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Responding to Shock Waves Caused by AI Threats to Software Companies

5 Key Responses for Software CEOs and Boards

Summary

In late February, nearly $1 trillion in market capitalization was erased from US public software companies. The selloff was driven largely by investor concerns that LLMs, like Claude, and AI-native competitors could disrupt established market leaders far sooner than expected. This sent shockwaves across boardrooms, with one director and private equity deal partner stating, "we must reset our product, pricing, and go-to-market strategy immediately to compete in this new world." While software stock prices will likely fluctuate over time, the underlying issues remain. Based on our recent software market research, pricing, and go-to-market strategy and execution work, we outline ***five critical responses that CEOs and boards should consider implementing now.***

5 Key Responses for Software CEOs and Boards

1. Identify your real competitors and get accurate threat intel
2. Reset competitive positioning and own the narrative
3. Future-proof pricing and packaging
4. Launch an up-leveled renewals program through commissioned sellers
5. Invest to expand and strengthen competitive moats

Background

Equity markets have rapidly repriced software companies based on expectations of heightened AI-driven competition, reduced brand strength and differentiation, declining pricing power, and slower long-term growth. A key catalyst was Anthropic's release of Claude Cowork and related workflow automation capabilities. Unlike earlier AI tools that automated discrete tasks, these new capabilities automate full functional workflows, including executing multi-step, department-level processes across files and applications. This raised a fundamental concern: if AI can execute entire workflows, how much value will remain in traditional software platforms?

Stock prices of major enterprise vendors such as Salesforce and Workday, along with several cybersecurity companies, declined sharply. The fear is not only that AI overlaps with existing functionality, but that it dramatically lowers barriers for new AI-native entrants. In this environment, inaction is risk.

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We recommend that software CEOs and boards consider the following 5 responses:

1. Identify your real competitors and get accurate threat intel

Expand the competitive set to include emerging AI-native entrants. Buyers are using AI tools themselves to identify alternatives, and your competitive map must broaden accordingly. Our research shows that there is significant market noise around AI with frequent exaggeration of competitors' real AI capabilities and roadmaps. Many sales teams underestimate their competitive position, assuming rivals are further ahead on AI than they are. This confidence gap leads to weaker value positioning, increased discounting, and lower win rates. We recommend addressing this by getting updated, fact-based research about the true state of your competitors' products and AI capabilities.

2. Reset competitive positioning and own the narrative

Many traditional moats are weakening. AI-native startups can now replicate capabilities that once took years to build, including user interface depth, broad module suites, integrations, and reporting and analytics. However, incumbents retain advantages that are harder to replicate, such as deep customer-specific customizations, scalable services organizations, proprietary data, and established partner ecosystems (see below). The key is to get closer to your customers and refresh your understanding of customer value. We recommend (a) conducting buyer and competitor research to redefine where your durable differentiation truly lies, (b) revising positioning accordingly, and (c) developing a marketing and sales plan to own this narrative in the market. Part of owning the narrative is re-orienting companies' marketing towards Generative Engine Optimization (GEO).

3. Future-proof pricing and packaging

While some expect software pricing to decline, we have not yet seen much evidence of structural price compression. That said, preparation is essential. We recommend a disciplined, research-driven pricing update that includes:

- **Packaging** – Align offerings with buyer priorities and competitive differentiation. Understanding which capabilities matter to which personas, use cases, and segments is key to capturing value.
- **Pricing structure and metric** – Evaluate pricing metrics carefully. Avoid rushing toward outcome-based pricing without validating that buyers will agree on the definition of an outcome and that there is a proven correlation between outcomes and willingness to pay.
- **Price levels** – Use willingness-to-pay research to optimize for revenue or margin.
- **Pricing enablement** – Design programs that enable sales teams to effectively position pricing changes and execute cross-sell pricing programs.

Pricing discipline will separate resilient companies from reactive ones.

4. Launch an up-leveled renewals program through commissioned sellers

Procurement teams are reading the same headlines. Even where AI-native solutions are immature or unavailable, customers are demanding price concessions at renewal.

Renewal negotiations have become more aggressive, and it is critical to have the right people and tools to successfully retain customers. A challenge is that most customer success teams are simply not equipped with the skills needed to effectively negotiate renewals in this environment, but commissioned sales professionals are. We recommend assigning renewals to commissioned reps and developing a structured renewal pricing program with multiple price increase levels and fallbacks with associated sales plays. Protecting renewal economics is now a frontline commercial priority.

5. Invest to expand and strengthen competitive moats

With more powerful LLMs allowing small, AI-native companies to quickly compete on product functionality, companies must invest in both new and expanded competitive moats. We recommend that software companies evaluate at least these 4 areas:

I. Expanded services focused on adoption and impact

AI-native startups cannot replicate scaled services organizations overnight. Yet many software services teams have become transactional, limited to check-ins and ticket resolution. True defensibility comes from measurable adoption, demonstrated ROI, and best-practices guidance. Most software companies would benefit from improving their methodology to assess customer impact and benchmark that against best practices. This provides a platform to engage more senior customer stakeholders, expanding beyond traditional customer success relationships and enabling more strategic, high-impact dialogue. Investment in high-impact services strengthens retention, expansion, and stickiness, and creates a moat that AI tools alone cannot match.

