Tech Providers 2025: Strategic Responses to Challenges From New (and Old) Entrants

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Initiatives: Emerging Technologies and Trends Impact on Products and Services

Technology and service providers must listen for signals through the noise of disruption created by new market entrants. In the era where "every company is a technology company," product leaders will have to compete harder with former nontech providers, end users and megavendors for market share.

More on This Topic

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

- Tech Providers 2025: Strategic Transformation Drives Growth — A Gartner Trend Insight Report

Overview

Key Findings

- Without regulatory correction, the handful of global megavendors known as the "digital dragons" will continue to grow into new markets by acquiring partners or competitors or by creating their own version of a smaller company's product.
- Nontechnology providers are creating and taking to market technology-driven solutions more frequently and with more ambition than before.
- The development of technology products and services is increasing outside of IT departments, with 36% of organizations' IT budgets being spent outside of IT. This will mean increasing competition for technology and service providers as new, nontraditional players emerge.
- New and critical use cases are emerging in all industries to meet new business realities caused by the COVID-19 pandemic, such as mass notifications, contactless transactions and expanded data collection.

Recommendations

As a product leader preparing for new entrants into the ecosystem, you must:

- Seek new sources of information and view competition based on the needs that new solutions address and not only on specific products. Broaden your lens and look beyond traditional competitors into substitute solutions built by players such as startups, megavendors, partners and end users.

- Strengthen investments by investigating and preparing for how technology can be used to disrupt or expand into an existing market with new technology options.
- Perform a market analysis of the components in your product portfolio to identify emerging substitute products that serve customers' need to a lesser extent. These could be future threats and you will need to address them.
- Assess the white space between existing digital business functions to identify areas of opportunity to address as rapid expansion will introduce opportunities.

Strategic Planning Assumptions

By 2023, more than half of the categories of technology products and services that Gartner identifies in our Market Share and Forecast Analysis reports will be served by at least one global megavendor.

By 2024, more than one-third of technology providers will compete with at least one nontechnology provider.

By 2024, 80% of technology products and services will be built by those who are not technology professionals.

In 2023, $30 billion in revenue will be generated by products and services that did not exist pre-COVID-19.

