

WALTER SCOTT



QUARTERLY COMMENTARY

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AI challenges and opportunities

In a 2011 Wall Street Journal article, tech venture capitalist Marc Andreessen argued that the world was in the middle of a “technological and economic shift in which software companies are poised to take over large swathes of the economy.” As he memorably put it, “software is eating the world.” Fifteen years on, many observers believe that software itself is now on the menu. AI, they contend, is eating software.

A succession of new AI tools has ignited investor concern about how quickly and to what extent they might undermine incumbent software franchises. The world has indeed changed. The arrival of the latest generation of coding agents represents a significant shift in capability.

In the last few months, Anthropic’s Claude Code and Claude Cowork as well as platforms such as OpenClaw have been thrust into the limelight as autonomous digital assistants, underpinned by a new generation of large language models starting with the release of Claude Opus 4.5. They are digital ‘interns’, capable of performing at speed, multi-step processes.

As Michael Bhaskar of Microsoft AI and a forthcoming speaker at our Research Conference suggests, this is not simply a story of better tools—it marks a shift toward systems that can pursue goals on a user’s behalf. In practice, this is already visible in products like Microsoft Copilot’s Cowork (and more recently, the aforementioned Claude Cowork), which can take a simple instruction, construct a workflow, draw on emails and documents, and execute tasks across applications with minimal oversight. The implication is profound: workers are no longer just users of software, but managers of increasingly capable digital agents.

But to mount a successful attack on software incumbents, the various AI labs that are leading the disruptive charge have to chip away at the various moats that companies enjoy. Software companies that have replicable data, simple rule-based functions that can be easily carried out by AI agents, and weak integration or relationships with customers are likely to be the most vulnerable to displacement. In this evolving threat landscape, many investors have defaulted to a ‘sell first, ask questions later’ stance towards managing disruption risk. In our view, this is a tactic that ignores the strengths of many leading software businesses.

There is more to the best software companies than simple coding and product development. The infrastructure around leading software businesses is often highly complex with significant moats. However, it is critically important to examine companies on a case-by-case basis.

Analysing impacts and opportunities

The matrix below represents a framework which we employ to ‘interrogate’ companies, in terms of the risks and opportunities in this evolving environment.

Category	Metric	Description of metric
Data	Volume/accuracy	Depth of data and whether it is reliable/structured
	Proprietary	Is the data unique and owned by the company?
Company/market dynamics	Scale/market leadership	Resources to invest and dominance of focus area
	Brand	Reputation with customers and partners
	Customer stickiness	Retention rates of software with customers
	Embeddedness	Does the software provide a key workflow to customers?
	AI capabilities	How ‘good’ is the incumbent at incorporating AI into their existing software stack?
	Regulation	Does the regulatory environment allow for AI start-ups to have an impact or does it inhibit predation?
	Switching cost	How easy/difficult is it for customers to switch to an alternative?
	Network effects	Do existing users benefit from being on the same platform as additional users

We assess software incumbents' resilience by examining their moats: proprietary, reliable data; financial resources, talent, and scale to sustain AI investment; brand strength and churn/retention; and how deeply the product is embedded in daily customer workflows. We also evaluate AI execution capability, legal/regulatory defensibility, switching costs, and multi-user platform effects that increase stickiness and attract new users.

The matrix is a logical platform for fundamental analysis and a prompt for Research team debate. It is an approach founded on rigorous research and engagement with companies, competitors, and industry experts, at a time when the market is displaying its time-honoured predilection for translating uncertainty into negativity.

Research and engagement

SAP is amongst the companies we have engaged with extensively over recent months. A meeting with the company's Chief AI Strategy Officer offered particular reassurance about the company's positioning and growth prospects. Far from SaaS being dead, SAP's ownership of apps that encompass entire workflows provides the context required for agentic AI to become effective in enterprise. Having that access to a customer's full workflow means agents can look and then work across business processes to deliver efficiencies and improvements.

SAP is now able to meter customers AI usage which allows consumption-based charging. It also gives customers visibility of that usage which powerfully highlights the benefits and value that AI is providing. For now, it is of no surprise that many of SAP's customers are still in the learning stage, but management remain confident that adoption should materially inflect as customers begin to see the value that can be delivered.

As customers adopt more apps, so more business data is generated. That is then used by SAP's AI analytics and products, feeding evermore valuable information back into the apps as well as allowing new apps to be adopted. This flywheel effect should become an important driver of growth for the company. It is also a benefit that derives from SAP's scale and is therefore something very few of its potential competitors can replicate.

Inextricably linked to this growth will be the continued, and meaningful financial opportunity to flow from the transition of SAP's clients to cloud-based services. Clients that have made the shift to cloud-based platforms will be able to see the most amount of benefit from the growing AI-based capabilities offered by SAP. According to the company, only around a third of existing clients have completed that transition. This process isn't only financially advantageous, its complexity further deepens the relationship between SAP and its global client base.

Feedback on SAP's services is often part of our engagement with other companies, and we most recently spoke to a globally diversified Australian company coming to the end of its cloud transition. Whilst acknowledging the significant investment, both financial and in terms of resource, management were clear that the unlocking of SAP-based finance and ERP (Enterprise Resource Planning) tools and CRM (Customer Relationship Management) modernisation through this transition would deliver material benefits.

AI opportunity knocks

In recent months, AI disruption concerns have seeped into a number of sectors outside of software-related businesses. This has reflected a somewhat dystopian view of the ultimate economic impact of AI. Compass Group has, by some, been dubbed an "AI loser." The bear argument follows the line of thought that if AI disrupts office-based employment, it will reduce the demand for workplace catering.

This would suggest an environment where AI represents a chronic threat to a significant section of the labour market, and by extension, personal consumption. Such an outcome would, of course, impact companies across the market spectrum. The negative narrative represents a thorough misunderstanding of Compass's business model, and the fact it is benefiting from the development of AI. You can read about our thoughts on the company here: [Compass not losing its bearings](#).

The rapidity with which AI is evolving will continue to present challenges, but also opportunities. Many leading companies in the software arena and other sectors are not 'steady state.' They have developed and grown over the years precisely because they are innovators, able to adapt to new dynamics. Against this backdrop, we continue to assess every AI development through the lens of fundamentals – vigilant, but also confident that many of the top software companies are well positioned in the AI revolution.

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