

# Tech Providers 2025: Invest in Disruptive Business Models for High-Growth, High-Margin Opportunities

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Initiatives: [Emerging Technologies and Trends Impact on Products and Services](#)

Disruptive business models provide opportunities and threats to technology providers with long-lasting impacts through 2025 and beyond. Product leaders must adapt business models in their organizations to optimize growth and margins and defend against disruptors in their marketplaces.

## More on This Topic

This is part of an in-depth collection of research. See the collection:

## Overview

### Key Findings

- Generative business models leveraging cloud computing will create new business opportunities and deliver high value for customers. Technology providers adopting these models will leverage their position at the top of technology stacks, their strong customer relationships and platform interactions to create more value for customers and convert that into stakeholder value.
- Technology providers selling as-a-service offerings, including SaaS, IaaS and PaaS, as subscription products leveraging cloud computing are poised to capture the majority of more than \$400 billion of incremental growth by 2025.
- Free trial or freemium will be mainstream options of enterprise IT offerings as service providers adopt business models that enable these options and discover the benefits they provide for customer acquisition.

### Recommendations

Product leaders must consider emerging trends while evolving their business models in order to succeed through 2025. You should:

- Invest in strategies to achieve a generative position in both the customers' value and technology solution stacks. This position can be the generative lead or a contributor to a generative platform.

- Position your organization to deliver products as services sold as subscriptions and leverage cloud resources. This will position your organization to grow rapidly and benefit from the growth of as-a-service offerings.
- Incorporate freemium into as-a-service offerings early in product development to eliminate barriers related to complex product implementation and adoption requirements.

## Strategic Planning Assumptions

By 2025, the fastest growing major tech providers will generate 50% of revenue from generative or platform business models leveraging cloud computing.

By 2025, service providers delivering cloud offerings will disrupt existing markets and capture 15% of enterprise IT spending.

By 2025, 80% of enterprise service providers of application software will adopt business models that enable free-trial or freemium offerings.

## Analysis

### What You Need to Know

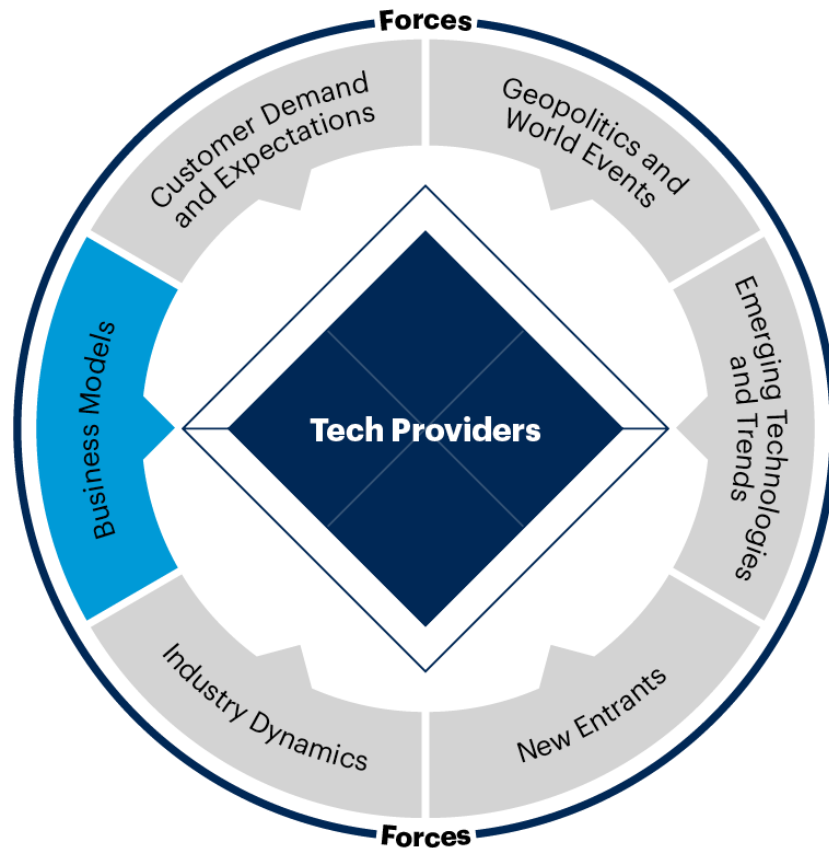
Technology providers need to evolve their business models in the face of new technologies, customer demands and stakeholder requirements. Companies that have seized the most of technology have been very open to changing their business models to follow customer demand and market adoption. This will become even more important due to disruptions caused by digital transformation. It is vital for product leaders to not only focus on new technologies and markets but also the key innovations and changes in business models.

