2024 PREDICTIONS SERIES

IT Ecosystem Trust Paves the Way for GenAI-enabled Growth in 2024

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While cloud remains the backbone of buyers' digital transformation (DT) programs, generative AI (GenAI) has thrown vendors and their technology partners into a frenzy, especially as enterprise buyers have started paying closer attention to their IT spend in response to macroeconomic headwinds.

This new dynamic creates a plethora of challenges and opportunities for technology and services vendors that guide and manage enterprise DT programs. From vendor consolidation to technology stack simplification, buyers continue to look for ways to optimize their digital assets, making it hard for vendors to introduce new technology without the appropriate use cases. Delivering value in a challenging market requires vendors to act more as strategic partners and collaborate rather than simply transact with enterprises.

GenAI is here to stay. There are certainly more unknowns than knowns today, despite everyone across the ecosystem convincing others they have found the silver bullet that will enable the creation of the next-gen enterprise business model. As with most new technologies, establishing the right frameworks as well as commercial and pricing models is a necessary first step before adoption can scale. Developing and deploying pricing mechanisms that incorporate pro bono and/or risk-sharing services and using templated offerings to standardize delivery can help vendors maintain their incumbent positions, especially as GenAI will level the skills playing field.

Expectations around differentiation are also changing, increasing the need for vendors to add specialization and often spurring them to expand their partner ecosystem. The advent of a new technology stack (e.g., next-gen GPU-run data centers that enable GenAI to reveal its full potential) will compel vendors to re-evaluate and expand their relationships with chip manufacturers — something many software and services vendors have not done for a while.

Additionally, the implications for cyber, data, regulations, ethics, and model governance will continue to dominate headlines and vendor-buyer conversations. And while vendors are in the business of making money, we believe the winning formula is to strike the right balance between constantly selling and consistently developing relationships with buyers and partners.

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in Digital Transformation in 2024

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Prediction: GenAI Hype Meets Reality

Trend: GenAI is new (for some) and exciting, but buyers' realities and priorities did not change just because GenAI came along, which will force vendors to cite tangible use cases that minimize disruption and maximize ROI.
Driver: Macroeconomic headwinds increase, forcing market participants to rethink how to best position their portfolios, go-to-market strategies and commercial models.
Result: Establishing more defined use cases around function- and/or department-aligned data will pave the way for the technology as vendors seek to scale adoption across industries. Even if adoption cannot be scaled in the near term, being entrenched early in a client's GenAI journey should lead to long-tail revenue.

In our 2023 predictions we wrote: "Automation will lower costs and AI will transform businesses." A year later, this trend is even more pronounced, largely accelerated by the advent of GenAI.

We did not see GenAI disrupting the technology and services market to the extent it did in 2023, and we do not recall a single conversation with vendors and enterprise buyers prior to November 2022 in which the term GenAI was even mentioned.

Looking into 2024 and beyond, the GenAI hype has raised buyers' expectations that the implications of the technology have become more clear, increasing pressure on technology and services vendors to deliver value: starting with use cases and rapidly pivoting toward outcomes.

Of course, for any of these aspirations to happen at scale, one must take a closer look at how well prepared enterprise buyers are in their data architectures, IT stacks and most importantly, their people. Buyers are somewhat conditioned that their third-party services and technology providers will constantly try to nudge them and introduce new technologies. The current environment is no different, but what makes GenAI more special is the hype that GenAI can optimize costs while driving new growth areas.

However, simply adding GenAI to IT modernization and/or cloud migration projects does not serve everyone well and really just prepares them for the long play. And it is certainly a long play, especially as less than 10% of global enterprises have a defined data strategy, according to industry reports.

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But vendors must act now. As discretionary spending has stalled and enterprise buyers are spending only on projects that have greater organizational impact — if at all — rather than testing new frameworks or experimenting with proof-of-concept innovation-wrapped discussions. So, the most immediate opportunity for GenAI to make an impact is for vendors developing function- and/or department-specific models.

Developing large language models (LLMs) is not cheap, and organizational data typically lives in silos — departmental or functional. We see vendors starting to dabble with the idea of introducing "narrow" language models that are built off the same departmental data that for decades vendors and enterprises have aspired to make interoperable. It is possible that GenAI could force enterprises to raise their organizational walls even taller, which would necessitate different commercial and partner models.

