

Top 3 Generative AI Trends Impacting Application Software Markets

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Initiatives: [Technology Market Essentials](#)

Generative AI is disrupting application software markets by augmenting capabilities and enhancing productivity, efficiency and business value for users. To remain relevant, technology and service providers should be aware of the trends affecting this dynamic market.

Overview

Impacts

- **Marketing and customer service are emerging as key focus areas within application software, creating opportunities for technology and service providers (TSPs):** End users' desire for both growth and productivity gains in the face of cost constraints, means that TSPs must evolve their marketing and customer service applications to better match evolving end-user needs in a highly competitive market. In order to succeed, software providers must focus on the quality of generative AI (GenAI) output to maximize productivity enhancement. Success in GenAI capabilities in marketing and customer service applications will pave the way for wider adoption across other areas of application software.
- **SaaS being the most viable delivery route for GenAI capabilities, SaaS-averse TSPs will have to rethink their SaaS strategy:** SaaS is emerging as the preferable delivery route for integrating new GenAI capabilities into applications. SaaS delivery both helps TSPs iteratively provide improvements to match evolving customer needs and supports users' rapid exploration and validation of use cases. SaaS-averse organizations will have to rethink their SaaS stance to be able to use GenAI.
- **Due to high delivery and development expenses associated with GenAI, TSPs are incurring an ongoing cost with uncertain perceived value:** TSPs are incurring real costs by incorporating GenAI capabilities into their products and delivering them, without full insight into how these costs will be recouped. Much will depend on the perceived value of these features yet to be quantified by customers and their willingness to pay a premium for them. In the short term, slow adoption by TSPs could result in missed opportunities and impact their competitive position.

Recommendations

- Introduce GenAI capabilities that add business value into existing marketing and customer service applications and help users readily track return on investments to enable them to explore GenAI. Capitalize on the success of marketing and customer service initiatives to introduce new GenAI functionality within other applications.
- Rapidly integrate GenAI capabilities within existing solutions deployed in the cloud to help users explore and experience the benefits and value. Keep innovating to meet the demand for GenAI-capable applications, which is expected to surge over the next two to three years.
- Focus on market penetration initially to build a user base as well as validate business value of GenAI-enabled offerings. Then, determine the monetization plan by analyzing business value delivered, coupled with understanding user acceptance and cost.

Strategic Planning Assumptions

- By the end of 2024, more than 40% of existing users of marketing and customer service application software will be using GenAI-capable solutions.
- By 2024, more than 75% of GenAI-enabled enterprise application software will be utilizing SaaS as the preferred mode of deployment.
- By 2025, more than 50% of application software offerings with GenAI capability will carry an associated price premium. Pricing options will continue to evolve through 2025 as buyers will be tested for their propensity to pay a GenAI premium.

Introduction

Technology and service providers in the application software markets are being rapidly impacted by the transformation brought by generative AI (see Figure 1). According to the 2023 Gartner CEO and Senior Business Executive Survey, CEOs and CFOs see growth as their top strategic business priority over the next two years. ^{1,2} Moreover, 21% of CEOs also stated that AI is the top disruptive technology. ¹ Consequently, organizations are prioritizing implementation of generative AI (GenAI) in growth-oriented applications, such as marketing.

There is also a notable shift in 2023 priorities toward an increased focus on cost management, which will prompt customer service to be a priority area for GenAI-capable applications, with their promise to enable enterprises to gain efficiency by reducing resources and enhancing productivity. In addition, GenAI is significantly improving, and possibly transforming, the existing way marketing and customer service applications are being used.




With the surge in GenAI hype, vendors are racing to provide GenAI-capable solutions in the key business priority areas of marketing and customer service. The disruption caused by GenAI is opening up opportunities for new and emerging vendors, putting unresponsive incumbents at risk, as the established rules of engagement are broken with innovative terms and conditions around pricing, contract length and service levels.

SaaS has emerged as the most viable route to integrate GenAI capabilities within application software, enabling existing SaaS users to explore GenAI apps faster. Those not keen on SaaS may delay their exploration of GenAI capabilities, slowing down deployment. Secure use of business-critical and sensitive data might become a critical concern if providers are not fully compliant.

The real costs incurred by TSPs on development and delivery of GenAI-enabled applications could be a near-term challenge, as TSPs will have to explore different pricing options to recover the internal and external costs they will be incurring. The resulting upward price pressure on buyers will affect the adoption of GenAI-enabled applications, at least for the next one to two years, as users evaluate price versus business value.