Disruptive business models is one of six forces reshaping what it means to be a technology provider in 2025 (see Figure 1). The other forces include: customer demand and expectations, industry dynamics, new entrants, emerging technology and trends, and geopolitics and world events (see [Tech Providers 2025: Prepare to Survive and Thrive With the External Forces That Will Impact Your Business](#)).

The predictions in this research look at disruptive business models as a force influencing what it means to be a technology and service provider over the next five years.

Figure 1: Key Forces Shaping Technology and Service Providers Into 2025

## Key Forces Shaping Technology and Service Providers Into 2025



Source: Gartner  
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Gartner

### Business Model Selection

Gartner has published extensive research on business models adopted by enterprises leveraging digital, cloud and other technologies. Business models provide a blueprint for how an organization creates, delivers and captures value. Business leaders rework individual elements of the business model – like pieces of a puzzle – and fit them together to create a workable business design. The Gartner business model framework considers four key dimensions – value proposition, customers, capabilities and finance (see [Tell Your Business Model Story With Simple Building Blocks](#)).

### Focus of This Research

In this research, we categorize business models adopted by technology providers, including disruptive models to create value beyond traditional approaches and to prime providers for scalability.

One aspect of business model selection for technology providers is balancing growth and margins through mechanisms employed to create, deliver and capture value of the providers' offering. The selection of business models impacts the service providers' offerings, sales process and overall function of the organization. For example, choosing between product or solution business models will influence

whether systems and operations are primed for growth and scalability, or primed for customizations and innovations to deliver maximum value for customers through a wider range of offerings. Providers with stack business models maximize the product value proposition for unique customers. Providers with the ability to combine their standardized products with complementary products from partners in generative ecosystems to deliver tailored solutions represent the “win-win-win” that benefits multiple parties involved.

Changes to business models are both challenging and risky for organizations, requiring strategic and operational changes and flawless execution to minimize the impact on customers during transitions. In the face of disruption, the table stakes are higher. Product leaders who fail to prepare for disruptive business models will be challenged to grow their revenue and earnings faster than their peers.

### **Disruptive Business Models**

Through 2025, technological advancements, availability of capital and shorter development cycles will provide opportunities for innovative vendors leveraging disruptive business models. Ubiquitous network connectivity and cloud computing enabled new methods to deliver software and led to the emergence of SaaS offerings over the last decade. Consequently, the chase for scalability led to freemium as a low-touch sales model to sell these offerings. Advancements in 5G networks, edge computing and secure access service edge (SASE) are prime catalysts for innovative business models and combinatorial changes meshing new technologies with more mature technologies, including cloud, artificial intelligence (AI), the Internet of Things (IoT), robotics and advanced data analytics.

Business models that generate higher growth and margins for service providers allow product leaders to capture more value for their organizations. Investors get better returns, employees get better compensation and the organization has capital to reinvest in new technologies.

Leading providers will create generative solutions leveraging top technology with strategic customer relationships to capture value for their stakeholders. But not all business models will be feasible in all markets. Customer demands and availability of resources are key factors determining feasibility of business models in different markets.

