Market Brief: Harness Acquires Assets of Competitor Armory, Boosting Its 'Platform' Opportunity and Engineering Talent

Market Action

On January 11, 2023, privately held software and service provider Harness – 'The Modern Software Delivery Platform' – announced the acquisition of "key intellectual property and technology" from privately held competitive vendor Armory – 'the Continuous Deployment (CD) company'.

No purchase price was disclosed, but reports estimate it was less than $10m. Armory raised a total of $82MM in funding in six rounds from over 25 investors since 2016, with the latest funding round in May 2022. Harness has raised $425MM over six rounds since 2017, most recently raising $175MM in equity and $55MM in debt at a valuation of $3.7BB in April 2022.

This is a smart opportunistic play for Harness. It does not gain radical new capabilities, but with many incremental features, functions, and integrations does bolster its goal to be a highly sticky foundational 'platform'. This in turn will broaden its market appeal, and should provide growth opportunities for Harness to help more enterprises transition into modern cloud-native technologies and approaches. This will help Harness over time continue to build, shape, and potentially win the emerging 'Platform Engineering' market.

Sageable sees limited downside risk as Harness takes out a competitor and gains a lot of IP and talent, all for a fraction of the funding Armory attracted. Other vendors gain nothing, but now face a stronger competitor. Sageable expects a strong upside opportunity for Harness and its investors as a result. There is a high likelihood of substantial benefit accruing to both Harness and Armory customers too, some sooner than others.

However, it reads like a fire sale for Amory, and its failure to execute is surely disappointing for leadership. They may at least take some solace that they have ensured an extended future for their products, functional continuity for customers, a soft landing for many staff, and a somewhat dignified 'exit' for investors, albeit for pennies on the dollar.

Strategic Impact Analysis

Over a decade ago, vendors like Puppet and Chef disrupted and combined traditional markets like IT Process Automation (ITPA), Software Configuration Management (SCM), and Application Release Automation (ARA) to create a new capability called Infrastructure as Code (IaC). Today, Puppet is part of Perforce and Chef is part of Progress, while newer vendors like Harness are redefining and disrupting the IaC space as they push to evolve a broader 'Platform Engineering' (PE) market – combining multiple key capabilities that enable developer productivity and efficiency into a single, integrated, self-service framework.

Harness' addressable market is therefore still somewhat amorphous. It continues to evolve and expand, driven by the rapid pace of architectural innovation especially in cloud technologies, fueled by consolidation not only via corporate M&A but with blurring lines between adjacent technologies, all boosted by an industry whose marketing leaders love nothing better than a hot new technology or buzzword to attract engagement.

This evolving market is growing rapidly, especially as enterprises grow their cloud investments. Enterprise transition to newer 'cloud-native' deployment models means leaning into modern atomized technologies like Kubernetes, containers, feature streams, and serverless functions, and away from traditional and centralized approaches like virtual machines (VMs), golden images, manual releases, and monolithic applications. This transition to newer deployment models is where Harness and others in this space will capitalize and grow.

However, not all players win. Armory was clearly a financially distressed asset, leading to this exit. Key phrases Ilike "acquiring the assets", "acquire this technology", "recruit people who built it", indicate Harness is not acquiring all of Armory, though it will cease to exist. With no purchase price or prior relationship, this has all the hallmarks of a 'fire sale' – an opportunistic tuck-in and 'acquihire' – not a planned strategic investment.

For Amory, this is a strategic failure – albeit better for all involved than it could have been. Like so many innovative businesses, especially in hot 'bottoms-up' movements like CI/CD and DevOps, it suffered from a common inability to translate early, focused, technical innovation serving cash-strapped individual practitioners, into long-term, broad-based, market success serving enterprise leaders with large IT budgets.

However, this deal still adds significant strategic value to Harness, bolstering its efforts to evolve as a 'platform' – a comprehensive and flexible foundation on top of which other 'value-added' vendors and developers build their solutions. This is a desirable, sticky, and profitable goal, but also extremely elusive, so any concrete efforts to expand functionality, cross boundaries, and make this goal a reality are highly valuable.

While Harness notes it will transition "key Armory engineering and customer support roles", there is no such mention for shared functions like FP&A, Operations, Sales, Marketing, and even Product, let along leadership. Even for retained staff, with new bosses, new priorities, new directions, new strategy, and new power, this will drive some attrition and distraction. This will slow innovation in the short term, as at least some people are reassigned to teams working on integration over new innovation, product features, or even bug fixes.

Customer Impact Analysis

For customers, prospects, and IT Professionals, this acquisition is a decidedly mixed bag, but mostly positive.

For Harness customers, the upside is mostly positive, albeit somewhat muted. Armory does not add radical new innovation to Harness. Before this deal, Harness' own head-to-head comparison claimed they already deliver everything good that Armory does. Armory used to say the same, but both have now pulled such comparisons from their websites. That said, even where the two already had some overlap, Armory extends the depth and breadth of the Harness platform. For example, Armory brings even deeper support for technologies and approaches like Spinnaker, ArgoCD, Flux, EKS, and GitOps. Harness customers will also gain a new on-prem capability, which is still in some demand, and additional features and functions, such as improved handling for load balancers and ISTIO support. While this may not be radical innovation, all this incremental capability improves the Harness platform in material ways, enables customer flexibility and capability, and adds real weight to Harness' platform aspirations.