Figure 1: Top Three Generative AI Trends Impacting Application Software Markets

Top Three Generative AI Trends Impacting Application Software Markets

<div>1</div> <div></div> <div>Marketing and customer service are emerging as key focus areas within application software, creating opportunities for TSPs</div>	<p>By the end of 2024, more than 40% of existing users of marketing and customer service application software will be using GenAI-capable solutions.</p>	<ul style="list-style-type: none">• End users’ desire for both growth and productivity gains in the face of cost constraints, means that TSPs must evolve their marketing and customer service applications to better match evolving end-user needs in a highly competitive market.• In order to succeed, software providers must focus on output quality of GenAI capabilities that maximize productivity.
<div>2</div> <div></div> <div>SaaS being the most viable delivery route for GenAI capabilities, SaaS-averse TSPs will have to rethink their SaaS strategy</div>	<p>By 2024, more than 75% of GenAI-enabled enterprise application software will be utilizing SaaS as the preferred mode of deployment.</p>	<ul style="list-style-type: none">• SaaS is emerging as the preferable delivery route for integrating new GenAI capabilities into applications.• SaaS delivery both helps TSPs iteratively provide improvements to match evolving customer needs and supports users’ rapid exploration and validation of use cases.
<div>3</div> <div></div> <div>Due to high delivery and development expenses associated with GenAI, TSPs are incurring an ongoing cost with uncertain perceived value</div>	<p>By 2025, more than 50% of application software offerings with GenAI capability will carry an associated price premium. Pricing options will continue to evolve through 2025 as buyers will be tested for their propensity to pay a GenAI premium.</p>	<ul style="list-style-type: none">• TSPs are incurring real costs incorporating GenAI capabilities into their products and delivering them, without full insight into how these costs will be recouped.• Much will depend on the perceived value of these features, yet to be quantified by customers and their willingness to pay a premium for them.

Source: Gartner
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Impacts and Recommendations

1. Marketing and Customer Service Are Emerging as Key Focus Areas Within Application Software, Creating Opportunities for TSPs

Marketing and customer services applications are among the leading software applications for GenAI integration within application software due to the proliferation of use cases around content generation, efficiency and analytics, in addition to enhancements in customer and user experience. Generation of marketing content, automatic marketing email response, summarization, product detailing and augmented customer service are some of the numerous use cases where GenAI is making significant enhancements in capabilities. According to a Gartner peer community survey on GenAI adoption, about 50% of the respondents are using GenAI beyond ChatGPT, the majority within marketing and customer service.³

GenAI represents the best path to match end users’ evolving needs in a highly competitive market, and just as every CIO needs a plan for GenAI, every TSP must soon evolve their marketing and customer service applications to have a tangible product for consideration. Failure to have credible offerings in these key areas within the next two years will potentially limit TSPs’ participation in RFPs for new business. User experience gained in marketing and customer service applications will open up adoption of GenAI in other areas of CRM and beyond.

Table 1: GenAI Is Transforming Features in Marketing and Customer Service Application Software

Market Impacts	Recommendations
<ul style="list-style-type: none">■ Within marketing and customer service applications, users are quickly adopting GenAI-capable solutions to enhance productivity and efficiency, indicating providers’ need to align their feature sets.■ Evolving functionalities using GenAI can offer superior experience such as enhanced customer journey analysis and faster and accurate resolution of queries. In addition, GenAI can also offer completely new customer experiences, personalized communication, and image generation and enhancement that can drive momentum and interest in GenAI-enabled solutions.■ Use cases within marketing and customer service applications need validation to successfully implement GenAI across other potential areas within application software.	<ul style="list-style-type: none">■ Prioritize integration of GenAI capabilities into existing software solutions in marketing and customer service to augment user experience around content summarization and content generation.■ Capitalize on the success of marketing and customer service applications to introduce new GenAI solutions within other applications to broaden your GenAI product portfolio.■ Provide metrics to users so they can compare the business value or ROI before and after leveraging GenAI.

Source: Gartner

2. SaaS Being the Most Viable Delivery Route for GenAI Capabilities, SaaS-Averse TSPs Will Have to Rethink Their SaaS Strategy

SaaS is the preferred delivery route for integrating new GenAI capabilities into applications. SaaS delivery allows development to be focused on areas of most immediate interest to users, helping to build insight into perceived value and provide evidence for future pricing. Therefore, integrating GenAI capabilities within existing SaaS modules of application software can help users explore and validate the use cases relatively faster. SaaS-averse TSPs will have to rethink their SaaS strategy to keep pace with GenAI use and gain insight into the interests, usage and evolving needs of users. SaaS-proficient TSPs can use the promise of GenAI to help overcome objections to SaaS adoption.

Table 2: SaaS-Averse TSPs Need to Rethink Their SaaS Strategy to Optimally Leverage GenAI Capabilities

Market Impacts	Recommendations
<ul style="list-style-type: none">■ The high share of SaaS deployment (65% in 2023) within enterprise application software means that end users can explore new GenAI capabilities relatively smoothly.■ GenAI-enabled offerings are seeing more traction in application software markets that are relatively cloud-heavy, such as CRM, and email and authoring.■ SaaS subscription is enabling end users to review GenAI-capable applications, scale up/down their usage, validate the benefits in a predicted time frame before making huge investments.	<ul style="list-style-type: none">■ Utilize SaaS as a route to market for GenAI-capable solutions, as SaaS is the most preferred expansion route for business buyers.■ Enable users to explore and experience GenAI by integrating GenAI-enabled features within existing solutions deployed in the cloud.■ Invest in all the security certifications needed for the targeted market, including observability and encryption capabilities to meet infosec requirements of buyer organizations. Enterprise-grade security-related compliances are non-negotiable.

