A new formula for growth in software

A strategic playbook for products, margin expansion, and acquisitions for 2026 and beyond

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Pivoting to profitable growth

Software companies occupy ground zero of the AI revolution, and they are competing to win. However, everyone knows the pillars of value creation can't sit on yesterday's bedrock, and according to new KPMG LLP research, the tactics companies are using to build are evolving rapidly.

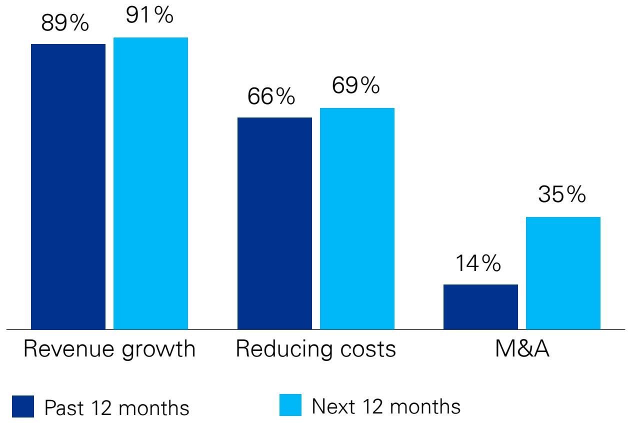
Where software companies could once drive growth by pulling well-worn levers such as contractual price increases and feature enhancements, today AI is redefining the very formula for value creation. The stakes are high: Costs are climbing, AI talent is scarce, and the speed of change leaves little room for error. This shift demands more than strategy tweaks. It calls for adding a new chapter to the growth playbook, where every decision on product, pricing, and mergers and acquisitions (M&A) is recalibrated for an AI-driven economy.

To secure an enduring advantage, software leaders must balance bold bets with disciplined execution. To understand the current thinking and upcoming plans prevalent in the industry, KPMG surveyed US executives at software companies (see "Survey Methodology" below). Taken as a whole, the findings reveal an industry as laser-focused on growth as ever. In fact, in the next 12 months, 91 percent of our survey respondents plan to prioritize revenue growth (Exhibit 1). Cost reduction is gaining slight momentum but clearly is of secondary importance, with 66 percent focusing on it as a top priority last year and 69 percent taking it into account in the coming year. In line with the strong growth orientation, appetite for M&A is also rising, from 14 percent to 35 percent.

We also learned that although the goals are familiar, the strategy to achieve them is changing. Software companies are pivoting to a profitable growth posture, using AI to unlock new monetization models and transform cost structures, and using M&A to acquire the building blocks of future value. Tomorrow's winners won't be those who simply deploy AI faster—they'll be the ones who master data supremacy, harness autonomous systems, and unlock AI-amplified network effects that compound advantage at scale. Now is the time for software executives to chart bold new trajectories, with value creation as the north star.

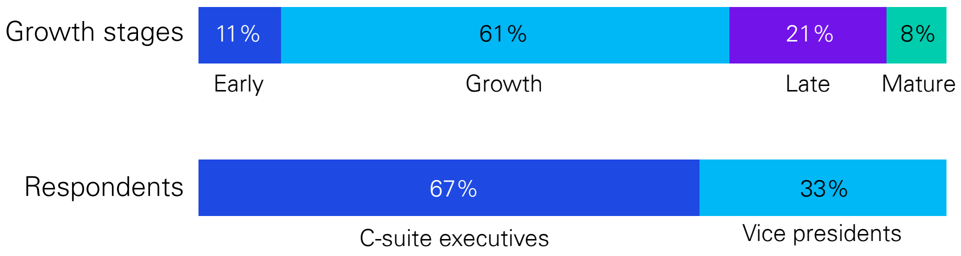
In this report, we discuss key findings from the survey, contextualize them with our own analysis and insights, and offer a value creation blueprint for the AI era to help software companies achieve and sustain profitable growth.