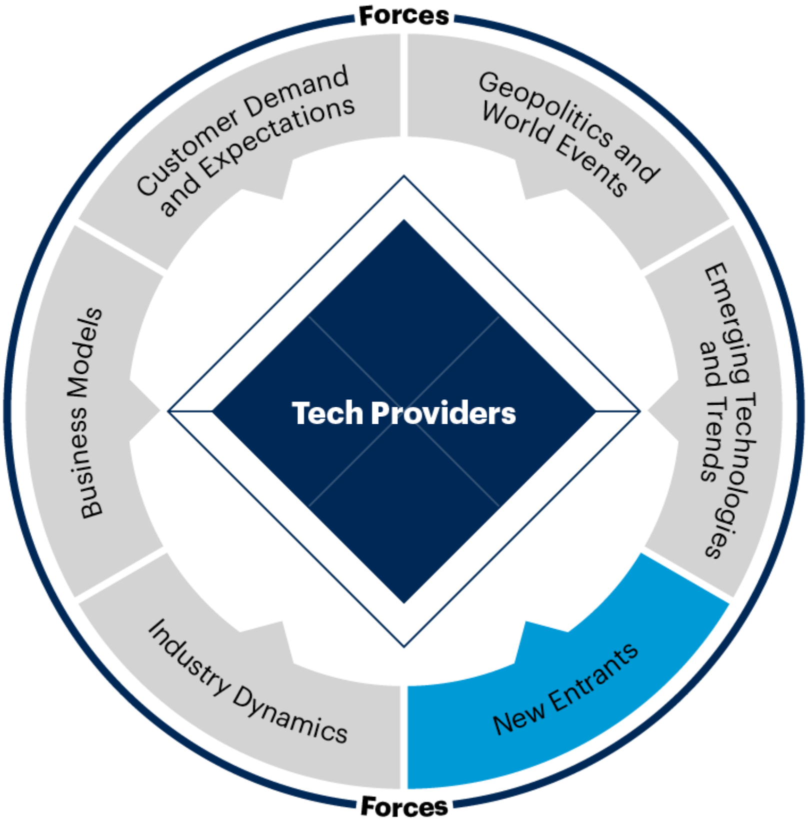
Analysis

What You Need to Know

Six forces will significantly reshape what it means to be a technology and service provider (TSP) heading into 2025. These forces include customer demand and expectations, business models, industry dynamics, new entrants, emerging technology and trends, and geopolitics and world events (see Figure 1 and "Tech Providers 2025: Prepare to Survive and Thrive With the External Forces That Will Impact Your Business"). The following predictions look specifically at challenges new entrants will exert 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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Changing industry dynamics and rapid development cycles make the dedicated pursuit of competitive intelligence an absolute must for technology providers. However, following your known list of competitors is no longer enough — now you must be mindful of challenges posed by new entrants into your market — some of which do not exist today. In some cases, providers in adjacent markets may venture into yours as a way of growing revenue and mind share. In others, dominant providers with seemingly endless cash and a limitless appetite for conquest may decide that now is the time to enter your market with their brand recognition, economies of scale and disruptive models. Even end-user organizations are showing interest in productizing their solutions and becoming a technology provider (see “To Create a Digital Business, Act Like a Startup CEO”).

Historically, an oversaturated market, the need for capital, and customer affinity and loyalty to a brand would be barriers to enter a new market. But what do you need to consider when entering a net new rather than an established market? Warp-speed innovation, customers being driven by convenience over cost and a “can’t get enough” tech culture make the conditions for entering an undefined and net new market palatable.

While the market works hard to rebound, household, brand-name TSP megavendors with cash-on-hand will be more strategic regarding build versus buy strategies. They will acquire not only traditional TSP vendors but also technology-adjacent players that can augment and add to an ever-growing portfolio to not only stay competitive but also inspire emerging market reach.

Back-end data and insights from megavendor-managed marketplaces are a secret weapon turned into a catalog of acquisition targets. Uncovering trends in in-demand software and services enable megavendors to turn partners into “employees” while increasing customer stickiness, confirming retention and growing customer lifetime value. TSPs must shift from thinking of themselves as vendors to being strategists.

The pace of technology innovation is racing the speed of new market entrants’ strategies. While the pace of introducing new technology is faster than ever before, thus disrupting markets, the same can be said for the rate of new, non-technology-born companies entering the market, like GE did circa 2000. As nontech vendors enter new markets, this leading indicator is the final shift to “tech-based everything.”

TSPs will need to not only prepare for new and different types of competitors, but also consider ways to stay competitive. This may mean assessing purchasing models, ease of doing business, customer experience, generational demands and, last but not least, offerings — especially when many technology products and services will be built by nontechnology professionals.

Maintaining relevancy and practicing patience while listening for market signals through the noise will ensure TSPs are not overcorrecting and chasing fads but addressing market needs and use cases that will not be delivered by overengineered tech-for-everything scenarios. Some users will either not want to be saturated with tech or, due to resource constraints, rely on traditional tech, that is to say, tech that is delivered on a normalized pace at 2020 standards.

COVID-19’s impact on people personally, professionally and economically will introduce new opportunities for TSPs. Technology can aid in rapid expansion and address “the new normal” as it pertains to contactless transactions and interactions, mass notifications, and other yet-to-be-identified opportunities that will harden as the economy and business pivot forward.

Strategic Planning Assumptions

Strategic Planning Assumption: By 2023, more than half of the categories of technology products and services that Gartner identifies in our Market Share and Forecast Analysis reports will be served by at least one global megavendor.

Analysis by John Santoro

Key Findings:

- Without some regulatory correction, the handful of global megavendors (such as the digital dragons) will continue to grow into new markets by acquiring partners or competitors or by creating their own version of a smaller company's product.

- Application and data marketplaces collect information about customer tastes and buying behavior, offering the megavendors that implement them valuable insight into new markets to enter or providers to acquire.
- Cloud reduces the barriers to entry into new markets for megavendors with cloud capabilities, as they will find new offerings that are complementary to and better integrated with their existing offerings.