Source: Gartner

3. Due to High Delivery and Development Expenses Associated With GenAI, TSPs Are Incurring an Ongoing Cost With Uncertain Perceived Value

Enterprise vendors will likely see an increase in costs when providing GenAI capabilities to users. This high cost of development and delivery could be passed on to the buyers. While vendors will try their best to control and absorb internal costs, they will not be able to control much of the external cost and will look for monetization routes.

Monetization will be a near-term challenge as users evaluate the benefits and ROI through rapid validation of evolving use cases. Providers will face monetization challenges due to the certainty of costs associated with running and maintaining GenAI models against uncertain perceived value as providers learn which pricing models and levels the market will bear.

Table 3: Providers Are Incurring Ongoing Costs With Uncertain Perceived Value, Which Might Result in Monetization Challenges

(Enlarged table in Appendix)

Market Impacts	Recommendations
<ul style="list-style-type: none">■ To recoup the additional cost associated with providing GenAI-enabled solutions, TSPs will look for ways to monetize their expenses. The margins for vendors are not likely to be as high as traditional application software in the medium to long term.■ TSPs feel competitive pressures to show leadership and responsiveness. Depending on submarket dynamics, vendors may feel compelled to give away costly GenAI capabilities or offer them below cost to retain or build market share. This will also vary between vendors that have synergies in GenAI capabilities and those that don't.■ Vendors are testing the willingness of buyers to pay for GenAI products or add-ons. While buyers are interested in exploring what GenAI can do, vendors have not quantified the value it can provide.■ Pricing markups could dampen the excitement and acceptance of the solutions, especially if the initial use cases proposed cannot be easily applied in specific end-user business processes.	<ul style="list-style-type: none">■ Devise a pricing plan that is simple for users to understand (e.g., consumption-based or fixed), as there are too many pricing variables, such as tokens, APIs. Users are already unsure about the use cases and viability of GenAI; any more confusion on pricing could lead to reluctance in adoption, delays in purchase decisions, extended negotiations and/or customized contract terms to suit unique requirements.■ Be ready to change and modify pricing models as the market evolves to remain competitive.■ Pilot the market with early adopters and understand what business value enhancement they are getting from GenAI-enabled applications. Review and adapt your pricing as per the experience of end users.■ Experiment large usage simulations to truly understand and hedge costs in high-volume situations before devising pricing.

Source: Gartner

Evidence

¹ **2023 Gartner CEO and Senior Business Executive Survey:** This survey was conducted to examine CEO and senior business executive views on current business issues, as well as some areas of technology agenda impact. The survey was conducted from July through December 2022, with questions about the period from 2022 through 2024. One-quarter of the survey sample was collected in July and August 2022, and three-quarters was collected from October through December 2022. In total, 422 actively employed CEOs and other senior executive business leaders qualified and participated. The research was collected via 382 online surveys and 40 telephone interviews. The sample mix by role was: CEOs (n = 277); CFOs (n = 95); COOs or other C-level executives (n = 19); and chairs, presidents or board directors (n = 31). The sample mix by location was: North America (n = 169), Europe (n = 105), Asia/Pacific (n = 102), Latin America (n = 29), the Middle East (n = 11) and South Africa (n = 6). The sample mix by size was: \$10 million to less than \$50 million (n = 3), \$50 million to less than \$250 million (n = 51), \$250 million to less than \$1 billion (n = 102), \$1 billion to less than \$10 billion (n = 190) and \$10 billion or more (n = 76). Disclaimer: Results of this survey do not represent global findings or the market as a whole, but reflect the sentiments of the respondents and companies surveyed.

² [What Matters to CEOs and CFOs Right Now.](#)

³ **Generative AI and ChatGPT: Adoption and Use One Minute Insight:** Gartner Peer Community is for technology leaders to engage in discussions with peers and share knowledge in real time. Users go through a strict validation and verification process to ensure they are authentic. The surveys are designed by Gartner Peer Community editors and appear in the Survey Reports section of the platform. Surveys are summarized in a One-Minute Insight once the respondent threshold is met.

Of the Peer Community Benchmark Survey data considered for this topic, only the responses that met the minimum criteria were included in this synthesis:

- For technology users, surveys with more than 100 responses
- For business users, surveys with more than 50 responses

The results of this synthesis are representative of the respondents that participated in the survey. The results are not market-representative. The call-outs are representative responses that reinforce the main results and are selected by editors to provide a deeper understanding of participants' perspectives and experiences. They offer insights, anecdotes or examples that support and contextualize the survey findings.

Recommended by the Authors

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[Forecast Analysis: CRM Marketing and Cross-CRM Software, Worldwide](#)

[Innovation Guide for Generative AI Technologies](#)

[Executive Pulse: GenAI Initiatives Take Shape Across the Enterprise](#)

[Generative AI and ChatGPT: Adoption and Use](#)

[Forecast: Public Cloud Services, Worldwide, 2021-2027, 3Q23 Update](#)

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