As a service, at your service

Reinventing the high tech company of tomorrow

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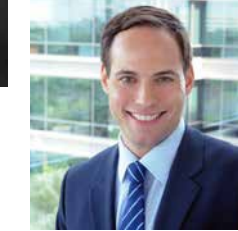Senior Manager –
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Dynamic or bust: The new market reality

Section 1

Companies with a higher proportion of their revenue as recurring are rewarded by investors with up to 3x to 4x increases in enterprise value, according to Accenture's analysis.[1]

Most enterprise IT budgets are shifting spending toward IT services and software, specifically software-as-a-service (SaaS). They are minimizing hardware purchases in favor of upgrades — many of which incorporate generative AI.

"Worldwide IT spending is expected to total $5.26 trillion in 2024, an increase of 7.5% from 2023, according to the latest forecast by Gartner, Inc. This is a decrease from the previous quarter's forecast of 8% growth, but an increase of the overall spend forecast of $5.06 trillion."[2]

This change in spending correspondingly affects high tech providers' strategic, operational and investment decisions. The "growth at all costs" days during the heart of COVID-19 and historic zero interest rate policy are behind us. Customer needs are diverse, elastic and evolving.[3] High tech executives need a more customer-centric strategy if they want to harness this new spending to drive growth.

As-a-service (AaS) offerings will be critical for companies' reinvention strategies. A well-executed AaS strategy delivers both dynamism and stability to high tech providers and their customers alike.

Yet, few high tech providers are prepared for the demands associated with such an enterprise change.

Our research found a surprising set of conditions on the ground.[4] Consider the following:

50% believe they can meet their publicly stated ARR goals, while 48% do not.

85% are concerned about AaS models cannibalizing existing offerings.

75% agree or strongly agree legacy technology hardware companies will no longer exist unless they begin acting more like software companies.

39% rank creating organizational efficiencies and adopting/enabling generative AI among their top strategic issues, sharing the same level of importance.

High tech companies have the products and services ripe for a cloud-hosted, subscription-based model via AaS. They should, in short, have everything they need to deliver recurring revenue models.

And yet, many structural challenges, such as legacy functional systems, remain in place — many for quite some time. Our research found, however, that breaking free is possible. Annual recurring revenue (ARR) goals can, in fact, be attainable for companies able to embrace the AaS strategy.

Executives can succeed by taking four actions:

Shift from transactional to relational customer engagement.

Replace legacy systems with modern IT.

Meet the elastic, evolving customer needs of today.

Recalibrate to a modern sales force ready to succeed with AaS.