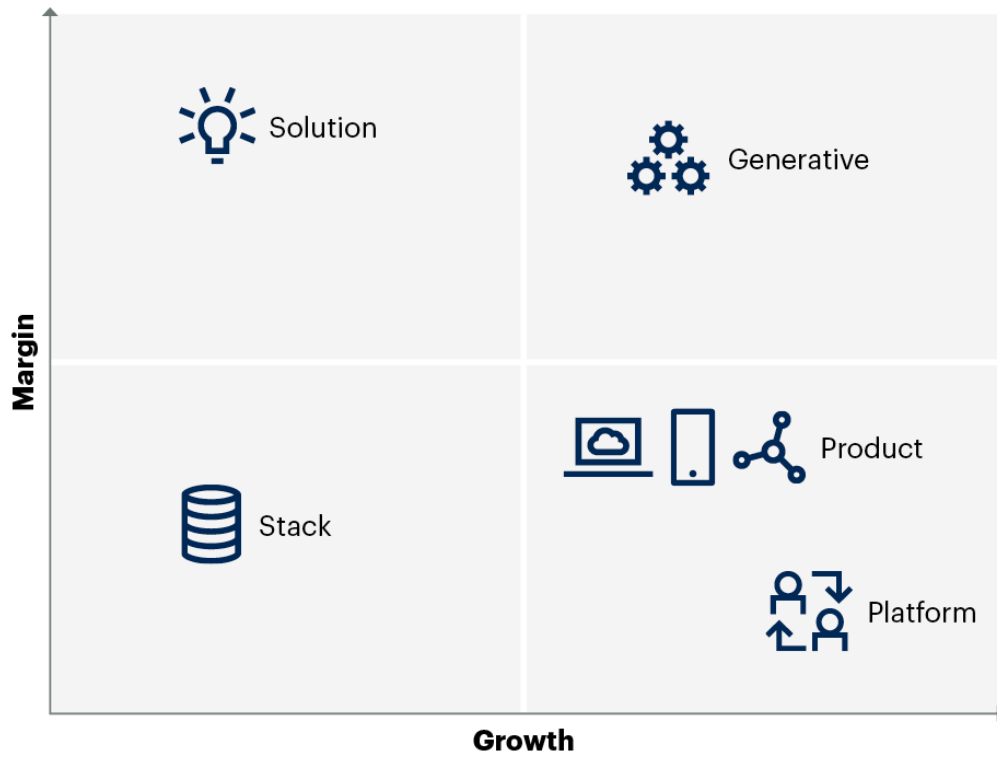
### **Dominant Business Models in 2025**

Figure 2 shows business models expected to dominate, including disruptive generative and platform business models that thrive on bringing large groups of enterprises together.

**Generative business models create new value beyond traditional approaches through new combinations of information, technology and operations across an extended ecosystem.**

Figure 2: Dominant Business Models for All Technology and Service Providers

### Dominant Business Models for All Technology and Service Providers










Source: Gartner  
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### Background and Context

Product leaders must understand disruptive business models that are expected to dominate through 2025. Figure 3 describes these business models.

Figure 3: Description and Metrics of Dominant Business Models

## Description and Metrics of Dominant Business Models

Business Model	Examples	Primary KPIs	Secondary KPI	Business Outcome	
   <b>Product</b>	Asset light	<ul style="list-style-type: none"> <li>• Software</li> <li>• SaaS, PaaS</li> <li>• BPO, BPaaS</li> </ul>	<ul style="list-style-type: none"> <li>• Retention rate</li> <li>• Conversion rate</li> </ul>	Customer acquisition cost	Recurring revenue
	Capital intensive	<ul style="list-style-type: none"> <li>• Devices</li> <li>• Networking</li> <li>• Semiconductors</li> </ul>	<ul style="list-style-type: none"> <li>• Shipments</li> <li>• Gross margin</li> <li>• Book-to-bill</li> </ul>	R&D	Free cash flow
	Networks	Communications services	<ul style="list-style-type: none"> <li>• Subscribers</li> <li>• Operating cash flow</li> </ul>	Capex	Free cash flow
 <b>Solution</b>	<ul style="list-style-type: none"> <li>• Managed services</li> <li>• Consulting</li> <li>• Implementation</li> <li>• Software development</li> </ul>	<ul style="list-style-type: none"> <li>• Customizations</li> <li>• Innovations</li> </ul>	Margins	Total revenue	
 <b>Stack</b>	<ul style="list-style-type: none"> <li>• Systems integrators</li> <li>• VAR</li> </ul>	Strategic partnerships	Margins	Operating cash flow	
 <b>Platform</b>	<ul style="list-style-type: none"> <li>• Marketplaces</li> <li>• App stores</li> <li>• Video conferencing messaging</li> <li>• Collaboration tools</li> </ul>	Interactions	Participants	Market share	
 <b>Generative</b>	<ul style="list-style-type: none"> <li>• Strategic technology</li> <li>• Intensive partnerships</li> </ul>	Strategic relationships and capacity for innovation	Information and technology capabilities	Premium margins and comparative advantage	

