

Okta Inc.

Competition Weighs on Pipeline

Intensified competition from Microsoft has hurt Okta's FY1Q23 win rates and pipelines for the next three months, and reputational damage from the Lapsus\$ breach has dampened partners' CY2022 growth expectations.

- OKTA's FY1Q23 sales at least in line with expectations for 13 of 15 channel partners (vs. 12 of 17 in FY4Q22); ambitious February pipeline expectations failed to materialize into closed deals
- Pipelines for next 3 months better than expectations for just 2 of 15 partners (deterioration vs. 8 of 17 in February); 5 of 15 lowered CY2022 outlook vs. February estimates
- OKTA's FY1Q23 win rates deteriorating qq for 6 of 15 partners (vs. 4 of 17 in FY4Q22); frequency of competitive deals increasing vs. 6 months ago for 6 of 15; MSFT threat continues to intensify
- Area to Watch: Auth0 capturing customer interest, but ambiguity around Auth0 integration with OKTA's CIAM remains concern

KEY DATA

Okta's Sales and Pipelines vs. Goals

(number of partners)

	SALES		PIPELINES FOR NEXT 3 MONTHS	
	FY4Q22	FY1Q23	FEB	APR
Exceeded	5	4	8	2
Met	7	9	6	9
Fell below	5	2	3	4
OTR Comparative Index	0	13	29	-13

Note: The OTR Comparative Index is a quantitative representation of qualitative responses. The Index is calculated by subtracting the "worse" from the "better" responses, dividing by the total responses and multiplying by 100. An Index below zero indicates a negative trend; above zero indicates a positive trend.

"I see Microsoft winning more and more deals. ... Microsoft is competing very well, and the Lapsus\$ breach will likely be unhelpful for Okta this year."

North American Okta partner

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SOURCES & BACKGROUND

15 Okta distributors, resellers, system integrators and managed service providers in North America (11) and Europe (4), representing more than \$67 million in Okta partner-related revenue

REPEAT SOURCES 9 (6 in North America and 3 in Europe) from OTR Global's February report

INTERVIEWS April 11–22

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FY1Q23 Sales Meeting Plan

Although 13 of 15 **Okta Inc.** channel partners have at least met plan during FY1Q23 (February–April), many of the deals anticipated in the pipeline have failed to materialize into closed deals, including among repeat sources. Partners cited market saturation, competition from **Microsoft Corp.** and the hit of the Lapsus\$ breach to Okta’s reputation as limiting factors.

Sales met expectations for a similar proportion of North American partners during FY1Q23 as in FY4Q22, while three of four European partners’ sales have at least met expectations, a slight improvement compared with two of four in FY4Q22. A European partner said, “Last year was a little bit quiet, with Okta focusing on a different market section — larger companies. This year, Okta is looking more into the midmarket.”

Breach Impact: The Lapsus\$ breach, which Okta said affected two customer tenants for 25 consecutive minutes, led to some reputational damage among channel partners and customers. Most partners said the breach has not affected, and is not expected to affect, their Okta business, consistent with OTR Global’s [March 30](#) Okta Breach note; however, four partners said it could affect both short- and long-term deal closures, two of whom were already unhappy with their channel relationships. Partners said there was more concern about how Okta handled the breach, rather than about the breach itself. One said, “If Okta had been transparent and gotten ahead of the news, they could have had a good story to tell. Their solutions were unaffected, and it’s understood that nobody is immune from breaches. But they sat on the news, they weren’t transparent — that’s why their credibility was hurt.”

Two partners said current Okta customers have sought alternative solutions because of the attack. A North American partner said, “We were not impacted by the Lapsus\$ breach because it was not a major breach and we managed it by taking a flood of help desk calls. However, it does motivate us to look for alternatives. If there was a young entrepreneur building a better mousetrap, we may look at it.” Another North American partner said, “It’s hard to imagine [the Lapsus\$ breach] won’t hurt Okta, but it’ll take time to manifest. Nobody’s going to pull Okta overnight because of this. That’s too hard once a company’s already committed to an identity solution, and sales cycles are long, so it’s unlikely to be interrupted impulsively. But going forward, trying to win new deals, this whole unseemly episode is baggage Okta doesn’t want. Customers are asking about it, and I’m sure will continue.”