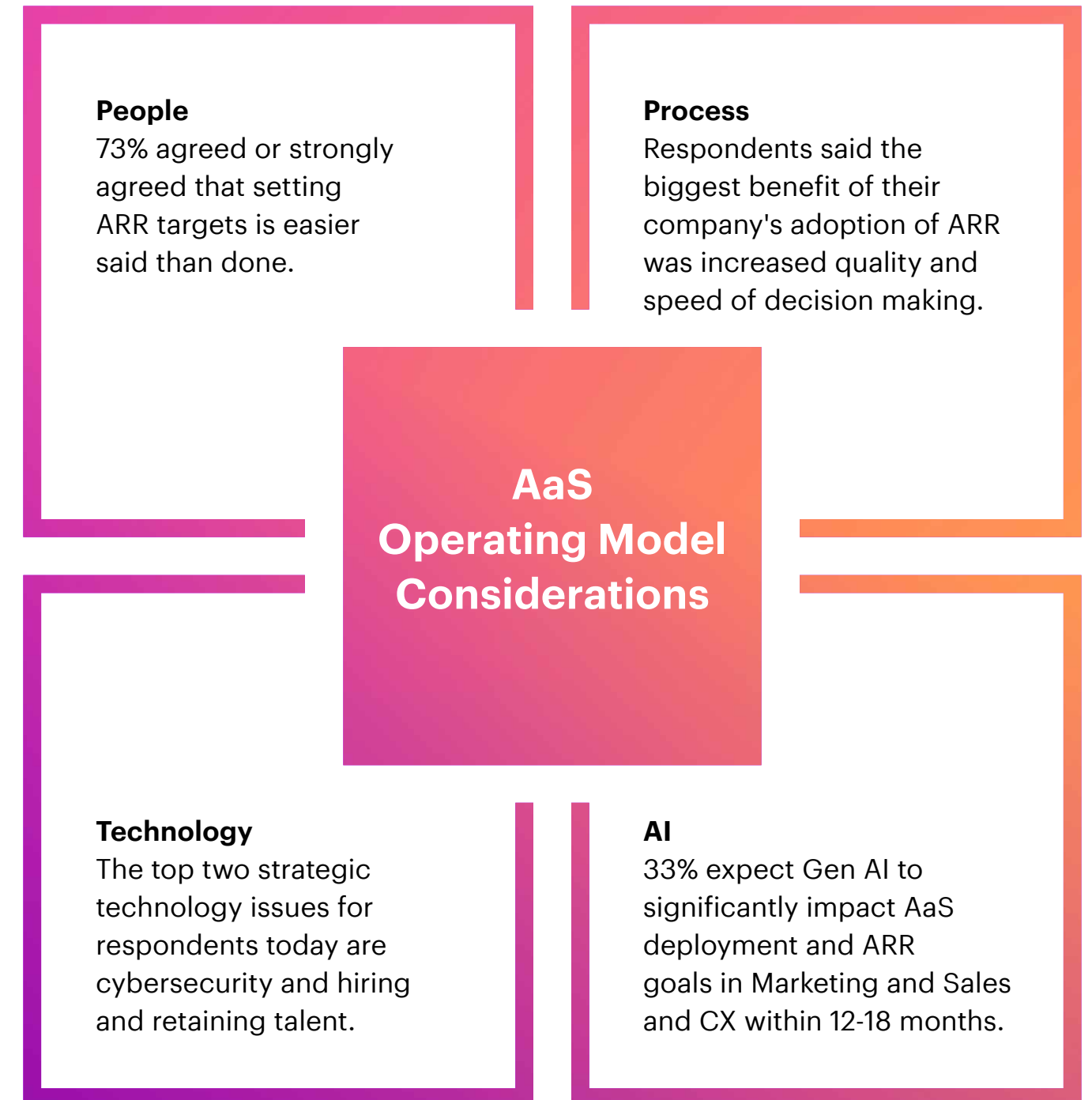# Shift from transaction to relationship

Section 2

Move from transactional to relational customer engagement by redefining offerings, marketing and sales.

High tech companies are reinventing themselves as they move from product-focused to subscription-based organizations.[5] This change delivers benefits for both the customer and the provider. For the customer, this change offers continued and superior value year over year. For the provider, this means long-term revenue growth, higher customer retention and increased customer lifetime value. Our survey found almost all (98%) of respondents said a provider's products and services define their customer relationship.

Annual recurring revenue (ARR) is an essential metric — one that is a larger part of total revenue today and an increasing part of the bottom line that increases confidence in future earnings projections within the investor community. For example, Cisco reported 55% of revenue as subscriptions in their FY 2024,[6] HPE reported $1.7 billion in ARR in its latest earnings,[7] Palo Alto Network's Next Generation Security business targets 90% ARR by fiscal year 2030[8] and HP Inc. plans to shift more of its offerings to subscriptions.[9]

Some executives, however, are cautious about the business model's benefits. Across business functions, our research also uncovered challenges and hesitations across the operating model. In many ways, the enterprise is still tethered to the product (Figure 1).

Figure 1:

People
73% agreed or strongly agreed that setting ARR targets is easier said than done.

Process
Respondents said the biggest benefit of their company's adoption of ARR was increased quality and speed of decision making.

AaS Operating Model Considerations

Technology
The top two strategic technology issues for respondents today are cybersecurity and hiring and retaining talent.

AI
33% expect Gen AI to significantly impact AaS deployment and ARR goals in Marketing and Sales and CX within 12-18 months.

Overcoming these hurdles requires a strategy that reaches the business, the product and the operating model: each of these levers needs seamless customer alignment from the outset. High tech companies need to start and end their AaS journey with the customer in mind.