Exhibit 1. Amid an anticipated rise in dealmaking, software executives remain focused on growing revenue



Survey methodology

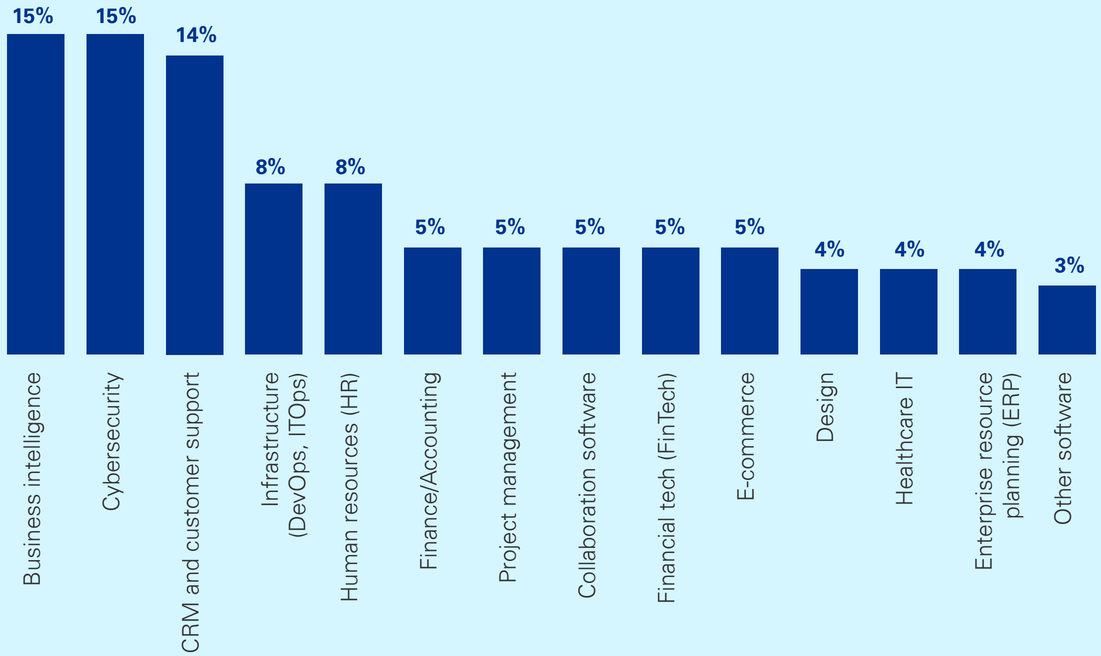
To understand how software executives think about strategic priorities, growth, cost management, M&A, and transformational approaches in the current market landscape, we surveyed 130 senior leaders at US software companies with annual revenues ranging from $300 million to $10 billion. The companies spanned four stages: early-stage focused on product development (11 percent), growth-stage driving market expansion (61 percent), late-stage prioritizing profitability (21 percent), and mature or reinventing firms centered on shareholder value (8 percent).



The survey respondents were comprised of C-suite executives (67 percent) and executive vice presidents/senior vice presidents/vice presidents (33 percent) representing the following software sub-sectors (Exhibit 2).

We assessed strategic priorities on a seven-point scale, categorized as high (6 and 7), moderate (3, 4, and 5), and low (1 and 2). Our analysis focused on the high segment.

Exhibit 2. Survey respondents by software type



AI is changing business models

Our survey found that software companies of all sizes and maturities are ramping up use of generative and agentic AI[1] to transform their business models. More than three in four companies are introducing new AI-driven features in core offerings, and more than half are generating new revenue streams through AI-powered data services or analytics (Exhibit 3). On the cost side, 49 percent are using AI to automate internal business processes, reflecting efforts to widen margins from both sides of the equation.

Exhibit 3. Most software companies are using AI to transform business models

Introducing new AI-driven features or functionality into core products	77%
Generating new revenue streams through AI-powered data services or analytics	55%
Automating internal business processes and operations	49%
Personalizing customer experiences and recommendations with AI	42%
Enhancing customer service and support through AI (e.g., chatbots, virtual assistants)	37%
Launching entirely new products or platforms built around AI	29%
Experimenting with AI-driven marketing and sales strategies	18%
Implementing predictive maintenance and operational optimization	15%
Moving from traditional software offerings to agent-based or autonomous solutions	12%
Making only incremental improvements to existing software (no major model change)	9%

Most common | Somewhat common | Uncommon

[1] See "The Agentic AI Advantage: Unlocking the next level of AI value," KPMG LLP, June 2025.

Market expansion and pricing optimization are leading priorities

In our client work, we see software companies exploring new markets across all industry segments, verticals, and geographies. This observation is reflected in our survey: The top growth strategy, for 32 percent of respondents, is market expansion (Exhibit 4).