Product Demand: Multi-factor authentication (MFA) and single sign-on (SSO) remain top products in demand, in line with OTR Global’s February findings. A North American partner said, “Okta is the leader, the industry standard in the commercial space for SSO and MFA, and they’re growing with CIAM [Customer Identity and Access Management]. All of the leading identity players have their niche, and these are the areas where Okta is strong.”

Four partners said customers have purchased lifecycle management during FY1Q23, compared with two in FY4Q22. A North American partner said, “We have seen an uptick in their Lifecycle product. We do a lot of integration with **ServiceNow [Inc.]**, and there has been a lot of activity in that space.”

Discounting: Two of 14 partners said the frequency of discounting has increased compared with six months ago. A North American partner said, “The majority of customers are on a three-year contract, so prices are locked in. For net new, prices have gone down. At a minimum, pricing is 15% lower from Okta compared to Okta two to three years back. A lot [of the price decrease] is a reflection of Microsoft bundling into an enterprise license.”

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Renewals: Eight of nine partners said customers have increased their Okta contract amounts at renewal during FY1Q23, compared with all 11 who commented in FY4Q22. A North American partner said, “A lot of them have contractual increases in their deals. Customers will sign a deal and they get locked in pricing, but they have to grow by 7% annually for the next three years. Contractual increases account for 80% to 90% of the renewal increases.”

New Customer Adds: Thirteen of 15 partners’ new customer additions during FY1Q23 have at least met expectations, a slight improvement compared with 10 of 13 partners in FY4Q22. A U.K. partner said, “New Okta customer adds is slow and steady for us, but we are definitely seeing them.”

Pipelines Worsen, CY2022 Growth Limited

Only two of 15 partners said their pipelines for the next three months are better than their expectations, while nine said they are in line and four said they are worse, a deterioration compared with OTR Global’s February report, when pipelines were better for eight of 17, in line for six and worse for three. Partners said Microsoft competition and the breach stunted momentum. A North American partner said, “I can’t say it’s only for Okta, but rather anything with front-end authentication is being scrutinized more than before. That has reflected in some of the increase in duration of sales cycles and things like that. The scrutiny is higher.” Another North American partner said, “I see Microsoft winning more and more deals. . . . Microsoft is competing very well, and the Lapsus\$ breach will likely be unhelpful for Okta this year.”

CY2022 Expectations: Twelve of 14 partners expect their CY2022 sales to grow yy. However, five of 15 partners lowered their estimates compared with three months ago, in contrast to improved CY2022 outlooks for security vendor peers **Check Point Software Technologies Ltd.** and **Fortinet Inc.** (see OTR Global’s [April 8](#) Check Point and [April 18](#) Fortinet reports). A North American partner said, “We are forecasting it to increase, which is why I’m a little bit disappointed in my immediate-term forecast. The good part about Okta deals is they close a little faster than some of the other stuff. There’s still time to get caught up.” Another North American partner said, “The [Lapsus\$] breach does have something to do with our calendar-year expectations of Okta being down.”

Wins Diminishing, Competition Increasing

Six of 15 channel partners said win rates during FY1Q23 have deteriorated qq, compared with four of 17 in February. A North American partner said, “The volume of deals increased but win rates decreased. Customers are looking at some alternatives because of Auth0 [confusion]. If they want to buy Auth0, they don’t know which one [Okta’s Customer Identity or Auth0] will remain or go. They’d rather take an approach to wait. So, some of them might go to Microsoft if it’s just authentication. If it’s a large CIAM, then **Ping [Identity Holding Corp.]**, **ForgeRock [Inc.]** and even a little Microsoft.” Another North American partner said, “If [a customer is] looking at MFA there’s [Cisco Systems Inc.’s] Duo Security and every vendor has MFA, but for the full works it’s Okta and Microsoft. That’s all they look at.”

