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High-Tech 4Q23 Roundup: Reigniting Demand in a Skeptical Market

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Initiatives: Business of High Tech

4Q23 ended with mixed results as end-of-year spending remained subdued. This creates a guarded view on 2024, with high-tech product leaders having to contend with generative AI and the need to reignite demand.

Overview

Impacts

- The 4Q23 results have created guarded pessimism as there is no clear consensus on the strength of technology demand in 2024. High-tech product leaders are taking a different approach, including adopting a wait-and-see attitude, including continued cost management.
- Interest in generative AI (GenAI) remains high going into 2024, but the need for real opportunity and action is replacing the hype around GenAI in 4Q23.
- Reigniting demand, a primary focus for 2024, will require moving beyond a focus on current customers and solutions to open new markets.

Recommendations

- Materialize demand by getting even closer to your customers to build a relationship and recognition of their knowledge of their business and technology requirements.
- Remove complexity and friction in your customers' GenAI journey by supporting new ways of thinking about GenAI's investments and measuring its impact
- Gain clarity and focus by concentrating on target buyers with personalized go-to-market strategies rather than approaching the market with broad brushstrokes.

Introduction

High-tech providers closed out 4Q23 on a mixed note, with many achieving revised revenue guidance, but with a more pessimistic outlook for 2024. Customers, markets and technology do not stand still — high-tech leaders will need to create opportunity through action in 2024.

Understanding what happened in 4Q23 and how it sets the stage for the first half of 2024 requires looking across the following developments:

- There is guarded pessimism and low confidence among high-tech product leaders that an economic "soft landing" will yield significantly higher tech revenue growth.
- Interest in generative AI remains high, but much of GenAI's strong revenue growth will displace prior spending commitments.
- Reigniting demand will be a priority in 2024, as generative AI is creating performance and cost pressure on current technology stacks, creating pressure to realign systemic relationships among providers.

Customers, markets and technology will not stand still, which will be a fundamental challenge to high-tech leadership in the coming year. The effect of these and other forces is leading high-tech leaders to adopt a "wait-and-see" posture for the first quarter of 2024. As a result, few leaders are announcing big moves until they see demand return toward sustainable growth. Such a posture appears prudent on the surface, but it is a simplistic view and potentially dangerous for provider success. Customers, markets and technology do not stand still — and this is the fundamental challenge to high-tech leadership in the coming year. High-tech product leaders will need to create opportunity through action in 2024.

Impacts and Recommendations

4Q23 Results Create Guarded Pessimism in the Face of an Economic "Soft Landing"