Source: Gartner (September 2020)

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Product leaders considering freemium or free trials in their product portfolios should review if such offerings are present in the markets. Table 1 provides examples of freemium offerings in application software.

**Table 1: Examples of Freemium Offerings Among Software Providers**Viewing partial table. [Click here to view full table](#)

Market	Providers With Free Offerings
Customer experience and relationship management (CRM)	Salesforce, Zoho, Zendesk, Freshworks, HubSpot
Database management systems	Google, MongoDB
Security	Splunk, Okta, CrowdStrike
Enterprise resource planning	SAP, Oracle, Workday Adaptive Planning, Visma
Application infrastructure and middleware	UiPath, Automation Anywhere
Operating systems	—
IT operations	VMware
Analytics and business intelligence	Microsoft, Salesforce, Domo
Email and authoring	Google
Other infrastructure software	Twilio

Source: Gartner (September 2020)

## The Impact

### Generative or Platform Business Models Leveraging Cloud Computing Offer Greater Potential

**Strategic Planning Assumption:** By 2025, the fastest growing major tech providers will generate 50% of revenue from generative or platform business models leveraging cloud computing.

*Analysis by: Mark McDonald*

#### Key Findings:

- Technology providers that earn revenue based on selling or implementing technology solutions to address defined business requirements and outcomes will be challenged for growth as their customers seek competitive advantages beyond standard product requirements. Technology providers will seek to expand their value beyond the maintenance and enhancement of standard product requirements.
- Firms seeking competitive or strategic advantage place higher value on generative solutions. Those solutions create new outcomes in new ways that extend beyond the standard or predefined ability of its underlying technologies.
- Generative solutions represent new relationships and ways of working between technology providers and their customers. They further reflect new approaches to innovation, technology solutioning and commercial terms.
- Emerging technologies including cloud, edge computing and 5G communications offer new combinations of compute, communications and storage facilities for which there are few defined solutions. Generative solutions will be required to unlock the value potential of these and other technologies providing opportunities for providers at the top of the technology stack.

**Near-Term Flag:**

- Leading technology and service providers are engaging in significant strategic partnerships with customers organized around broadly defined outcomes that require innovating with technology.

**Market Implications:**

Current technology-intensive software and services markets are based on meeting defined customer needs and requirements. This causes technology markets to cluster in competitive solution-oriented markets. In these defined solution markets, the strength of product/customer fit, pricing, and other parameters determines competitiveness and revenue.

The value and importance of defined solutions ebb as companies become more technology intense and solution density increases. This gives rise to a new type of solution, a generative solution, that goes beyond business or technical capabilities. Currently, technology and service providers create these solutions by entering into special partnerships with key clients.

As companies become more technology intensive, the value they seek moves from integrating defined solutions to creating new generative value. Technology and service providers are expanding their capacity for generative solutions through their increasing adoption of DevSecOps and agile techniques.

Generative solutions represent the next market for high growth and high margin as markets for defined solutions continue to commoditize. This will require software and services firms to engage in new types of innovation, business and intellectual property models, and service capabilities.

Not every company is currently positioned to create generative solutions. Generative value requires being toward the top of the technology stack to create new technology combinations. It also requires having strong customer relationships and interactions. These positions separate software and services firms that increase the revenue generated from generative value sources. All others will need to consider roles in generative platform models as an alternative.