We have also observed that AI is proving to be a powerful catalyst for growth, unlocking entirely new markets, products, and monetization models. Software companies want to establish dominance early to seize first-mover advantages, tackle competitive pressure, and meet investor expectations. By expanding into new markets, AI systems can gather more data and improve model performance. And, embedding AI tools in workflows can lead to long-term customer retention, upsell opportunities, and better 24/7 customer support without a large headcount.

Exhibit 4. Market expansion and pricing adjustments are top priorities for revenue growth

Entering new markets — 32%

- Market research and analysis to identify new opportunities
- Establishing a local presence
- Localization of products/services to meet specific market needs

Pricing and monetization strategy adjustments — 18%

- Implement discount programs to attract new customers
- Utilize packaging and bundling strategies
- Use premium positioning to justify higher prices

Expansion/retention with existing customers — 13%

- Product update and enhancement
- Add project features or functionality
- Improve the quality of customer support

Acquiring new logos — 13%

- Positioning for new customer segments
- Addressing large untapped geographic market for current offerings
- Targeting more profitable customers

Next to market expansion, pricing adjustments are emerging as an essential growth priority, with more than 4 in 10 respondents ranking them first or second in importance. Discount programs, including bundling and enterprise agreements, are a popular method these respondents use to attract new customers. However, new revenue models that combine SaaS, AI consumption, and outcome-based pricing are also top of mind for our clients. For example, in the design and productivity software market, only a minority of companies have chosen to move away from traditional seat-based to newer usage-based pricing models. Even fewer have transitioned to outcome-based ones. However, they need to pivot quickly—or risk losing to AI companies that launched with outcome-based pricing and skipped the old playbook entirely

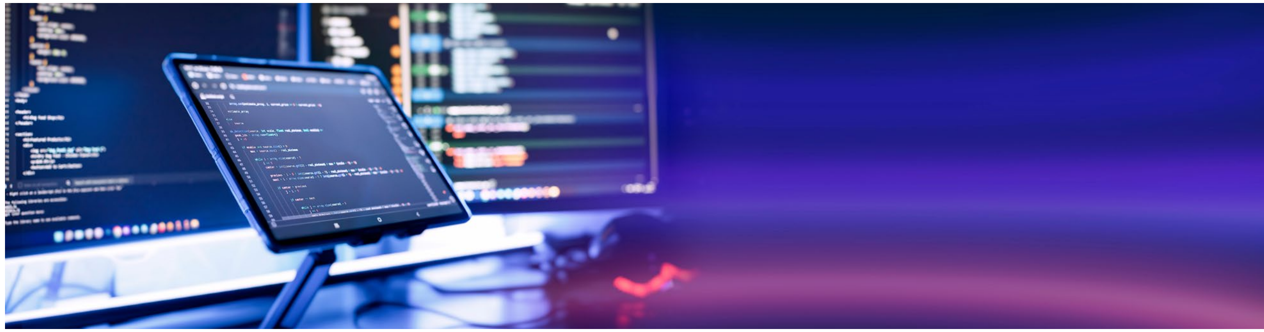
Pricing transformation powers growth

A major technology firm faced challenges with its software pricing as it tried to ramp into the high-demand government sector. Its complex organizational structure and multiple services led to inconsistency in what was presented to customers, causing delays and mixed sales outcomes. The pricing was determined internally based on "cost recovery" and without sufficient input from customers and partners. This led to misaligned expectations between the firm and customers as well as within its teams (i.e., corporate, product, sales, and finance).

KPMG worked with the company to develop a new pricing framework, bridging past pricing methods with the option to embed outcome-based elements. Our approach focused on complying with government purchase regulations across various regions while ensuring cost recovery. The strategy was validated through market research and received approval from both customers and partners. Importantly, it was also endorsed by various internal stakeholders.

As a result, the company achieved an initial annual revenue increase of $50 million in a single pilot market. The momentum was driven by three core services adopting the new framework, with plans to expand it to other services. This pricing transformation successfully positioned the company's software portfolio for rapid and continued growth.