II. Expand proprietary data advantages

Although publicly available data is easily within reach of AI-native competitors, proprietary data and deep customer historical data is not. We recommend investing to expand proprietary data capabilities, including M&A as needed, and leveraging this data into actionable insights. Larger companies can often provide proprietary benchmarking data that newer companies cannot.

III. Strengthen partner and channel ecosystems

AI-native upstarts will also not be able to replicate a strong partner ecosystem and will not likely prioritize this. Established software companies benefit from mature ecosystems including implementation partners, value-added resellers, channel relationships, and strategic alliances. Expanding and activating your partner network strengthens defensibility and distribution leverage.

IV. Scale customer-specific customizations

AI has accelerated code development for everyone – but only scaled incumbents have the customer base and resources to deploy customization broadly. Smaller AI-native competitors lack the footprint to support extensive customization across industries and geographies. We recommend having your development team evaluate the feasibility of dramatically expanding customer-specific customizations leveraging AI tools. Customization drives value, satisfaction, and retention – and can become a stronger competitive advantage if scaled intelligently.

Final Thought

The market reaction reflects a structural shift in investor expectations. Whether AI ultimately compresses software economics or expands them remains to be seen, but uncertainty alone is reshaping competitive dynamics.

The imperative for software CEOs and boards is clear:

- Redefine defensibility
- Protect pricing power
- Strengthen customer entrenchment
- Equip commercial teams to compete immediately

Companies that act decisively will stabilize performance. Companies that hesitate risk competing on yesterday's advantages.

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Why Blue Ridge Partners?

At Blue Ridge Partners, we focus exclusively on helping companies accelerate profitable revenue growth – the #1 driver of value creation. We've earned high marks from private equity firms by delivering material, rapid, and cost-effective results for their portfolio companies.

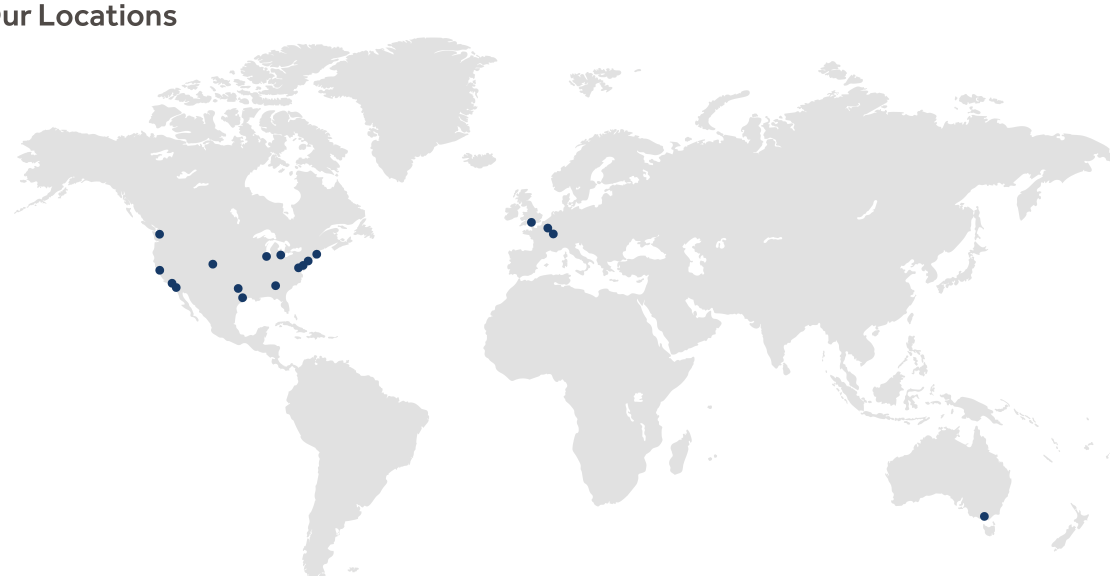
Our work spans value creation planning, commercial model transitions, strategic pricing, sales effectiveness, and commercial due diligence. Our Managing Directors combine top-tier strategy consulting and operating experience, and we're known for rolling up our sleeves, taking a pragmatic, hands-on approach, and focusing on the "how" of execution to drive measurable P&L impact.

Increasingly, we help clients leverage Commercial AI to accelerate growth. Through our Commercial AI Center of Excellence (CoE), we guide AI investments toward real business problems and commercial metrics – not just tools – to ensure tangible results.

Since 2002, we've partnered with over 130 top-tier PE firms and 1,500 companies worldwide to create lasting value across the investment lifecycle.

For further information please contact us at info@blueridgepartners.com or visit us at www.blueridgepartners.com.

Our Locations



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