



This Software Company Looks Like the Next Microsoft (NASDAQ:MSFT)

Description

Microsoft ([NASDAQ:MSFT](#)) is the king of software. It's one of the only companies in the world with a \$1 trillion valuation. From 1986 to 1999, the company's stock rose in value by an incredible 582,000%. A \$10,000 investment would have been worth \$5.8 million.

Microsoft's rise wasn't merely due to the late-90s tech bubble either. Over the last 10 years, Microsoft shares have increased in value by 400%. That's *10 times* the return of the **S&P/TSX Composite Index**. If you want to find [monster stocks](#), look for companies that are emulating Microsoft's strategy. But what exactly is its strategy?

More than any other company in history, Microsoft is a result of successful platforming. The term comes from analyzing physical infrastructure. You can build huge and complex things on top of platforms, but if you take away the platform, everything that was built on top of it can no longer exist. Technological platforming, which Microsoft helped pioneer, works in the same way. You can build great things on top of the technology, but take away the underlying platform, and everything is rendered useless.

You've likely heard of Microsoft's hyper-successful platform: Windows. On November 20, 1985, the company released its Windows operating system to the world. Over the next few decades, developers built countless of applications and capabilities that were built on top of Windows. Everything from Microsoft Word and Internet Explorer to gaming applications and chat services *required* Windows to work. Without Windows, the code would have no value.

As you can imagine, building a successful platform is incredibly sticky. Even if customers want to leave, they find it incredibly difficult to do so. Switching operating systems means that all of your tools and applications will no longer work. Especially for businesses, that's a deal breaker. It's the stickiness of Microsoft's Windows platform that has helped it maintain an 88% global market share to this day. Despite the rise of **Apple's** Mac OS and Google's Chrome OS, Microsoft still runs the game. That's solely thanks to its platform status.

With this model in mind, it's clear that **Constellation Software** ([TSX:CSU](#)) is well on its way to

becoming the next Microsoft.

This is sticky

Constellation Software hasn't followed Microsoft's strategy perfectly, but it's mastered the art of creating sticky software. Founded in 1995, the company creates and acquires niche software products used to aid customers with automation. While Windows was broad and utilitarian, Constellation's software is hyper-specific. Often, the programs aren't of any use outside a certain company or industry. While this sounds like a disadvantage, it's the root of Constellation's success.

Since 2006, Constellation stock has increased by a whopping 4,000%. How was this possible? As mentioned, Constellation's software targets niche companies and industries. But it takes it even further than that. The company focuses on automating *mission-critical* processes for its customers. You may be starting to see how valuable this position is. Once a customer is using a Constellation product to automate a mission-critical process, there are often *zero* alternatives. It is, after all, a hyper-niche product. But even if there were alternatives, it's usually not worth the cost or risk to switch.

Herein lies Constellation's true secret sauce. Instead of building a platform for the masses, it's building dozens of platforms for the few. Yet the economics are the same. Due to their platform status — no one wants to risk destroying what's built on top of Constellation's software — the company's products enjoy high-profit margins and incredible customer retention. For decades, the company has been using this proven strategy to grow rapidly. Due to the rise of automation, it likely has several decades of success ahead of it.

CATEGORY

1. Investing
2. Tech Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NASDAQ:MSFT (Microsoft Corporation)
2. TSX:CSU (Constellation Software Inc.)

PARTNER-FEEDS

1. Business Insider
2. Msn
3. Newscred
4. Sharewise
5. Yahoo CA

Category

1. Investing

2. Tech Stocks

Tags

1. Editor's Choice

Date

2025/06/29

Date Created

2019/10/03

Author

rvanzo

default watermark

default watermark