Our Reinvention for High Tech report discusses how to drive industry reinvention by using customer-centricity as the lever.[10] Our research found 36% of executives said developing a strategy that creates a synchronized journey between AaS and ongoing reinvention programs is the best first step in shifting from a product-focused to a subscription-based organization.

The change must prioritize customer needs. Products will no longer be built, marketed and sold for just one transaction in their lifecycle, but will be part of an ongoing relationship with the customer base.
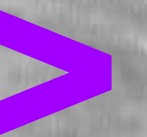
36%
of executives believe synchronizing AaS and reinvention programs is the first step toward a subscription-based model.

# Replace legacy systems with modern IT

Section 3

Modernize IT infrastructure through a digital core that supports the redesigned model by integrating fit-for purpose technologies, breaking down silos in finance and back-office systems.

The path forward is clear — on paper. Our research showed executives were split in confidence about achieving their publicly stated ARR goals with current strategies: 50% believe they can meet these goals, while 48% do not. We'd argue that technology is a lever that delivers on this strategy.

Figure 2:

How can high tech companies keep pace with their customers?

Better IT infrastructure — 57%

More operational efficiencies — 55%

Greater flexibility — 52%
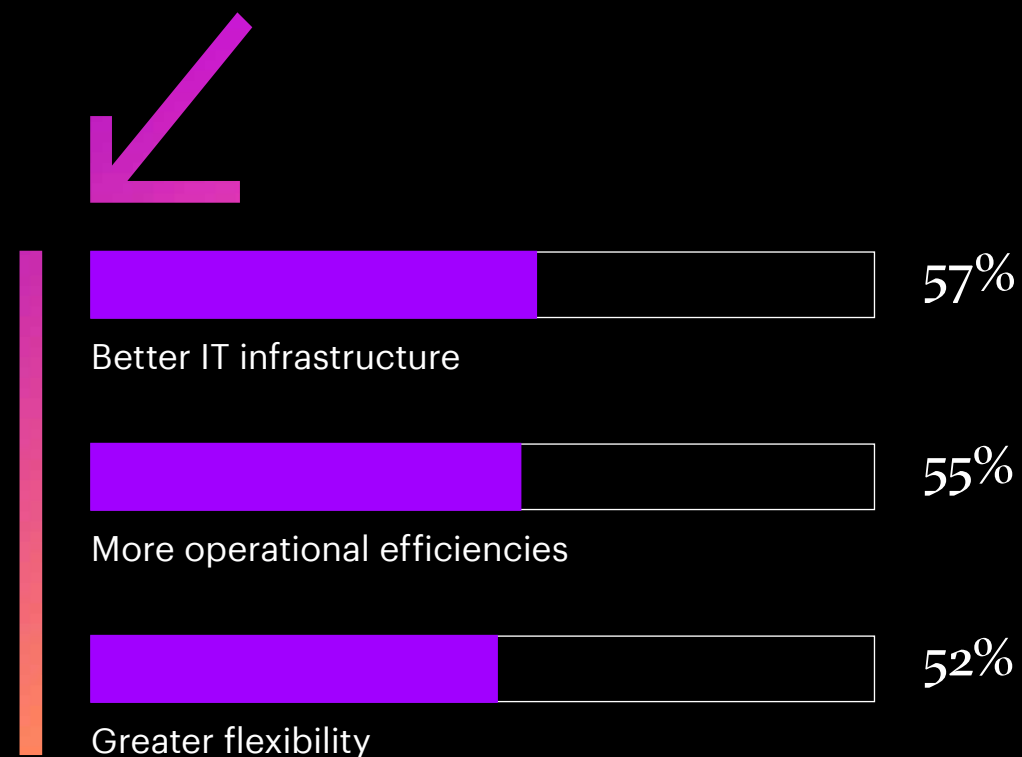
Top ways to help your organization be more responsive to address changing market demands.

To adopt AaS models, high tech companies will need to find the right balance between maintaining robust legacy operations and innovating for future revenue streams. Legacy systems are a double-edged sword: they may have the incumbent benefit and the advantage of familiarity, but high tech companies relying on them run the risk of falling behind the technological curve and accumulating technical debt.