AI is driving margin expansion

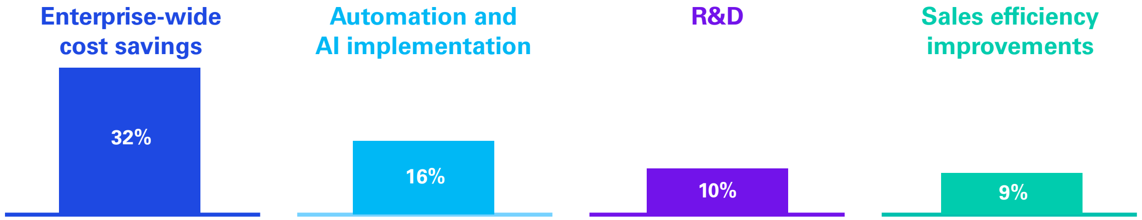


Even as software companies intensify growth initiatives, managing upward pressure on cost is also a priority. Most are planning cost reductions of 6 to 10 percent, but nearly one in three are targeting larger reductions of 11 to 15 percent. Many companies are not limiting reductions to specific functions but are instead looking across the organization: 32 percent of respondents are planning enterprise-wide cuts, deploying a mix of initiatives such as digital transformation, process standardization, and cross-functional collaboration (Exhibit 5).

Cost takeout is important, but implementing any AI-focused strategies to achieve that can be challenging. Rank-and-file employees as well as managers are expected to resist change because of low technology awareness, a lack of understanding of the benefits of technology, and a bias toward the status quo.[2] For now, only one-quarter of survey respondents pursuing automation cited labor as a cost-reduction target. However, this may change, as many software companies are moving fast to lean more heavily into AI tools for tasks traditionally done by humans. For example, Alphabet makes extensive use of its generative AI tool, Gemini, for internal coding needs, and Airbnb rolled out an AI customer service agent in April 2025.[3]

Ultimately, our clients say they are looking to make step-change improvements in productivity and optimize costs through a mix of AI/AI agentic capabilities. They are also leaning on traditional cost-out efforts, such as using technology to support flatter sales structures and merged teams (e.g., combining renewals with customer success).

Exhibit 5. Software leaders are aiming for cost savings across the organization



Most common levers

Enterprise-wide cost savings:
- Digital transformation initiatives
- Standardization of procedures
- Cross-functional team collaboration

Automation and AI implementation:
- Improve process efficiency
- Automate repetitive tasks
- Minimize human error

R&D:
- Automation for repeatable tasks
- Outsource non-core activities
- Opex/capital allocation
- Software development lifecycle productivity (e.g., with AI)

Sales efficiency improvements:
- GTM (go-to-market) operating model
- Optimize sales processes
- Leverage CRM (customer relationship management) systems

[2] Alena Valtonen and Mira Holopainen, "Mitigating employee resistance and achieving well-being in digital transformation," Information Technology & People, Volume 38, Issue 8, May 20, 2025, pp. 42–72.

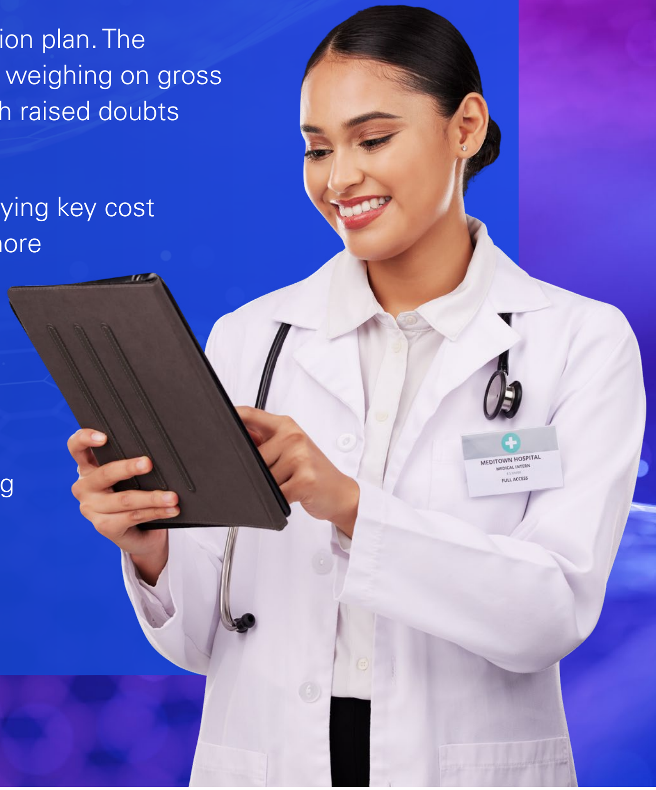
[3] Craig Hale, "Alphabet CEO says more than a quarter of new code at Google is AI-generated," TechRadar, October 30, 2024; Ivan Mehta, "Airbnb is quietly rolling out an AI customer service bot in the US, "TechCrunch, May 2, 2025

Profitability enhancement at a healthcare software firm

A private equity firm recently acquired a US healthcare software provider and launched a major cost-reduction plan. The software company needed to identify and address the products, customers, and cost categories that were weighing on gross margin. But complicating this effort was the unreliability of their existing cost allocation methodology, which raised doubts about the accuracy of their financial assessments.