Near-Term Flags:

- Amazon, Alibaba, Apple, Facebook, Alphabet (Google), Microsoft, Baidu and Tencent have demonstrated considerable ambition for entering new markets.
- Investors hesitate to fund startups that may eventually compete with these juggernauts, and charges of using insight gathered from their marketplaces to ultimately compete and destroy partners have been leveled against these companies.
- Megavendors have shown they will not limit themselves to competing in adjacent markets or against their ecosystem partners. Consider Google's entry into the market for self-driving cars or Amazon's acquisition of Whole Foods and entry into the pharmacy and transportation businesses.

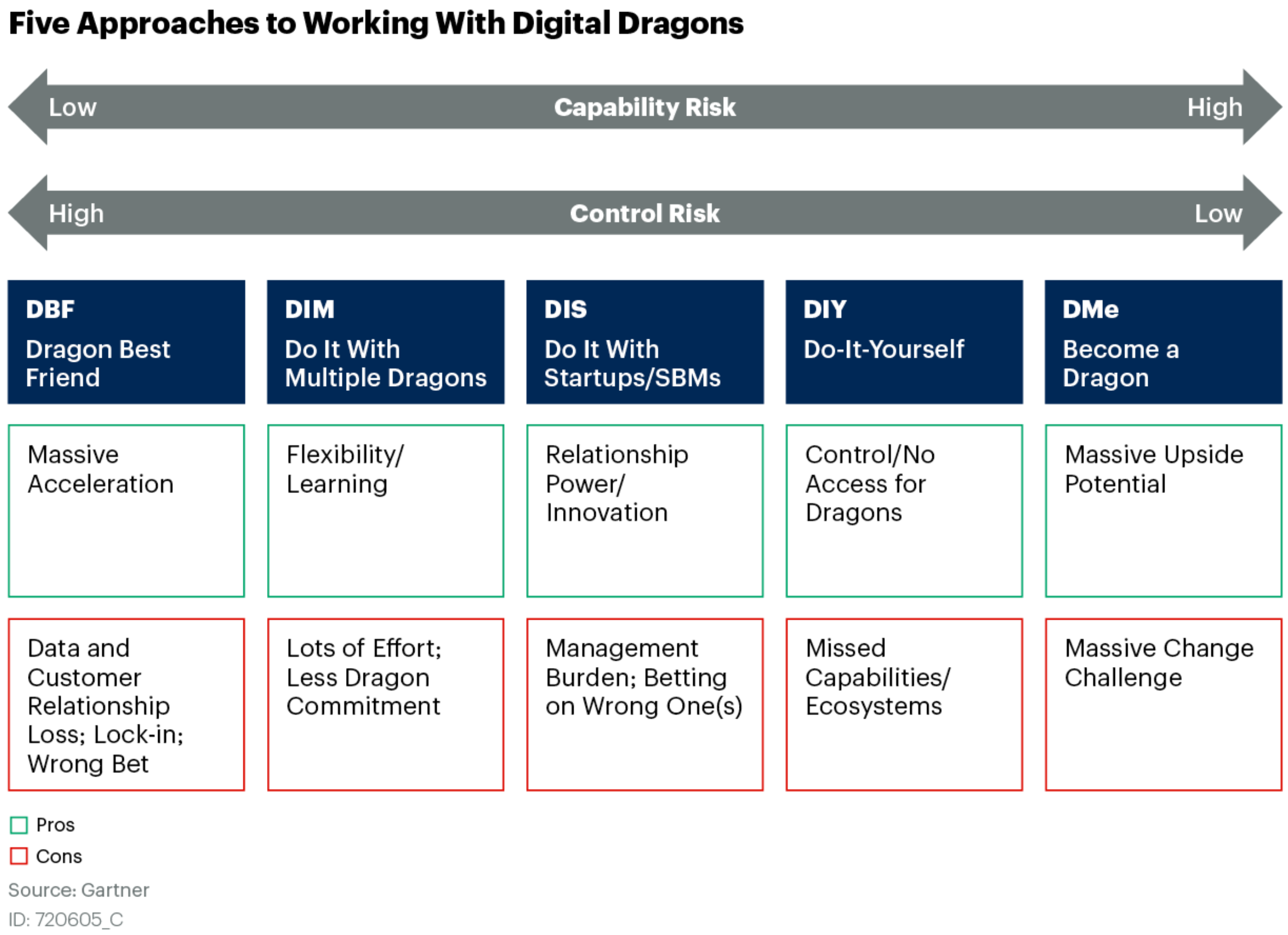
Market Implications:

Megavendors' resources make it relatively easy for them to create a product from scratch that competes with one from a small technology provider. In addition, the platforms run by these megavendors give them access to a large customer base with whom they can leverage their brand reputation and data on buying patterns. As if this were not enough, many customers believe that going with a known megavendor reduces the evaluation effort, integration needs and perceived risk. With all of these advantages, megavendors can blindside and overwhelm smaller providers when they, one day, decide to compete with them.