To enable the new AaS model, richer customer insights across marketing, pre-sales, sales and post purchase (adoption and support interactions) will be critical. They also need product development data to help determine which product offerings will work better when combined and offered to the customer.

A strong digital core will be the key. It requires integrating advanced digital platforms, a seamless data and AI backbone and a secure foundation. This digital core can support companies to overcome legacy technology and operations. It is a requirement for capturing top quality customer insights, creating solutions and delivering those solutions at scale.

Our digital core research is clear: a company's technology capabilities define the limit of attainable business value. Autodesk counts the partnership with its system provider, SAP, as a key aspect of its IT modernization. The partnership has significantly improved efficiency in managing orders, invoicing, contract accounting, finance and supply chain. Their success underscores the importance of close collaboration with system providers for a successful AaS strategy, focusing on standardization and change management.[11]

Technology underpins everything from strategy to execution. A digital core consisting of essential technologies like cloud infrastructure, data, AI and applications will help companies outpace competitors, accelerate growth and ensure security across operations.

Technical Debt: A balancing act

Leading companies allocate, on average, 15% of the IT budget toward tech debt remediation, per Accenture research. It's the sweet spot that enables "paying down debt" without sacrificing strategic investments. Within the high tech industry, 3 in 4 companies invested around 25% in remediating technical debt between 2020 and 2022 on average.[12]

Meet elastic, evolving customer needs

Section 4

Move from emphasizing product features to customer outcomes, focusing on value and benefits.

Our research found 75% of respondents agreed or strongly agreed that legacy technology hardware companies will no longer exist unless they begin acting more like software companies. This means greater speed, dynamism and responsiveness to customer needs. Leading players are unveiling customer-centric visions for digital resilience and AI readiness as their core differentiation strategies in the crowded high tech marketplace.

Driving change to the AaS model is core to achieving this, and one of the best ways high tech companies can enable AaS adoption across the operating model is to create a dedicated customer success function. Almost half (46%) of respondents noted this in our research.