In collaboration with the client and using AI, KPMG developed a bottom-up cost allocation approach, identifying key cost categories that required precise allocation to improve financial clarity. We processed, refined, and loaded more than 10 operational and financial databases to assign costs to products and customers based on actual usage. Furthermore, KPMG conducted a detailed profitability analysis for each product and customer, revealing trends within different client segments and insights into margin dynamics across various cost pools. In the process, we also uncovered underperforming client types, highlighting potential areas for improvement in profitability.

Our team identified tens of millions of dollars of potential value by improving the margin of underperforming customers, shedding light on key products contributing to margin erosion, and pinpointing cost categories that were most burdensome. As a result, the client was better positioned to take actionable steps to significantly reduce costs as mandated by its new ownership.



M&A is a strategic accelerator

M&A in the US has been sluggish in recent months amid persistently high interest rates and uncertain tariff policy. However, sentiment for dealmaking may be changing. Our survey found the appetite for M&A has more than doubled since last year, rising from 14 percent to 35 percent (see Exhibit 1). And, in a separate KPMG midyear pulse survey of 303 US dealmakers across industries, three-quarters said they expected more M&A activity for the remainder of 2025, driven by relaxed antitrust scrutiny and more favorable corporate tax policies.[4]

For software companies, M&A is emerging as a critical strategy because it can offer the fastest way to reconfigure around an AI-driven value formula. M&A is no longer about buying revenue—it's about gaining access to innovative technologies and new customers (Exhibit 6).

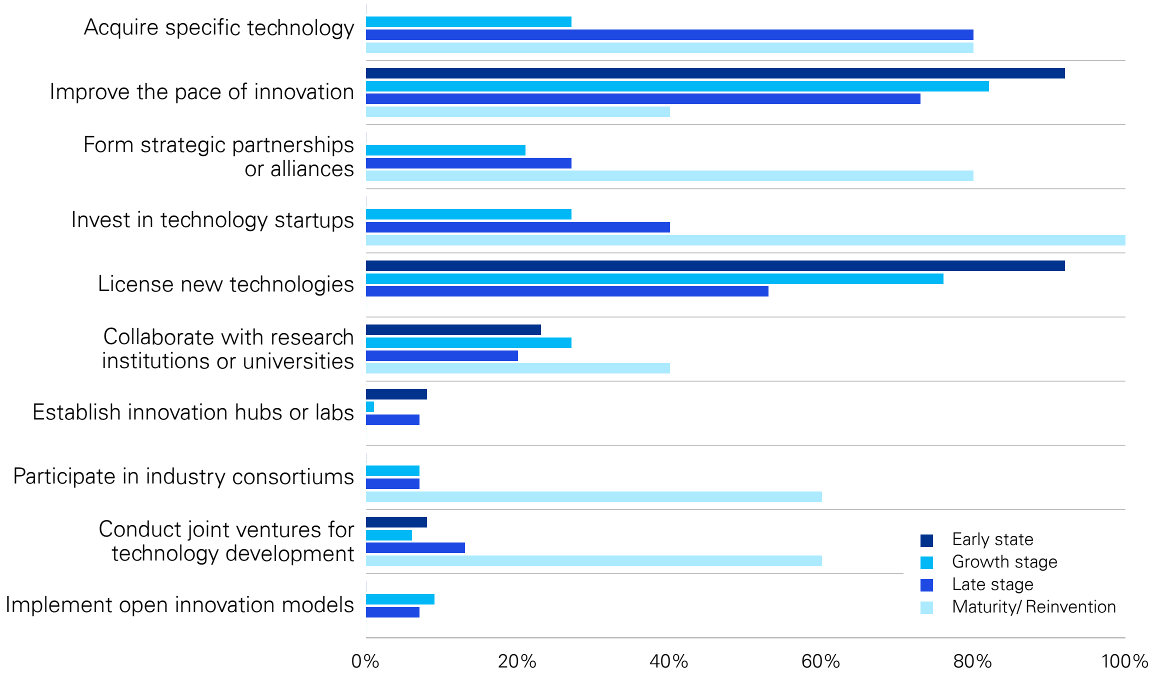
Exhibit 6. The No. 1 motivation for M&A is to access new technologies