Prediction: Ecosystems Fuel Disruption and Lead to the Rise of the Superpowers

Trend: Most vendors claim they are end-to-end, yet they still rely on alliance partners to develop, deliver and execute DT programs. This need for collaboration has extended as vendors try to act as ecosystem orchestrators.
Driver: With DT programs reaching an inflection point and buyers re-evaluating third-party rosters, the level of collaboration among services and technology vendors with well-defined governance structures could mean the difference between winning or going home for many vendors.
Result: The launch of multiparty alliances beyond the traditional, preferred two-dimensional relationships and the rise of cobranded facilities can help promote these relationships and bring DT to customers in a package rather than in multiphased approaches. While GenAI will be the tool that forces vendors to establish better data strategies, the rise of the superpowers will also force vendors to rethink their go-to-market, sales and portfolio efforts centered on mutual accountability and portfolio knowledge.

Prioritizing the needs of partners and enterprise buyers over internal growth aspirations will position vendors across the ICT value chain as leading ecosystem participants. It sounds like an idea born in marketing, but digital transformation outcomes will require multiparty business networks that bring together the value propositions of players across the technology value chain.

By leading with their core competencies, players can establish the necessary trust of partners and customers alike, increasing their competitiveness against other players that have spread themselves too thin by trying to be end-to-end DT providers. Deploying multifaceted alliance frameworks requires establishing strong governance models rooted in accountability, especially as expanding wallet share from existing accounts by pitching new capabilities can be much harder than hunting new logos.

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On one hand, these multifaceted partnerships can be more suitable for vendors to consider when pursuing smaller-scale transformation programs as business unit leaders prefer to maintain control and have their own teams oversee program and change management.

On the other hand, opportunity for large three-way (or larger) partnerships for business, technology and services vendors to partner will pressure-test capabilities, depth of knowledge and service quality. Developing and executing against the commercial construct of multiparty ecosystem technology and delivery model starts with aligning leadership vision to sales motions and incentive models that center on superior customer service rather than fulfilling quarterly sales quotas.

While large technology and services providers often lead the way around such opportunities, the role of regional, small providers is increasingly becoming invaluable as they offer pricing agility and deep technology knowledge, necessary attributes especially given macroeconomic headwinds and buyers' expectations for extracting maximum ROI at the right price from their DT investments.

Prediction: Cyber, Data and Regulations — the 3-legged Stool Enabling New DT Growth

Trend: GenAI hype has forced market participants to think about data, cybersecurity and regulation through a different lens, especially as the technology promises miracles when it comes to business optimization and identification of new revenue growth areas.
Driver: Developing LLMs requires access to enterprise data, which typically resides in silos and is overseen by business unit leads who often prefer to maintain control and manage risk than simply provide unfettered access to their data.
Result: Vendors with broad-based enterprise relationships will capture a new wave of DT growth as buyers seek guidance and support around their data stories to ensure compliance and cyber threat prevention, especially as the GenAI opportunities pendulum swings back and forth between enterprisewide and function-aligned models.

Developing a strong cybersecurity approach, using the right data while accounting for evolving governance and regulatory requirements are not new issues. They have always been important. And GenAI did not make these issues easier, but the technology fuels more complexity.

The new GenAI tech stack will compel vendors from across the spectrum to think through their position on how to best appeal to customers, drive outcomes and improve performance. Software, hardware or connectivity vendors will need to understand who owns the enterprise relationships that would benefit them most. Global systems integrators and consultancies should do everything possible to expand their footprint with existing clients, as buyers who previously would not think about working with them are thinking about GenAI now.

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In our ongoing *Voice of the Customer* research, we have observed DT programs originating from grassroots-led and executive-led efforts, largely as a result of enterprises just getting started versus more mature ones tapping into best practices as they invest in the next technology frontier.

Regardless of where the ideas come from, the majority of enterprises maintain a centralized approach to managing DT programs to manage risk and accountability between parties. We recognize that developing a flat organizational structure is nearly impossible, given many companies' long history of dealing with egos and career ambitions.

Additionally, one could argue that too much organizational democratization may result in more chaos than decisions. Striking the right balance between executing on leadership vision and employee empowerment boils down to organizational culture, creating a perfect opportunity for vendors with strong management capabilities.

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