**Recommendations:**

- Invest in strategies to achieve a generative position in both the customers' value and technology solution stacks. That position can be the generative lead or a contributor to a generative platform.
- Evaluate your current intellectual property, financials, technical services, deal structures and business models to generate new solutions, share risk and enhance margins. This includes looking at current strategic customer relationships and how to make above-average accretive margins.
- Improve and replicate current customer strategic partnerships to make the rule rather than the exception. This includes building the groundwork and capability to create high-quality deals.

**Related Research:**

[Tech Providers 2025: Strategic Impacts on Application Partners and Ecosystems](#)

[Tech Providers 2025: The Future of Technology and Service Provider Partnerships](#)

**Disruptive as-a-Service and Cloud Offerings to Capture IT Spend**

**Strategic Planning Assumption:** By 2025, service providers delivering cloud offerings will disrupt existing markets and capture 15% of enterprise IT spending.

*Analysis by: Max Azaham*

**Key Findings:**

- Technology and service providers selling cloud offerings — including SaaS, IaaS, PaaS, BPaaS and DaaS — as subscription products are poised to capture \$400 billion of growth by 2025.
- SaaS dominates future plans of technology and service providers. SaaS is seen as the fastest-growing delivery vehicle, having the highest profitability and being among the most disruptive models to existing markets.
- In a 2020 survey, technology general managers indicated that SaaS solutions were the fastest growing areas, and the most profitable and disruptive (see [Survey Analysis: General Managers in Application Software — Priorities and Growth](#)).

**Near-Term Flag:**

- By 2021, demands for product/service adaptability and agility will position elasticity as a top three criteria for more than 75% of enterprise technology and services purchases.
- By 2022, more than 80% of software providers will change their primary business model from traditional license and maintenance to subscription models, regardless of whether the software resides on-premises or in the cloud.
- By 2024, in order to meet client demands for quicker time to value driven by data and enabled via automation, 23% of business consulting end-user spending will be supported by assets, up from 12% today.

**Market Implications:**

The transformation and creation of IT products as cloud offerings represents the largest growth opportunity for technology providers through 2025. The market for cloud services of \$240 billion in 2019, or 6.4% of IT spending, is poised to double over five years due to several factors. Growth will be driven by providers adopting disruptive, scalable business models enabled by cloud computing and shifts in buyer preference for technology delivered as a service.

**As-a-service offerings sold as subscriptions with consumption-based pricing will be bought by line of business buyers, bypassing traditional IT procurement processes.**

Growth of as-a-service offerings will disrupt existing business models by changing the identity of customers and service delivery models, with ripple effects across organizations. Figure 3 provides description and metrics of dominant business models in 2025.

These disruptive forces will have implications for all technology providers. Growth in as-a-service models will come from existing markets shifting to XaaS and from new markets, such as SASE, where the most common business model will be products sold with subscription-based pricing models. Banking as a service (BaaS) provides opportunities to providers serving the financial services industry through new revenue streams created by embedding banking product and service capabilities within their solution offering. One of the largest growth areas over the next five years is the market for SASE, which will grow to \$11 billion by 2024. While large opportunities are available for service providers that make the transition, other service providers must act now to remain competitive in 2025.

Software applications delivered through the cloud and sold as subscriptions will dominate on-premises delivery models and licensing arrangements. Desktop as a service is an example of innovating the as-a-

service business model to influence how hardware and compute resources are bought. Such offerings pose a threat to service providers offering custom implementations. Service providers adopting solution business models that do not scale or stack business models building upon other products will be challenged by offerings that can be delivered remotely and economically by large platform providers, albeit with compromises in customization. Large R&D expenses to keep up with larger service providers drive margins down, particularly for providers customizing solutions from many vendors. Vendors in generative ecosystems will have better opportunities to grow and maintain healthy margins.