Six of 15 channel partners said the frequency of competitive deals has increased compared with six months ago (compared with four of 15 in February). A North American partner said, “Okta is already facing stiff competition from Microsoft, and now there’s the Lapsus\$ story, which is damaging to their credibility. For some customers, especially if they’re already in the Azure cloud, that may be reason enough to rethink the necessity of a third-party vendor, or look at other vendors

Pipelines for Next 3 Months vs. Forecasts

(number of partners)

	FEB	APR
Better	8	2
Same	6	9
Worse	3	4
OTR Comparative Index	29	-13

Win Rates QQ

(number of partners)

	FY4Q22	FY1Q23
Improved	4	1
Same	9	8
Deteriorated	4	6
OTR Comparative Index	0	-33

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in a new light.” Another North American partner said, “Competitive deals have increased with the Lapsus\$ attack, but Okta has the best solution set.”

Six of 15 partners said competition from Microsoft has increased compared with six months ago. A North American partner said, “Okta is facing real competition from Microsoft. I’m seeing Microsoft get more wins lately. Their identity solution has come a long way in the last year, and continues to improve, and they’re competing well these days. Okta is doing fine, but Microsoft has momentum.” Another North American partner said, “Competition from Microsoft has increased quite a bit. Microsoft is providing the base functionality of Okta for free in their Azure stack. Microsoft wasn’t that good previously, but they’ve increased their feature stack and it’s a really big improvement from the past.”

CIAM Strategy Unclear to Partners

Partners reported customer interest in the Auth0 CIAM because of its advantages, such as customizability. However, some experienced inconsistent and vague messaging from Okta regarding CIAM. A North American partner said, “I don’t think Okta and Auth0 has a defined strategy. We do see [Auth0] contracts coming from Okta now. It’s not the best from the customer side of things. Auth0 was more flexible versus Okta.” Another North American partner said, “We’re seeing interest in Okta’s customer-facing solutions, especially B2B CIAM. Auth0 was a smart acquisition. But it’s a crowded, competitive space.” A U.K. partner who expects the acquisition to benefit long-term sales, said, “There’s definitely been a big push on the passwordless product and also lifecycle management as people are increasingly trying to provision new users remotely. I’ve got a couple of large opportunities that we wouldn’t have been able to get involved in otherwise without the Auth0 acquisition.”

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NORTH AMERICA

“My expectations are pretty low right now. There’s nothing new with Okta. I’m not expecting any new Okta business, but I’m expecting growth in the third and fourth quarters.”

“We will ultimately see [Okta sales] increase [yy]. Organically, it would make sense because of the heavy dependency on the remote operation and the cloud access. Everybody is settling back into the post-pandemic [world], and they’re going to start budgeting for the next solutions for protecting themselves. That might be something we’ll start to see in Q3.”

“The first few months of the year is a dull part of the year for net new sales. It’s normal; most companies are getting budgets in, and that happened this year, as well. Based on project utilization, I don’t anticipate [FY1Q23 sales] to be higher [yy]. It’s flat [yy]. And that’s what is expected.”

“We do quite a bit of business with Okta, including a few large accounts. Business has been good with them; it’s growing.”

“Okta will be successful despite themselves because of the growth of IAM. That’s part of the problem. When an organization believes its success is because of innovation, but it’s not. It’s instead the natural expansion of the market and someone is forced to buy despite their business practices, you know they’re going to have their comeuppance at some point.”

“Saviynt [Inc.], SailPoint [Technologies Holdings Inc.], ForgeRock and Ping lose pretty often to Okta. Ping is getting ripped out of a lot of places.”

“Win rates are going down. Clients are more open to other solutions because of what happened with the breach.”