Number of respondents (all)	Weighted average	Rank 1	Rank 2	Rank 3
Access to new technologies/innovation	34%	52%	15%	15%
Roll-up strategy to acquire similar businesses	10%	10%	11%	7%
Access to new customers/segments	23%	15%	34%	30%
Expansion of product portfolio	11%	7%	11%	20%
Improve talent	4%	2%	4%	7%
Cost savings/efficiency gains	19%	14%	25%	23%

[4] "M&A Dealmaker Optimism Remains Amid Economic Uncertainty," KPMG LLP, July 2025

A deeper look at the pursuit of innovation, however, shows differences in risk appetites. Our survey found that newer companies are more likely to license new technologies (Exhibit 7). Mature companies, on the other hand, are more likely to invest in technology start-ups and form strategic partnerships. Placing bets on early-stage companies allows investors and acquirers to gain better visibility into underlying innovations and the rapidly shifting market landscape.

Exhibit 7. M&A strategies differ depending on company maturity



A value creation blueprint for the AI era

The software industry has always been future-centric. But as AI reshapes the landscape, software leaders face even more pressure to create value at breakneck speed. To achieve sustainable success in the AI era, software companies will need to implement a new value creation blueprint.

1

Double down on AI-enabled revenue models

Growth-minded peers are doubling down on revenue generation. Powered by AI, they are expanding into new markets, deepening customer relationships, and innovating aggressively. Use data-driven AI insights to identify untapped customer segments and geographies where your solutions can solve real problems. For existing customers, the path to retention and expansion lies in evolving your product portfolio by adding features that matter, solving new pain points, and delivering continuous value.

Priority actions:

Set up for scale and sustainable value:
This is the foundation for using AI for growth. Put an AI operating model in place for agentic AI, with a prioritized portfolio of agents tied to value; clear governance for trust, data, and tech; an AI-first workforce strategy; and ecosystem partners that can deliver or support agentic capabilities.

Identify new customer segments:
Use data to uncover underserved markets and tailor offerings to their needs. Deploy AI as a catalyst for new monetization and to drive stickiness.

Fortify core markets:
Analyze competitive threats and shore up defenses where your position is vulnerable.

Customization at scale:
AI models can analyze demand, competitor pricing, and customer behavior to optimize prices in real time. Use AI-driven recommendation engines to tailor offers and content to individual customers, increasing conversion rates.

Put predictive analytics in place for sales and retention:
AI can rank opportunities based on likelihood to convert, helping sales teams focus on high-value prospects. AI can also support higher retention rates by helping to identify and reach out to existing customers who may be at risk of churn.

2 Update your cost-out program with AI

In a landscape where traditional cost cutting alone no longer moves the needle, the new mandate is to combine AI-driven insights with classic cost-out levers—not sequentially, but simultaneously. This dual-track strategy creates a self-reinforcing loop: AI tools surface inefficiencies and automation opportunities, while traditional levers such as vendor-spend containment amplify the impact. The result is not only savings, but also smarter operations.

Priority actions:

Pair AI with traditional levers:
Use automation and traditional spend containment together for compounding impact.

Deploy visibility tools:
Do deep work to understand where and how automation can deliver the greatest ROI.

Target high-friction processes:
Focus on manual, repetitive tasks that slow down delivery and inflate costs.

Rationalize third-party spend:
Review vendor contracts and usage to eliminate waste and renegotiate terms.

Reimagine work:
Redesign roles and processes with agents and humans in the loop, allowing employees to focus on higher-value strategic and creative tasks. Invest in continuous and tailored upskilling to equip employees with the necessary skills and a new mindset.

3 Use M&A to acquire AI technology and enhance your portfolio

Software leaders must not only treat M&A as a growth lever but also as a tool to gain control of key technologies, fill product gaps, and strengthen customer relationships. Owning more of the talent and tech stack enables faster innovation and better integration across the portfolio. It also reduces vendor dependencies and unlocks tighter cost control. The goal is not just to grow—it's to grow smarter, with a suite that delivers more value to customers and more leverage to the business.