The customer success function is vital because customer needs have changed. 38% of executives said the single most important thing a technology provider can do to become a trusted partner is offer flexibility, accessibility and scalability of products and solutions. For high tech companies, this means developing integrated product strategies, taking them to market and servicing them — while managing the internal mechanics each step of the way.
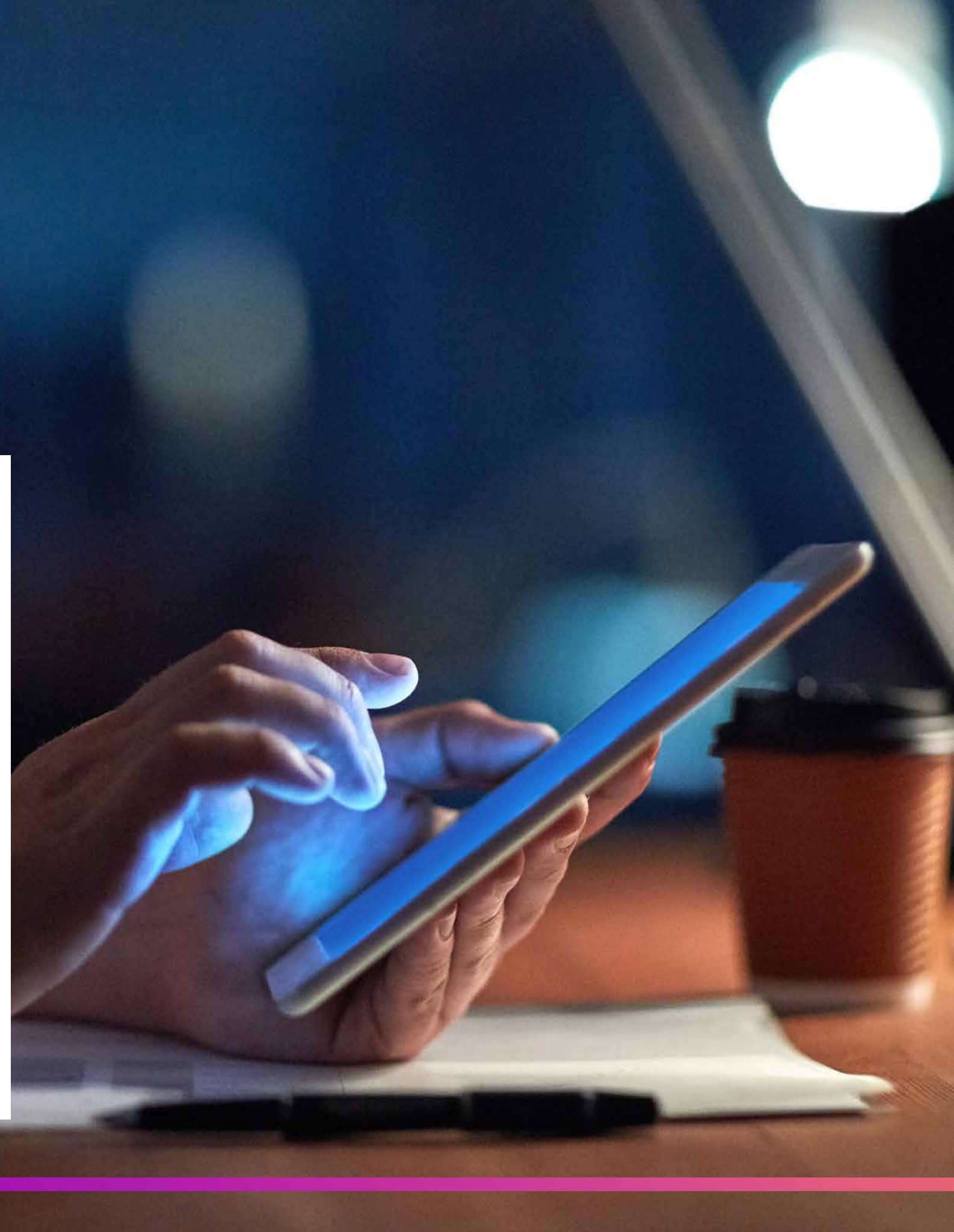
Transitioning away from traditional sales models can be challenging — and very different from the operational needs of a traditional business model. Leading with business outcomes, not product features, is the tip of the spear. The IT landscape must be aligned to support the solutions that enable these business outcomes. The operating model must be recalibrated to underpin the changes in sales, product, HR, IT and others to accommodate this change. Employees need to be aware of and informed of each step of the journey.

Generative AI will play a critical role in driving the transition. It impacts everything from marketing, sales, operations, finance and, critically, customer success. 97% of executives believe generative AI can expedite the organization's strategic shift toward ARR and AaS models. Generative AI technology allows for a greater depth of customer behavior analysis, more effectively aligning products and services with customer needs.