By 2025, 80% of IT spending will be subscription- and consumption-based, driven by a shift to product and platform business models. To exploit the growth of disruptive as-a-service offerings, providers must adapt their business models. Providers must change their operations and processes to enable these offerings, make investments to develop these capabilities and/or exit from certain markets.

Providers must transition to as-a-service subscription offerings, adjust pricing models to reflect customizations or risk being squeezed out by larger competitors. Asset-based consulting adapts the solution business model by combining consultants' expertise and functionality of assets to increase speed and/or quality of customized offerings. Vendors with many offerings must evaluate, prune and transition select offerings to fully leverage cloud. Providers must invest in technology and partnerships to establish themselves in generative ecosystems within the next two to three years. 2025 is several years away, yet these plans will take time to execute in order to minimize disruption to customers and maximize stakeholder value.

#### Recommendations:

- Adopt business models that enable your organization to deliver as-a-service offerings sold as subscriptions. This may require transitioning existing operations and processes or other structural shifts in your organization including product development, sales and marketing, and customer support.
- Make strategic decisions affecting your product portfolios in the next six to 12 months, recognizing that transitions and structural changes will take time to execute and may require funding. If necessary, consider exit strategies to maximize shareholder value.

#### Related Research:

[Tech Providers 2025: Banking-as-a-Service \(BaaS\) Will Drive Success Across Verticals](#)

[Tech Providers 2025: The Future of Consulting Delivery Is Digitally-Intensive and Requires a Dynamic Ecosystem](#)

[Forecast Analysis: Gartner's Initial Secure Access Service Edge Forecast](#)

[Don't Wait for SaaS – Prepare Now to Smooth the Transition to a Subscription-Based Business Model](#)

## Survey Analysis: General Managers in Application Software – Priorities and Growth

### Digital Business Models Compendium

#### Free Will Become a Mainstream Option Within Enterprise Offerings

**Strategic Planning Assumption:** By 2025, 80% of enterprise service providers of application software will adopt business models that enable free-trial or freemium offerings.

*Analysis by: Max Azaham, Jeff Chamberlain*

#### Key Findings:

- Product leaders have historically considered free-trial offerings as a tool for lower-priced market offerings, overlooking the benefits of leveraging this approach with enterprise-scale products.
- Freemium options enable providers to acquire customers and scale quickly when products are designed with built-in paths to paid offerings and are strongly supported with buyer enablement for customer self-service across the buying cycle.

#### Near-Term Flag:

- By 2023, an “inside plus” direct sales model using virtual interactions with prospects and customers will dominate sales strategies for 60% of vendors.
- In 2020, only 58% of service providers responding to Gartner’s Go-to-Market Benchmark Survey indicated that they use free trials as a valuable call to action (CTA) for driving marketing qualified leads (MQLs). This is despite free trials being the top source of MQLs for all software companies responding in 2020.
- In 2020, providers offer a free trial or freemium in almost all segments of enterprise software, with the exception of operating systems (see Table 1) .

#### Market Implications:

Technology and service providers launching new products develop free options as a feature of their business models by incorporating this option into the initial or first-release product planning process. Free options include free trials, which are time-limited, and freemium, which have limited functionality. Product leaders must overcome internal resistance to free options, which may be seen as disrupting existing business models and compromising on price.

Product leaders must emphasize that offering free trials or freemium is not a compromise on price but, instead, is consistent with business models that enable customers to be acquired more economically than traditional sales channels. The primary purpose is to provide a low-friction method to acquire users,

then migrate these users into premium or higher functional tiers over a set period of time. Freemium is effective when targeted to influencers within organizations to catalyze grass roots movements to solve certain needs.

