

# Palo Alto Networks: Sequencing Platform Adoption

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**Topic:** Platform Strategy, Customer Strategy, Growth Strategy

**Industry:** Systems Software

**Source:** Strategy & Finance

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**Decision date and information cutoff:** March 1, 2024

**Decision scope:** How to sequence customer migrations under the accelerated platformization strategy

**Case convention:** This is a hypothetical implementation exercise. Public company disclosures are historical; no private deliberations are represented.

## The decision

On March 1, 2024, Palo Alto Networks (PANW) has recently announced an accelerated platformization and consolidation strategy. The company has described three platforms—Network Security, Cloud Security and Security Operations—and says customers can consolidate products across them. Yet management also describes product-replacement work, overlapping legacy contracts and implementation complexity as barriers to migration.

A hypothetical cross-functional implementation team must recommend how to sequence customer adoption: accelerate broad migration offers and incentives; target offers to accounts with clearer contract timing and technical readiness; or stage adoption with explicit deployment, use and renewal guardrails. The decision concerns implementation of the announced strategy, not whether PANW announced it. Public information does not establish an approved resource pool or which sequence maximizes value.

## What platform consolidation means

PANW describes Network Security as including firewalls and SASE, Cloud Security as including Prisma Cloud, and Security Operations as including Cortex. In fiscal 2023, the company reported revenue of \$6.893 billion, of which \$5.314 billion, or 77.1%, came from subscription and support. Those contracts typically ran one to five years, and revenue was recognized over the service period. The company warns that customers have no contractual obligation to renew, and that satisfaction, uptime, outages, price and customer spending can affect renewals. Enterprise deployments may be complex and lengthy. [P1]

Management described customer concerns about replacing multiple products at once and paying for overlapping legacy contracts while new PANW products are deployed. The company cited offers that can include trade-ins, introductory periods without technology payments, add-ons and incentives. These are examples management described, not uniform terms for all accounts. [P3]

Management said a typical platform transaction might include a period when customers make no technology payments to PANW. It expected this transition to affect billings and revenue growth for 12-18 months before full billing and revenue contribution. This is a company

expectation for a typical transaction, not an outcome already observed or a condition of every contract. Billings, recognized revenue, deployment and active use are different stages. [P3]

## Growth and measurement

For the quarter ended January 31, 2024, PANW reported revenue of \$1.975 billion, up 19%, and remaining performance obligations (RPO) of \$10.8 billion, up 22%. RPO is a contracted backlog measure, not recognized revenue in the quarter. The company guided to fiscal 2024 billings of \$10.10-\$10.20 billion, or growth of 10%-11%, and revenue of \$7.95-\$8.00 billion, or growth of 15%-16%. Billings is company-defined as revenue plus the change in deferred revenue, net of acquired deferred revenue. [P1] [P2]

PANW reported GAAP net income of \$1.747 billion for Q2, including a \$1.5 billion tax benefit from releasing a valuation allowance. The figure is therefore not a clean measure of operating performance. The company's financial statements also distinguish product revenue from subscription and support revenue. [P2]

Management said 79% of Global 2000 customers had "transacted" with PANW on at least two platforms and 57% on all three, compared with 73% and 47% two years earlier. It also claimed that average lifetime value of two-platform accounts was more than five times that of one-platform accounts and three-platform accounts more than 40 times. The transcript does not disclose cohort construction, time horizon or causal adjustment. "Transacted" does not establish active deployment, sustained use or improved security. [P3]

## Evidence at a glance

| Evidence available at cutoff                                                                               | What it establishes                                                       | What remains unknown                                                                                      |
|------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Subscription and support was 77.1% of FY2023 revenue; contracts typically one to five years. [P1]          | Revenue depends substantially on recurring contracts and service periods. | Renewal, migration, usage and value by cohort or platform.                                                |
| Q2 revenue \$1.975bn (+19%) and RPO \$10.8bn (+22%). [P2]                                                  | Company-reported current revenue and contracted backlog.                  | Whether accelerated consolidation caused either result or how much RPO becomes revenue when.              |
| Management cited replacement and "double paying" friction and described transition offers. [P3]            | A company-described customer obstacle and commercial responses.           | How common each objection is; actual offer terms and account outcomes.                                    |
| Management expects a 12-18 month transition effect on billings and revenue for a typical transaction. [P3] | A forecast about timing while programs ramp.                              | Contract-by-contract payments, lifetime economics, cash cost, margin or later retention.                  |
| Reported multi-platform transactions and lifetime-value comparisons. [P3]                                  | Management-reported adoption and cohort comparisons.                      | Whether customers actively use products, cohort definitions, causal impact or customer security outcomes. |

## The choice

Which account sequence should PANW use for platform consolidation? Consider account readiness, contract timing, deployment capacity, migration completion, active capability use, customer experience and renewal. Specify what would trigger broader offers, a pause or a different migration path, and address the strongest counterargument. Do not treat a signed or transacted account as proof of deployment or customer value, and do not assume a fixed budget or return.

## Sources and conventions

All information is limited to public material available by March 1, 2024. PANW's Q2 release and earnings call were dated February 20, 2024. Company statements about customer friction, platform adoption, lifetime value, offers and future financial timing are attributed. Billings, revenue, RPO, transaction, deployment, use and renewal are distinct concepts. No post-cutoff outcomes are included.

- **P1:** PANW FY2023 Form 10-K; Item 1 pp. 3-8; Item 1A pp. 17-19; Item 7 pp. 39-44.
- **P2:** PANW FY2024 Q2 results release, Feb. 20, 2024, lines 11-37 and 71-107.
- **P3:** PANW Q2 FY2024 earnings-call corrected transcript, Feb. 20, 2024; printed pp. 3-4 and 6-8.
- **A1:** Arce (2020), "Cybersecurity and Platform Competition in the Cloud," *Computers & Security* 93, article 101774.
- **A2:** Martins, Oliveira and Thomas (2016), SaaS firm diffusion study; dossier directly read the authors' dissertation chapter version.