Our latest report Generative AI for customer growth surveyed executives on this topic to explore what generative AI means to customer growth. An analysis of survey data found respondents who adopted generative AI sooner were 3.7X more likely to use it to identify new and unmet customer needs.[13] Combining market and customer data responsibly and transparently uncovers new insights companies can use to test and develop product concepts.
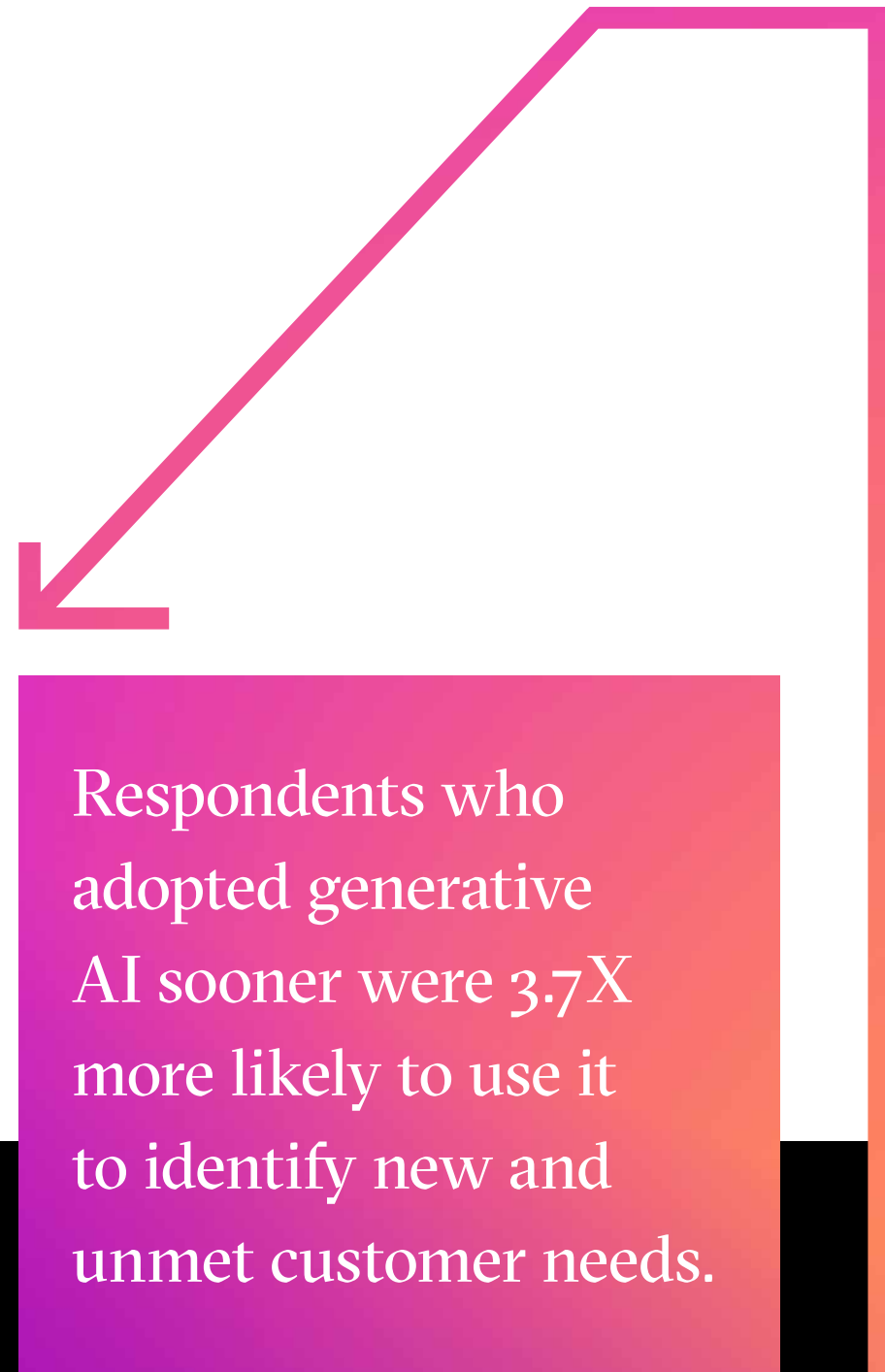
Respondents who adopted generative AI sooner were 3.7X more likely to use it to identify new and unmet customer needs.

Figure 3:

Gen AI can expedite the organization's strategic shift toward ARR and AaS models.