Armory customers will be distracted and disgruntled. They must transition to a new vendor, new account managers, new agreements, new pricing, new integrations, new strategic focus, and more. Prior approved enhancement requests, roadmap inclusions, and even bug fixes will be reevaluated and may be de-prioritized.

However, there are positives for Armory customers too. Harness is promising them a 'safe path forward' including honoring existing contracts, retaining the Armory support team (a highlight of Armory's offer), continuing to support the Spinnaker open-source project, and maintaining Armory's on-prem product. In addition, Harness offers Armory customers a raft of new and sophisticated functionality, which they can reasonably expect to be tightly integrated over time, including greater flexibility to use multiple provisioning and configuration management technologies like Terraform, in addition to Armory's support of Spinnaker.

Both Armory and Harness customers will also (eventually) benefit from an influx of new engineering talent.

Risk Analysis

There is limited downside risk in this deal, especially being a definitive acquisition of tech and talent at a fire sale price. For both entities there was very little to lose in joining forces, but quite a lot to gain. For strategic planners and investors, this is not exactly a 'win-win', but it appears marginally better than a 'win-lose'.

At Harness, the Strategy and M&A teams are likely jumping for joy to take out a competitor for a tiny fraction of its prior valuation. It not only thins the competitive landscape, but delivers new tech, talent, and customers. This acquisition should materially boost Harness' valuation. Its board and investors should be well pleased.

At Armory, however, the mood will be dimmer. The CEO & board will be disappointed that after much time, money, and effort they ultimately could not make the business work. At least they managed a dignified exit rather than a complete bankruptcy, and ensured many staff will enjoy a soft landing with good opportunity at a well-aligned and innovative organization. Not all will be so lucky. After exiting at a massive discount on funding raised, executive leadership in particular will need to update their resumes and ponder their futures.

Standard caveats apply of course. Leaders will now need to re-evaluate strategy, and any other acquisition plans will be impacted. Product and engineering teams will be distracted, not least as they need to onboard 20 or so new team members. Several development 'scrum' teams will be redirected from innovation to integration and refactoring. Some Armory customers may self-select out, though most will move across to Harness. Marketing will need new messaging, website updates, and more. On the upside, Sales teams get new offers, new accounts, new reasons to engage, and may gain new deals as a result.

Competitive Impact Analysis

This is a challenging motion for Harness competitors. Harness has pulled in new talent (in a still-competitive market for tightly focused and experienced technical talent), gained new features and capabilities, expanded their addressable market (albeit marginally), and taken out a competitor, all without any real loss of momentum or significantly depleting cash reserves. This is a 'double-whammy' for competitors who now not only face an increased threat from the combination, but who also lost an opportunity to do all this themselves.

And as the market expands and subsumes adjacencies – across cloud and on-prem, infra and apps, systems and security, and more besides – this helps Harness to keep innovating, adding additional functionality to justify its claims to be a development platform, and to compete even harder in Platform Engineering. Armory's OSS model also provides a great opportunity to seed a broader customer base – although if history and recent market actions are any indication, they may need to change the license model to effectively monetize the non-paying OSS users.

Competitors may try to pick up disgruntled customers, but they will be few and far between, and will not provide the substantial incremental value necessary to justify the significant time and effort a swap-out campaign would consume. Armory is a small vendor whose enterprise customers reportedly number in the tens, not the hundreds. Those customers can continue using the same Armory products for the foreseeable future, but also gain a reasonable expectation that a market leader and technology innovator like Harness will integrate them well and make a whole that is more than the sum of its parts. Moreover, this technology tends to be very sticky, requiring an expensive, resource-intense, and high-risk effort to replace – as with most foundational technologies. So, most Armory customers are likely to move to Harness *en masse*, with little attrition or switching. Thus, any swap-out campaign efforts will likely be substantially wasted.

Like all such sales, competitors may capitalize on the opportunity to take out some of the top talent that inevitably will be laid off or take severance. While most of engineering will move to Harness, some great talent will still be available, even moreso in overlapping operational and/or corporate support functions.

Sageable Insight

Sageable believes this deal makes great sense for Harness, especially for its investors. It should eventually be good news for its current customers too, especially in the long run as Spinnaker support and much more is rolled into the larger Harness platform.

While this exit is a failure for Armory, its leadership, and its investors, Armory customers should end up in a relatively positive position, after some initial pain. They will be substantially disrupted by this change of ownership, and some may resent the burden that imposes, but with product, support, and contract continuity assured, new access to a larger portfolio, and a new partnership with a market leading innovator, few are likely to rage-quit or to actively seek out alternative vendors, so customer attrition should be minimal.

There will be significant challenges in bringing together two functional teams, technologies, cultures, processes, architectures, codebase, etc., and having it all work well together. It is always unfortunate to learn of corporate failure and the resulting layoffs, but it was ever thus in technology M&A. However, over time it is likely that Harness will successfully integrate the new technical talent and the key acquired capabilities into a much better business and platform, benefiting all its customers, and building on its strong market position.

Overall, this is a smart play for Harness, even – or especially – if it was an opportunistic one. Sageable sees strong upside for Harness and its investors as a result, and expects a substantial benefit is likely to accrue to its customers in the long term, driving up is opportunity and its valuation. While a mixed bag for Armory, and a disappointing day for its staff and investors, this is an exciting action for Harness and all its stakeholders.