includes functionalities for requirements gathering, analysis, design models, testing and maintenance. Enterprise Architect is available in Desktop, Professional and Corporate editions, which differ in licensing options per user or concurrent user deployment.

- Sparx Model Driven Generation (MDG) suite of products

- MDG Integration

MDG Integration for Visual Studio® 2005 and MDG Integration for Eclipse™ integrate UML blueprints directly into the Microsoft and Eclipse Integrated Development Environments (IDEs), giving developers using these IDEs access to UML specifications and functionalities.

- MDG Link

These are a family of adapters allowing DOORS requirements and Visio models to be imported into Enterprise Architect, as well as linking earlier versions of Microsoft Visual Studio and Eclipse IDEs.

- MDG Technology suite

Plug-in applications that support a variety of open standards and processes within Enterprise Architect, including MDG Technology for Systems Modelling Language (SysML), Data Distribution Service (DDS), Business Process Modelling Notation (BPMN), CORBA, Python and Enterprise Java Beans (EJB).

- Third party add-on tools. Enterprise Architect is an all-purpose modelling platform into which a wide range of domain specific tools can be incorporated.

Go to Market Model

The distribution model is another key aspect of Sparx's corporate strategy. The philosophy is to establish a highly efficient mass-market distribution model, heavily leveraging the Internet channel. By keeping sales and marketing overheads low, Sparx was able to achieve profitability targets whilst facing margin squeeze due to a very competitive market environment. All products are delivered through a web-based e-store.

Apart from web-sales, Sparx also uses a hybrid sales model of direct account and reseller partners to capitalise on opportunities in larger enterprises. The indirect channel comprises a network of 30 channel partners in Australia and approximately 230 globally. The majority of partners are value-added resellers who bundle Enterprise Architect with their solutions, as well as consultants and training partners.

Sparx's streamlined sales and marketing function is also replicated in the support function where a high quality, but no-frills approach, is similarly adopted. Sparx works with a network of partner service providers to complement local support operations, ensuring that premium services expected by its larger customers are also met.

V. Conclusion

Sparx Systems is currently in a high-growth phase. With its solutions, the vendor has evidently struck the right balance between price and functionality, and the proposition continues to resonate well with customers and partners. Much credit is given to the corporate strategy of maintaining a high level of technical focus, enabling Enterprise Architect to evolve into a solid application development tool since its first commercial release in 2000.

However, modelling tools are only a small part of the applications development software market. The supplier landscape here is still fragmented and a large number of tools are available in the market. Successful vendors in the applications development space (such as Rational) have grown by consolidating specialised tool sets into comprehensive software suites for the total development lifecycle. This has been supported by strong brand names and the loyalty of a large developer community. Against that background, IDC will now examine the growth opportunities for Sparx Systems.

Growth Strategies

In the last few years, Sparx has significantly outperformed the market through a two-pronged strategy, leveraging effective distribution to penetrate international markets, and selling at price points that are setting highly cost-effective performance standards.

Looking forward, a number of growth opportunities can be capitalized by Sparx to further extend growth. These are discussed below.

Enterprise Customer Expansion

The core customers for Sparx currently are mid-sized businesses and the departments of distributed enterprises. Sparx has indicated that large, enterprise-wide deployments have also occurred, with customers deploying between 450 and 600 developer licenses. While these larger customer wins are still rare, they provide solid references to alter market perceptions about local software vendors, in turn helping Sparx to establish greater credibility.

If Enterprise Architect develops as a viable alternative development platform for Fortune Global companies, the addressable market for Sparx expands tremendously. This opportunity is significantly more focused on US companies than other regions.

Geographic Expansion

Currently around 20% of the company's revenue and 10% of customers derive from the APAC region. Through offshoring and outsourcing, global software development activities are converging in APAC, and a growing developer community is also emerging as jobs migrate to delivery centres. This is potentially a large, sustainable growth opportunity for Sparx, as it can recentre its geographic focus to further penetrate this region.

A number of initiatives are currently in place to develop the APAC market, including new partner recruitment and cooperation with Austrade to increase presence in the export markets of Southeast Asia. Sparx is also increasing branding activities in the region through trade shows, exhibitions and advertising.

IDC believes Sparx's low-cost proposition will be compelling in the value-driven Asian markets.

Deeper Enterprise Penetration

An analysis of Sparx's customer mix shows that a good proportion of its enterprise customers have purchased 50 or more developer licenses. Sparx has also reported use-cases outside the traditional development realm; Enterprise Architect has been adopted by business users in areas such as business process modelling, and development and management of business requirements. Should Enterprise Architect continue to build on its versatility and remain relevant to both the technical and less-technical user, the addressable market for Sparx will expand. IDC believes that Enterprise Architect's increasing footprint in the enterprise business user space will differentiate it from competitors that may offer more comprehensive application lifecycle capabilities, but are also limited to serving only IT buyers.

Essential Guidance

Considering the strong growth reported by Sparx in the past few years, IDC believes the company will continue to maintain momentum and its short-term growth prospects will remain robust.

However Sparx plays in a consolidating competitive landscape that will be increasingly dominated by global heavyweights. As Sparx marches on, Enterprise Architect will progressively be pitched against offerings from its bigger competitors.

Advice for Sparx Systems

In the long run, it is imperative that Enterprise Architect establishes credibility with larger enterprises. In the enterprise market, Sparx will also have greater opportunities to deliver high-value solutions to complement the high-volume transactional business. Innovatively advancing Enterprise Architect deployments beyond a tactical level has potential to significantly drive margin expansions.

IDC suggests that Sparx Systems focus on the following areas as it advances into the next phase of organisational growth.

- Strengthen the brand

Enterprise Architect has a robust reputation among its customer base; outside of this, the major on-going challenges for Sparx will be in raising its brand awareness and establishing a positive brand perception.

The management has already begun addressing this important aspect of the business. In the past two years Sparx has increased advertising and editorial exposure, and started participating in trade shows. Enterprise Architect and Sparx were winners of several editorial and business awards.

- Extend and solidify partnerships

A strong, positive relationship with solution partners provides a stable base of expertise to extend Enterprise Architect capabilities to address areas not effectively handled by competitive products.

Advice for Users

IT developers and business users looking for a platform for comprehensive development and business modelling should consider the following:

- Compare Sparx's technology with peer products to consider the key characteristics of scalability, flexibility, and ease of deployment.
- Evaluate the impact of brand recognition and various channel issues, including service and support.
- Evaluate if Enterprise Architect offers a compelling enough vision to address business needs beyond tactical program execution. If otherwise, provide the feedback to Sparx, as product development in the company is closely driven by customers.

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Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com