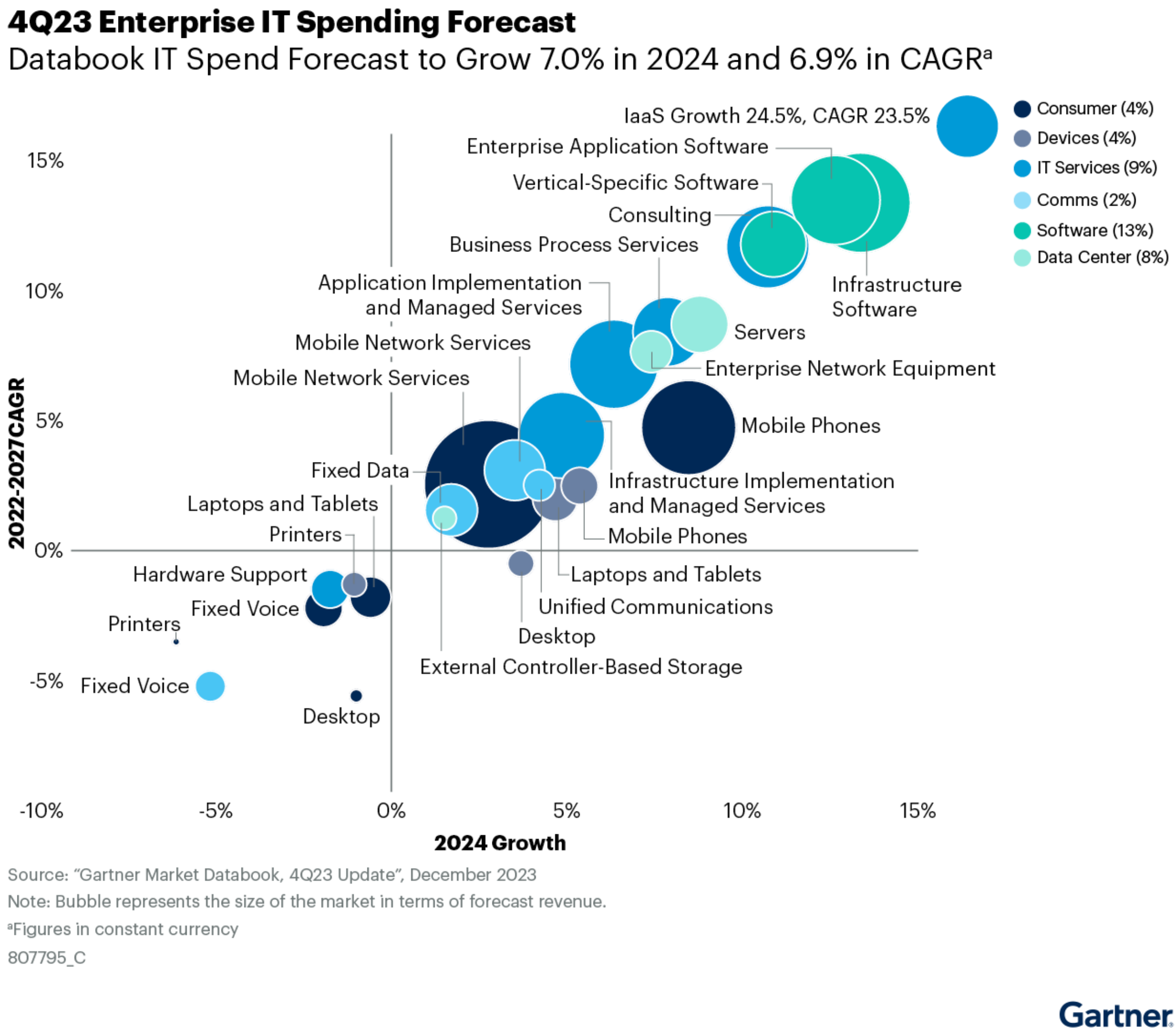
Global uncertainty in the economy persisted throughout 4Q23, leading many firms to deliver on revised and often lowered revenue expectations. Demand continued to moderate in 4Q23 as there was no significant hockey stick or balloon revenue quarter. Much of the revenue earned in 2023 appears to have come from price increases rather than increased market demand for products and services. This kept revenue approximately at the pace of inflation, with limited real growth in their core businesses.

Guarded pessimism concerning 2024 reflects the uncertainty in the market and will become opportunity through action.

Leaders are guarded in their pessimism in the sense that they are not preparing for the worst — a sharp deep recession — but they are not willing to make big moves until demand stabilizes and returns to strong growth. The pessimism comes from their economic expectations. 2023 ended in a down year for private equity, venture capital and initial public offerings. Sales pipelines remain sluggish despite the anticipation of falling inflation and interest rates in 2024.

Leaders' revenue plans reflect these expectations in the form of single-digit growth rates for 2024. Further workforce and operational cost savings initiatives are expected to continue, albeit on a more continuous basis. These changes occurred in the back half of 2023, but they did not stop or significantly reverse. Figure 1 highlights the 4Q23 enterprise IT forecast update. It forecasts an overall increase of 7% for 2024 in constant currencies.

Figure 1: 4Q23 Enterprise IT Spending Forecast



Gartner analysts observed signs of stabilization, particularly among larger providers, starting in late 3Q23 and continuing in 4Q23. See Lead in the Middle — What High-Tech Product Leaders Know in 4Q23 and Must Plan for in 2024 for more details.