**“Within three hours, I created the database I needed – I downloaded a free trial, and within three hours I was able to create the database I needed, despite being completely new to the tool. The fact that I could process over 4.5 million rows of data from separate datasets without writing a single line of code was just incredible. From that moment on, I was hooked.”**

*– Business analytics leader of a global enterprise on the use of cloud-based ABI software*

Freemium offerings designed from the onset combine functional, sales and marketing elements, unlike free-trial offerings that are offered by waiving an invoice and little or no product development. The goal of freemium is to entice customers to invest time and resources to explore new products for their organization. Thus, the scalability of the freemium model for customer growth works best when there is a built-in path to paid subscriptions that do not require sales intervention. As-a-service offerings that are strongly supported with buyer enablement allow prospects and customers to conduct a much higher degree of self-service across the buying cycle, beginning at signup. Delivered efficiently, freemium and free-trial offerings benefit both customers and vendors by reducing the cost for customers to try new products by redirecting dollars spent on advertising and marketing to infrastructure and customer support.

Developing efficient freemium offerings requires time and effort for product development work, changes to selling and billing arrangements, new marketing campaigns, and self-service channels to augment customer service needs. Free-trial offerings can be quick to implement but showing the value of the product as a free trial is not optimal because there are no built-in enticements. Rushing to offer either without properly considering cost and success measures will prove costly to providers. This includes calculating the increase in cloud infrastructure and customer support costs due to extended trial periods for a range of conversion rates consistent with market norms. Sales channels need time to enable low-touch automated processes for freemium signups. Service providers with wide product portfolios at different stages of maturity must consider whether the cost of making complex product changes to accommodate freemium outweighs the cost of launching new products.

Freemium models in enterprise software are primarily geared toward converting users to subscribers using as-a-service models. Beyond traditional enterprise software, the freemium model has been used to gain influence and build large platforms for builders to collaborate on. For providers with platform business models, such as Unity Technologies, monetization comes later. Unlike freemium offerings for

enterprise software, Unity Technologies provides free tools and services to customers based on their financial strength in the anticipation that success will enable these developers to pay.

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### Parallels From the Gaming Universe

*Unity Technologies, a leading platform for interactive 3D content used in games, commercials and short films, enables small and independent developers and freelance artists to create and operate content when they wouldn't otherwise have the resources to do so independently. The company's offerings are SaaS, with priced tiers starting at free. Enterprises with revenue or funding of less than \$100,000 are eligible for the free tier. The freemium tier serves two purposes: (1) to provide opportunities for conversion and (2) to attract participants that add to the value of the platform through collaboration.*

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The value proposition of freemium for both buyer and seller will be the force that drives more providers to adopt this "consumer tech" model for customer acquisition and, consequently, increase pressure on other vendors to follow. Product development will need time and resources currently prioritized to other present needs. As such, we anticipate the vast majority of providers will incorporate freemium into their offering portfolios by 2025. Well-capitalized vendors should not wait to leverage freemium in order to disrupt existing markets to become the leading platform provider in 2025.

### Recommendations:

- Design and incorporate freemium into as-a-service offerings early in product development to eliminate barriers related to complex product implementation and adoption requirements.
- Create success measures for freemium and free-trial programs by calculating the unit economics for these offerings versus existing sales channels.

### Related Research:

[Tech Providers 2025: Free Trials and Freemium Products Will No Longer Be Optional for Tech CEOs](#)

[General Manager Insights: Offer the Right Pricing Model for Consulting, Implementation and Managed Service Offerings](#)

## Acronym Key and Glossary Terms

AI	artificial intelligence
BaaS	banking as a service
BPaaS	business process as a service
BPO	business process outsourcing

CTA	call to action
DaaS	desktop as a service
IaaS	infrastructure as a service
IoT	Internet of Things
KPI	key performance indicator
MQL	marketing qualified lead
PaaS	platform as a service
SaaS	software as a service
SASE	secure access service edge
VAR	value-added reseller

## Recommended by the Authors

[Tech Providers 2025: Strategic Responses to Disruption From Geopolitics and World Events](#)

[Tech Providers 2025: Transformed Buyers and Customers Force Evolution](#)

[Tech Providers 2025: Predictions on Emerging Technologies](#)

[Tech Providers 2025: Utilize Cloud Ecosystems to Counter Changing Industry Dynamics and Market Power](#)

[Tech Providers 2025: Strategic Responses to Challenges From New \(and Old\) Entrants](#)

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