As a result, technology and service providers will be increasingly vulnerable to megavendors trying to grow their market reach and revenue. Successful providers participating in a marketplace run by a megavendor must remain concerned that they will draw its attention and ultimately find themselves competing against the new product or acquisition. To level the playing field, smaller providers should evaluate raising capital and seek advice from institutional investors with track records of successful exits from markets in which megavendors participate.

Figure 2 details five strategies for dealing with the challenges and opportunities presented by these powerful providers. For more detailed information, see "Tech CEO's Strategy for Digital Dragons in a Nutshell."

Figure 2: Five Approaches to Working With Digital Dragons



Recommendations:

- Carefully choose the marketplace in which you participate by avoiding solutions that might be a logical area of expansion for a megavendor in the near term. Develop exit strategies for the marketplace and determine the cost-benefit of joining multiple marketplaces.
- Prepare for the eventual entry of megavendors into your market by developing an offering and positioning that could compete effectively against them, such as by emphasizing in-depth business knowledge, innovative technology or superior customer success.
- Maximize the options for your exit strategy by making your company an attractive acquisition target and by raising capital from investors that can add value.

Related Research:

- "Tech CEO's Strategy for Digital Dragons in a Nutshell"
- "Tech CEOs Must Adopt 5 Best Practices for Raising Capital"

Strategic Planning Assumption: By 2024, more than one-third of technology providers will compete with at least one nontechnology provider.

Analysis by Daryl Plummer

Key Findings:

- Technology providers are increasingly entering markets related to, or in competition with, nontechnology providers.
- Nontechnology providers are creating technology-driven solutions more frequently and with more ambition.

Near-Term Flags:

- Investment in technology-based companies (in both technology and nontechnology markets) will continue to show a stronger compound annual growth rate (CAGR) than non-technology-based companies over the next 12 months.
- High-profile announcements of technology launches from nontech companies will proliferate over the next 12 months.

Market Implications:

The phrase, “every company is a tech company” has become commonplace in discussions about technology-based competition. But on deeper inspection, there are many differences between tech providers — those whose business is to sell technologies — and nontech providers — whose business is to sell business solutions that may be based on technology. Nontech providers are concerned about delivering their products and services to customers regardless of whether or not those products and services are technologies. This means that an airline, a mining company or even a pizza shop may use technology heavily as a part of its business delivery. In the end, those technologies are ancillary to that delivery. For tech providers, technology is the thing to sell and to deliver.

Despite the emergence of many digital businesses, whose existence is based on a technology, the technology itself is not what is sold. For example, social sites like TikTok, hospitality services like Airbnb and ride-sharing companies like Uber could not easily exist without the base technologies that provide their foundation of delivery. However, in the end, they sell communication, experiences, rooms or rides.

Beyond the notion of what is being sold lies the question of who it is being sold to. Tech providers normally sell to companies that use the technology to create value they can sell. But tech providers also see that value and are increasingly willing to try to mine that value themselves. Whether it’s Amazon entering groceries with Amazon Go stores, Google entering auto manufacturing with

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Waymo and self-driving cars, or Apple entering music delivery services with iTunes, these providers recognize the differentiated value of using their technology to enter nontechnology markets. In these cases, the customers cease being those who use tech to build other solutions, and they start being those who want to buy the end result. That changes the game for competition.

Now, nontech companies must compete with nontraditional competitors that do not have the same weaknesses, considerations for entering a market or even the same ecosystems. They must concern themselves with whether or not any given tech provider that they rely on will become a competitor. For tech providers, the opportunity to disrupt nontech markets and expand vertically must be evaluated against potential distraction to existing businesses. TSPs must consider the size of the market opportunity and investments required, plus whether core capabilities will be best leveraged.