“The number of wins Okta enjoys has come down, but the volume [of deals] has increased. The net revenue might be the same but how it is realized is different.”

“If [customers] don’t trust Okta’s response [to the breach], they might look for other options which would be Duo for multi-factor authentication and SailPoint for identity [governance].”

“Our [FY2Q23] pipeline is little bit worse than my expectations but I’m definitely seeing more interest in mobile device management, like [Microsoft] Intune. When they start putting investment into that, they start to want to consider Microsoft single sign-on, which is starting to get some traction.”

“This magical triangle of technologies is privileged access management, web access management and identity governance administration. Okta is the best-of-breed in the web access management space. They’re trying to get into PAM and IGA but they don’t do enough of the ‘stuff’ according to the PAM and IGA definitions.”

“Current spending levels by customers are not at the right level to address the benefits that IT could provide in the operations of companies. Customers try to get by on a shoestring budget. When they start to spend, they hold back. Everybody is always trying to spend less. People want to do the [Alphabet Inc.] Google approach, where they don’t want to have to do a lot of added stacks of security.”

“Microsoft is winning more often [yy]. They’re aggressive and they offer an integrated security package that has matured steadily, even since just last year.”

“There’s potential for competition with CyberArk [Software Ltd.] and SailPoint. I don’t see that yet.”

“Competitors are opting to not grab a bullhorn and smear [the breach] in Okta’s face because it wasn’t a product deficiency, it was a process deficiency — they’re nervous if they jump on that mountain and start spouting ... it could happen to themselves.”

“The last few quarters our growth rates grew, but then it leveled. We do have some deals we’ve been working since the security incident. We still think they will happen, but there are a lot of [customer] questions. You have to explain what the breach was and it wasn’t really Okta but their support partners, but it added [the need for more] communication. We don’t think there will be deals lost. Customers weren’t impacted by it.”

“[Our pipeline growth] is not worse, but it hasn’t gone exponentially higher. It’s similar to last year as well. It’s not significantly better or worse. It’s just normal seasonality.”

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INTERNATIONAL

“We can’t see any direct effect [from Lapsus\$], but it’s possible that it has left some traces. We still have to evaluate that and get feedback from our customers. We can’t assess the long-term impact yet, but I don’t think it will have a noticeable effect on the business. Okta is on top of it and has been very transparent with the incident, which of course builds trust with the customers.”

“We’ve had a few customers say they hope Okta learned from [the breach] and hope they get better. The breach in itself is not a breach if someone’s laptop is left open. But it does go against how Okta sells: least privilege access, zero trust and so on. We’ve not had any customers that went away from Okta because of it and we are still selling.”

“Okta has been very specific in that Okta Customer Identity will only ever be business-to-business and Auth0 will be dedicated to business-to-consumer. Auth0 is a lot more flexible in how it can be deployed.”

“We sell mainly in the workforce identity space. We don’t do CIAM. We do a lot of start-ups and scale-ups for those who might have 100 in their workforce but could potentially need one million seats in CIAM.”

“Lapsus\$ has had no impact on our Okta business. What it means in the long term, I can’t say yet. At least no customers have said they will change their planning and projects because of it.”

“This quarter Okta was not very present, which is related to the fact that there were still some problems with the Java bug. So, we made a little bit less revenue than expected. We had a mid-single digit decline [yy].”

“We see pipelines continuing to fill with interesting projects, especially in the customer [CIAM] area. I think at the end of the quarter it will be satisfactorily filled. However, I expect a difficult situation in the following quarters because of the war and the global economic development.”

“Microsoft is certainly a strong competitor but doesn’t win against Okta in our customer base.”

“We see that some vendors have ended their business with Russia, but Okta is not affected because our Okta customers do not do business with Russia. I think it will affect Okta in a roundabout way because customers are reducing their investments due to the war. I expect the overall economic development to stagnate. I would be a bit more cautious in my expectations for 2022.”