Recommendations

Leading in a market of guarded pessimism requires:

- Materializing demand by getting even closer to your customers to build a relationship and recognition of your knowledge of their business and technology requirements. Stop thinking of customers in terms of projects or deals and start thinking of them in terms of relationships. Strong relationships not only help you weather uncertainty, but also highlight your value in a recovery. Pay particular attention to building your customers' capability and capacity to gain value from your solutions as this is the primary source of long-term advantage.
- Aggressively monitoring sales pipelines across multiple dimensions. In 1Q24, leaders should ruthlessly focus on closing 2023 revenue opportunities that pushed into 2024. They should prune their pipelines of marginal revenue opportunities and concentrate on customers and opportunities
- Exploring the potential of adopting efficient growth strategies that seek higher quality sustainable revenue by balancing top- and bottom-line results. This strategy replaces "growth at all cost" strategies that increase company dependency on market demand. See 2024 Tech Provider Top Trends: Efficient Growth for High Tech for more details.
- Being open to technology and talent acquisitions as stakeholders in venture-funded firms will be looking for reasonable exit opportunities. Prioritize opportunities that enhance your position or access to adjacent markets, capture more vertical value or address tech gaps in cloud, AI and other emerging technologies.

Guarded pessimism reflects the market's cognitive bias toward extending the past into the future. "Same as last year, only marginally better" is a phrase heard often in the face of economic, election and technology uncertainty. Multiple reasons exist to indicate that 2024 will be different, one of them being in the continued maturation of the generative AI market.

Interest Is High, but Reality Started to Replace Hype for GenAI in 4Q23

Generative AI hype went from mass introduction to the Peak of Inflated Expectations in a matter of months during 2023. Hype is the market's interest and perceived value of the ability of new technology to address legacy problems. GenAI hype is evidenced by the plethora and nature of its current use cases, as well as provider plans to bundle GenAI into existing products and services.

2023 was the year of the GenAI story. Reality began to edit that story as customer commitment and investment lagged their willingness to invest in GenAI solutions. Services companies highlight the ratio of proofs of concept that wait to be translated into GenAI projects.

Unlocking GenAI opportunities requires crossing the chasm between hype and reality. Effectively crossing this chasm is critical to avoid a plunge into disillusionment as use cases do not generate enough demand.

In 4Q23, enterprises passed a turning point as they trended away from simple toward more complex GenAI use cases beyond IT. Going forward, it is possible to see enterprises seeking solutions based on multiagent systems that automate end-to-end processes and lead to structural workforce changes.

In 4Q23, market demand began to cool as GenAI was seen as more incremental than disruptive. This reduces the urgency to act, as observed by a limited conversion of proofs of concept into GenAI projects. This sets the stage for 2024 being a year of action, with 2025 expected to be the year of scale results. Several factors support this observation including:

- Few of the proofs of concept or proofs of value conducted in the quarter resulted in larger commitments to generative AI solutions or projects. This is expected to continue into 1Q24 as firms recognize the full impact of GenAI on operations, products, services, workforce, and so forth.
- Enterprise adoption of GenAI is significantly different from personal adoption. Data quality, regulatory, security and other hurdles emerged during 4Q23 that further complicate GenAI adoption (see 2024 Tech Provider Top Trends: AI Safety).
- Fundamental architecture and infrastructure issues are in flux that is slowing the decision-making process. Examples include horizontal versus vertical language models (see 2024 Tech Provider Top Trends: Vertical Generative AI Models).
- Economics and cost of GenAI transactions — the cost of inference — is becoming clearer. These costs are significantly higher than regular transaction processing creating pressure for infrastructure and platform cost optimization and more value-based consumption models for applications. See 2024 Tech Provider Top Trends: Vertical Generative AI Models for more details.

Recommendations

These realities and the resulting decisions will reshape the market for AI and GenAI, as well as the structure of the high-tech industry for 2024 and beyond. Leading in the reality of GenAI in 2024 will involve:

- Removing complexity and friction in the GenAI journey and investments by supporting new ways of thinking about GenAI's investments and measuring its impact. Enterprise buyers do not have a clear view on how to invest in GenAI solutions. Focus on supporting value realization in the near term: What is possible now, and how customers should invest in those solutions? Where should they start? What can they expect? How do you work together to get results? These are operative questions for 2024.
- Incorporating business change into GenAI investments beyond simple productivity impact. GenAI use cases cite incremental or fractions productivity improvements — for example, customer service representatives can be 20% to 35% more productive. Technology alone cannot monetize incremental improvements without changing the nature of work. Incorporating these actions into GenAI solutions creates a whole product solution.
- Evolving your views on infrastructure toward providers that comprise or play well in an ecosystem based on platform software. Platform software firms are companies that bring together many players (partners, competitors, customers, suppliers, etc.), give them a place to interact/develop/exchange value, and expand the providers own offerings. They represent an alternative to traditional "stack" thinking by providing a faster path to gain scale, lower margin cost and broaden appeal for its customers. These firms are not limited to hyperscalers, as we anticipated to emerge along vertical lines or around core software suites.

4Q23 represented a turning point for GenAI. Traditionally, it is a one-way street on the Hype Cycle. Solutions move from the Peak of Inflated Expectations, where GenAI is today, to the Trough of Disillusionment. Leading in 2024 requires sidestepping that progression by considering the points above, as well as reigniting demand for all of your solutions. See Innovation Guide for Generative AI Technologies for additional details.

Providers Must Reignite Demand in 2024

Providers expected revenue in 2023 to be sluggish at the start and then recover in the second half of the year. That recovery did not fully materialize in 4Q23. The current sentiment for 2024 is similar — slow growth in the first two quarters that will accelerate in the second half of the year. Providers thinking this way plan to wait and see what happens, abdicating their responsibility to lead in the market.

There is no clear consensus on the tech market for demand in 2024. Leaders must establish clear buyer profiles and engage them across the buying process to reignite demand.

Growth in 2023 was driven in large part by price increases in response to inflation. Reigniting demand alternatively concentrates on establishing a greater need and value for your products and services. Go-to-market strategies play a critical role in this objective. By the end of 4Q23, large providers reset their marketing programs and budgets as they began to see a return to building their pipelines. Smaller providers took a more incremental approach to marketing in 2023. Gartner expects smaller firms to undergo additional resetting before seeing a similar return to growth.

Recommendations

In 4Q23, marketing decisions and actions continued to signal an ongoing conservative approach to internal budget and resource efficiency. Entering 2024, Gartner expects a shift to focus on target buyers and pipeline to reignite demand. This will require the following actions:

- Gaining clarity and focusing on target buyers rather than approaching the market with broad brush strokes. Conferences are an example. Current marketing plans calling for decreasing the number of conferences to reduce the impact on talent resources, while increasing the investment in each conference. This approach does not necessarily produce greater results. Instead, consider your target buyer profile, and invest in where those buyers are with persona-specific messaging that creates engagement during a conference (see Tool: Create Persona-Based Messaging That Spurs Buying Teams to Act). This is particularly true for smaller providers that have greater opportunities to increase brand awareness and consideration at a smaller, more focused conference.

- Meeting buyers where they are in their buying process and how they buy, rather than assuming that all buyers start at the same point of your buying process. This is both a function of improving buyer profiles and targeting, as well as reimagining the sales experience. The sales experience involves both marketing and sales. A clear, intuitive and relevant experience represents a significant competitive advantage over less targeted or more transactional approaches.

- Thoughtfully incorporating GenAI and other AI technologies into marketing technology and processes. Focus on two use cases to start. The first seeks existing marketing technology offering AI capabilities to better measure marketing and messaging productivity, impact and next actions. The second recognizes the content creation capabilities of GenAI which will change the nature of content work from writing toward developing storylines, fact-checking and editing. Consider these tools in the broader context of Marketing Ops.

- Abandoning plays and programs originated for B2C marketing. The convergence of consumer and enterprise tech does not require a convergence of marketing approaches. Scrutinize programs based on consumer-oriented thinking like mass advertising, untargeted social media, broad sponsorships, and so forth. Recognize the differences in B2B marketing, and align resources and programs accordingly.

Providers must reignite demand among their most capable customers for solutions with stronger margins and a greater opportunity to grow in the future. High-quality demand represents opportunities for providers to become part of their customer's ecosystem, not just a commodity supplier, which is essential for immediate and long-term growth.

Recommended by the Authors

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