The phenomenon of tech providers competing with nontech providers has increased as the digital phenomenon has grown. Digital dragons such as Apple and Amazon have shown smaller companies that industry valuations can be higher for those that demonstrate innovative business models based on technologies. Digital companies, for example DocuSign or Acorns, now get the love from investors. In the early 1980s, the shift to technology companies was visible in the Nasdaq's shift from steel and other traditional markets to technology markets. The Nasdaq continues that trend, as traditional analog businesses, such as airlines, are replaced by digital companies. In a recent study, tech companies were shown to grow much faster than nontech companies, which will accelerate the trend to cement a technology base to the business model.

Regardless of whether it is the tech provider that enters a nontechnology market or it is the nontech provider who sells technology as part of a solution, the competition will intensify, requiring providers to innovate quicker. Our prediction focuses on the tech providers competing with nontech providers because entering into new markets will be a leading indicator for the final shift to tech-based everything.

Recommendations:

- Explore the creation of technology-based business models that are now possible due to the rise of digital.
- Tech providers should establish an R&D function for how technology can be used to disrupt or expand into an existing market with new technology options.
- Tech providers should establish consortia that include nontech providers to collaboratively explore tech innovation.
- Explore the verticalization of your technology within different vertical markets. This will create more use cases, make you more attractive as a provider and introduce you to additional channels.

Related Research:

- "Willful Disruption: How Acorns Disrupts"

Strategic Planning Assumption: By 2024, 80% of technology products and services will be built by those who are not technology professionals.

Analysis by Rajesh Kandaswamy

Key Findings:

- Numerous factors enable the creation of digital products and services by those who are not full-time technical professionals. Professionals and citizens whose primary functions are not about manipulating technology with tools to build products or services are increasingly doing so.
- Growth in digital data, APIs and other mechanisms to connect systems, granular business services, resources for rent or hire, growth of low-code development tools, and artificial intelligence (AI)-assisted development are all factors that enable the democratization of technology development beyond IT professionals.
- The development of technology products and services is increasing outside of IT departments, with total business-led IT spend averaging up to 36% of the total formal IT budget. Digital business is treated as a team sport by CEOs and no longer the sole domain of the IT department.
- Barriers to imagination for technology-enabled products and services have been reduced due to the proliferation of digital technologies beyond software applications on a computer. These include websites, apps, internet-enabled devices, and the digitization of everyday products and personal devices.

Market Implications:

The growth of technology development outside of traditional bastions, such as corporate IT, technology and service providers, and technical professionals, provides both opportunities and threats for TSPs. The spillover effect is varied and deep enough that it needs to be treated broadly. We break them into key aspects below:

- New technology buyers outside the enterprise occupy a larger share of the overall IT market.

Technology encroachment into all areas of business and mass consumer adoption creates demand for products and services outside of IT departments. For technology and service providers, this opens up new, large swathes of buyers and buying segments. Business buyers in enterprises, consumers of all kinds, retailers, distributors and many others look to technology for various needs. These needs do not neatly fit into products and services served by traditional providers. The reduced barriers to entry for creation of technology-based solutions provide an entry point for *anyone* to serve those needs. It becomes vital for technology and service providers to extend beyond traditional buying centers. This will require adjusting product and marketing mix to serve clients of various kinds.

- Products and services expand significantly in variety, value, scope and consumption models.

Technology use beyond the IT department into other business areas and consumers expands the scope of what are technology products, services and the use cases they serve. These new users can have varying needs, consumption patterns, price sensitivity, engagement models, buying cycles and other nuances. Furthermore, substitute products and services that serve the same need, but in different ways, will increase. Technology and service providers design products and services based on certain assumptions of IT buying in enterprises, and those assumptions will be insufficient for these new buyers. Providers need to analyze which portions of their product portfolio are vulnerable to such encroachment.

- The competitive landscape becomes more complex and fragmented.

New entrants that build technology products and services will serve as new sources of competition. These entrants include nontechnology professions within enterprises, citizen developers, data scientists and AI systems that generate software. Technology and service providers need to actively analyze where such competition can emerge and be prepared with defensive actions in their product roadmaps and strategies.