Priority actions:

Target strategic talent and technologies:
Own key components of your tech stack to reduce reliance on external vendors.

Use M&A to fill portfolio gaps:
Acquire capabilities that round out your offerings and deepen customer engagement.

Strengthen competitive positioning:
Build a more complete and integrated portfolio so your value proposition harder to beat.

How KPMG can help

KPMG is well positioned to fundamentally and sustainably improve the financial trajectory of your software business through a balanced focus on grown and cost, in the following ways:

- Addresses the core business elements important to software companies—growth, cost, capital and reinvention
- Focuses on the one or two most impactful initiative areas from each business element
- All driven from your value creation strategy and supported by operating model transition, culture transformation, value tracking, program management, and governance

Value creation and strategy

Growth	Cost	Capital	Reinvention
Customer and user experience	Workforce optimization	Capex and capital allocation	New markets, segments, geographies, and channels
Offer and channel effectiveness	Third-party spend	Cash forecasting	Business models and alliances
Sales and channel effectiveness	Process re-engineering and automation	Working capital	Enterprise-wide operating model transformation wtih AI
Customer success and retention optimization	Customer profitability management	Software development lifecycle	Talent strategy
Pricing and packaging	Fit-for-cost R&D organization	Product/feature portfolio	Customer profitability management

Operating model and culture

Value tracking, management, and governance

Agentic AI and data platforms

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Anuj is a results-driven executive combining business savvy and strategic insight with technical proficiency. He has 30 years of transformation, complex M&A, and business consulting experience in US and international markets. He is the National US Deal Advisory & Strategy Sector leader for TMT and the global lead partner on two priority Fortune 250 clients. Anuj is characterized as a leader with high integrity and excellent strategic and tactical experience, who performs well in all environments. He works smart, communicates well, makes tough decisions, and builds quality teams to help scale operations that consistently achieve growth and profitability.

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Based in Boston, Phil specializes in business and operational strategy formulation for software/SaaS providers, electronic equipment companies, and technology service providers. Phil has more than two decades of experience working with marquee technology, media, and telecom clients. Clients have acknowledged Phil for his strategic insights and his remarkable ability to connect strategy to execution. They value the versatility and experience Phil brings across a multitude of business issues, such as innovation, business and operating model transformation, profitability improvement, customer experience innovation, and go-to-market effectiveness. Recently, Phil developed a strong interest in understanding and guiding how high-tech companies transition from traditional product-based business and operating models to service-based (e.g., value-added services) and consumption-driven models (e.g., XaaS).

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Tucker is a core member of the KPMG Corporate Strategy practice, delivering change for enterprises in the TMT sector. He advises CFOs and other top team leaders on the commercial changes, operational improvements, and inorganic opportunities needed to address the growth and operating model challenges facing their businesses. At KPMG, Tucker has focused his work on disciplines driving the transformation of software, including business model transformation, commercial acceleration, professional services strategy, retention programs, cost programs, and more. Before joining KPMG, Tucker worked in corporate strategy and corporate development for a large technology company, where he was responsible for investment evaluation, business planning, and decision support.

We would like to thank our contributors:

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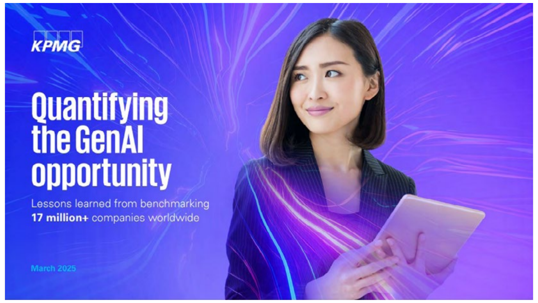
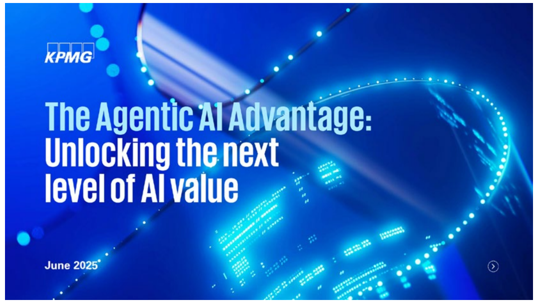
Related thought leadership

AI governance for the agentic AI era



Quantifying the GenAI opportunity



The agentic AI advantage: Unlocking the next level of AI value

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