“Many smaller vendors are being bought up and integrated into existing solutions. Ping is currently very aggressive, especially with partners. They are asking partners to do more and be more active with customers. That’s going relatively well. Ping has had some success with the aggressive approach and can sometimes win against Okta. However, Ping has higher pricing and therefore is not as successful as they could be with better pricing levels. But Ping is definitely getting stronger. The second major competitor in our portfolio in the access environment is OneLogin [Inc.]”

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1a. Are your FY1Q23 Okta sales exceeding, meeting or falling below your expectations?

	NORTH AMERICA	EUROPE	TOTAL
Exceeding:	2	2	4
Meeting:	8	1	9
Falling below:	1	1	2
OTR Comparative Index:	9	-	13
FY4Q22 Index:	8	-	0

1b. Do you expect the Lapsus\$ breach to affect any short- or long-term deal closures?

Yes:	4	-	4
No:	7	4	11

1c. Are any customers in evaluation with Okta now considering alternative vendors in reaction to the breach?

Yes:	2	-	2
No:	9	4	13

2. Which products did customers purchase from Okta during FY1Q23?

Multi-factor authentication:	9	1	10
Single sign-on:	8	2	10
Lifecycle management:	3	1	4
Authentication	2	1	3
Other:	2	3	5*

* Other responses include Adaptive MFA, Universal Directory and API Access Management

Note: Some sources gave more than one answer while others did not respond.

3. Is your pipeline for Okta business that will close in FY2Q23 better, the same or worse compared with your expectations?

Better:	1	1	2
Same:	6	3	9
Worse:	4	-	4
OTR Comparative Index:	-27	-	-13
February Index:	46	-	29

4a. Do you expect your CY2022 Okta business to increase, remain the same or decrease yy?

Up 91%–100%:	1	-	1
Up 41%–50%:	1	-	1
Up 26%–30%:	1	-	1
Up 11%–15%:	3	-	3
Up:	3	3	6
Flat:	-	-	-
Down:	1	-	1
Down 16%–20%:	1	-	1
Don't know	-	1	1

4b. Do you expect your CY2022 growth rate to be higher, the same or lower than your estimate from three months ago?

Higher:	-	2	2
Same:	7	1	8
Lower:	4	1	5

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5. Has Okta's win rate during FY1Q23 improved, remained the same or deteriorated qq?

	NORTH AMERICA	EUROPE	TOTAL
Improved:	1	-	1
Remained the same:	5	3	8
Deteriorated:	5	1	6
OTR Comparative Index:	-36	-	-33
FY4Q22 Index:	0	-	0

6. Has the frequency of opportunities where Okta is competing against another vendor increased, remained the same or decreased compared with six months ago?

	NORTH AMERICA	INTERNATIONAL	TOTAL
Increased:	5	1	6
Remained the same:	6	3	9
Decreased:	-	-	-
OTR Comparative Index:	45	-	40
FY4Q22 Index:	15	-	13

7. Has competition from Microsoft increased, remained the same or decreased compared with six months ago?

Increased:	6	-	6
Remained the same:	5	3	8
Decreased:	-	1	1

8. Have your new Okta customer adds during FY1Q23 been better, in line with or worse than your expectations?

Better:	2	-	2
In line:	8	3	11
Worse:	1	1	2
OTR Comparative Index:	9	-	0
FY4Q22 Index:	9	-	0

9. What percentage of your renewal customers has increased their Okta contract amounts during FY1Q23?

76%–100%:	3	1	4
51%–75%:	1	-	1
26%–50%:	1	-	1
Some:	1	1	2
None:	1	-	1
Don't know:	-	1	1
No response:	3	-	3
Not applicable:	1	1	2

10. Has the level of discounting increased, remained the same or decreased compared with six months ago?

Increased:	2	-	2
Remained the same:	7	4	11
Decreased:	1	-	1
No response:	1	-	1

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