- New models for operation and innovation open up.

The availability of new technology developers beyond professionals in your organizations opens up new sources of innovation and the ability to get work done. Thus, technology and service providers will need to extend their sourcing of ideas and technology development into new communities, whether they are based on citizen development, their own customer communities or other sources.

Recommendations:

- Conduct user studies to identify how your products and services are augmented by your customers with other services and technologies. Also, evaluate your customers’ needs often. Identify which of those could emerge as complementary services to strengthen your products and services and which could be threats.

- Perform a market analysis of components of your product portfolio to identify if emerging substitute products could serve the same need to a lesser or similar extent. These could be future threats, and you will need to identify how to address them.

- Identify areas adjacent to your offering that are amenable for citizen development or extension by non-IT professionals. Encourage activity to build them (using support communities or other mechanisms) to strengthen your ecosystem.

Related Research:

- "The Future of Apps Must Include Citizen Development"
- "Top 10 Strategic Technology Trends for 2020"
- "Comparing Digital Process Automation Technologies Including RPA, BPM and Low-Code"
- "Business-Led IT Spend Reaches a Tipping Point — CIOs Must Lead"
- "General Manager Insight: Expand Your Concept of Use Cases to Be Truly Customer-Centric"

Strategic Planning Assumption: In 2023, $30 billion in revenue will be generated by products and services that did not exist pre-COVID-19.

Analysis by John Lovelock

Key Findings:

- Crises create new opportunities for business and technology. As Winston Churchill is credited for saying, "Never let a good crisis go to waste."
- Enterprises around the world will be transforming to digital businesses at a faster pace than before.
- Enterprises will have more technology to implement and less funding to do it with.
- Public health lockdowns drove rapid adoption of remote work. Social distancing requirements, which will be in place through 2021, will motivate opportunities for all manner of remote delivery of services, such as telehealth, remote collaboration and virtual conferences.
- There will be an increased push toward automation as enterprises will substitute technology, including automation, AI and machine learning, robotic process automation (RPA), and the Internet of Things for employees.

Near-Term Flags:

- The rapid expansion of cloud services, digital business initiatives and remote services (work, education, healthcare and more) opens up possibilities in integrations and optimization.

- Global supply chain disruptions and uneven industry restarts create digital business ecosystem possibilities.
- Virtual conferencing will be upscaled by major vendor conferences to more widestream adoption.

Market Implications:

Cash became king in 2020. This economic reality became apparent when countries imposed healthcare interventions to “flatten the curve” of COVID-19 infections. By locking down certain industries and having consumers self-isolate, virtually every enterprise was frozen by revenue uncertainty. Companies would go out of business in 2020 — not by becoming unprofitable, but by running out of cash. More than a trillion U.S. dollars’ worth of bonds have been sold, and more than $200 billion has been drawn down from lines of credit. Add in the existing cash in-hand — there is money available for IT. Two main market areas will open opportunities for new products, services and offerings: remote (in all its forms) and the increased pace of digitalization.

Remote work is only in its infancy. Enterprises rushing to ensure employees can work from home will need to transform into a secure, industrialized and reliable technical offering. The human resources issues surrounding remote work will become more evident as more people work from home for longer periods. Face-to-face interactions will be a challenge through the end of 2021, which puts every industry in need of remote delivery of their service or product.

Recommendations:

- Look for the white space between existing digital business functions, as rapid expansion will bring opportunities.
- Create services that are targeted at optimizing areas of rapid IT spending or rapid declining spending.
- Prepare for the provisioning of services at a distance, as “Remote X” will open opportunities for increasing the reliability and hardening of connectivity.

Recommended by the Authors

To Create a Digital Business, Act Like a Startup CEO

Emerging Technologies and Trends Impact Radar

Recommended For You

Tech Providers 2025: Strategic Impacts for Technology Buyers and Customers

Tech Providers 2025: Strategic Impacts to the Competitive Landscape

Tech Providers 2025: Transformed Buyers and Customers Force Evolution

Tech Providers 2025: When Tech and Geopolitics Collide

Tech Providers 2025: Strategic Impacts for Products and Services

Supporting Initiatives

Emerging Technologies and Trends Impact on Products and Services

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