97%
Yes

3%
No
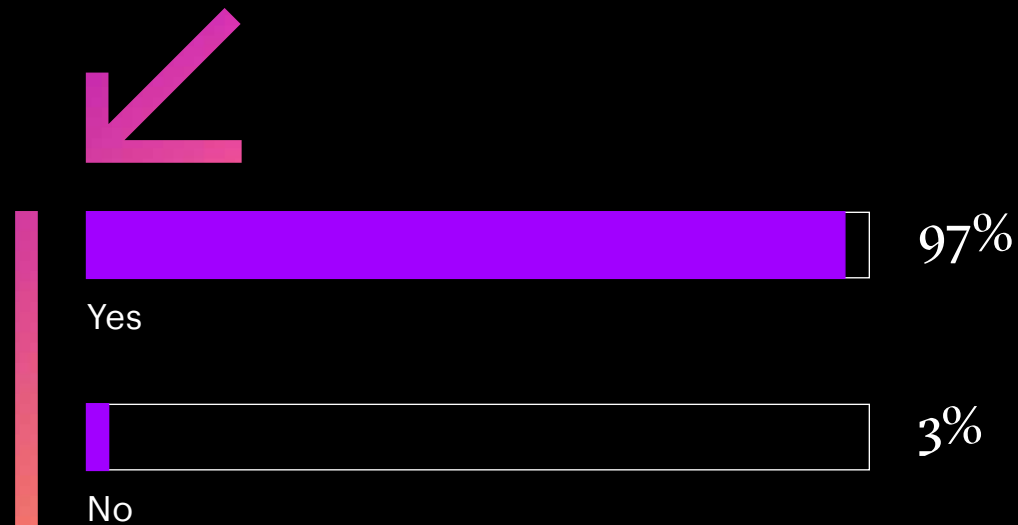
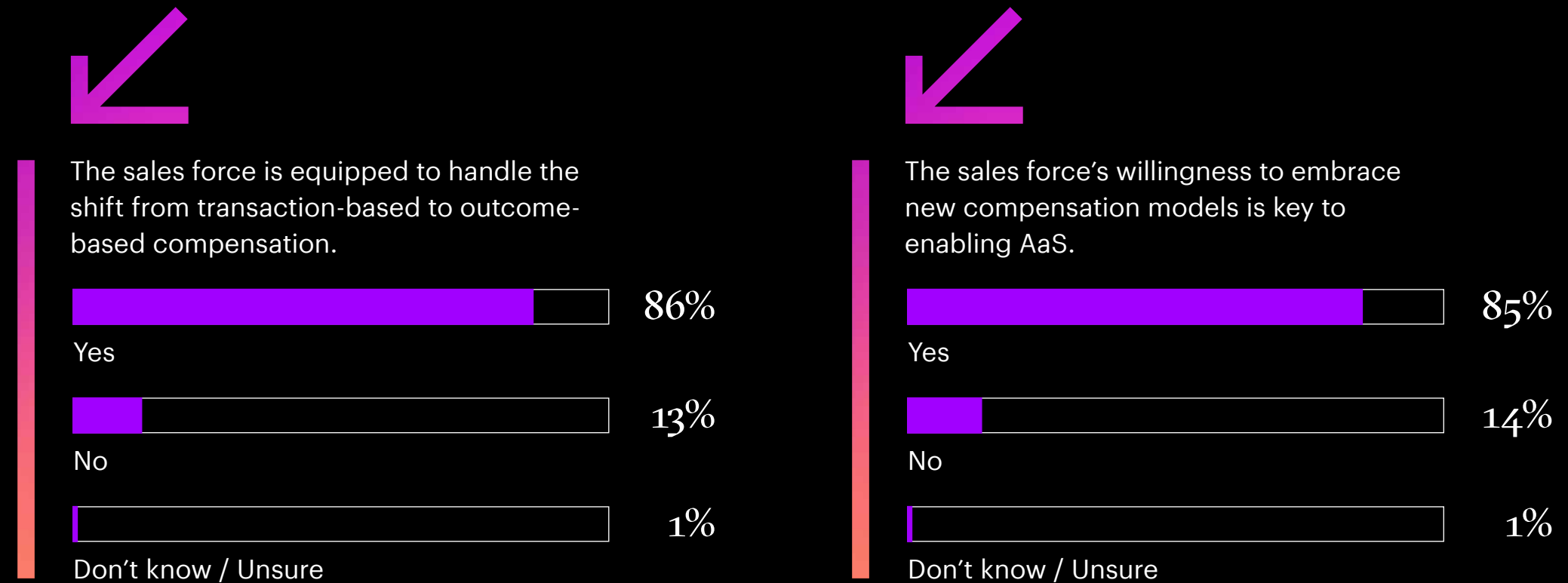# Recalibrate
the sales force

Section 5

Train talent across offering development, go-to-market, sales and IT to achieve common goals in the redesigned AaS model.

Our survey found that 86% of executives agree or strongly agree that the sales force is equipped to handle the shift from transaction-based to outcome-based compensation. Nearly the same number — 85% — said this willingness to embrace new compensation models was the key to enabling AaS across the organization.

While executives see the sales force as ready to handle the shift toward AaS, hesitation remains within the organization. 85% of respondents believe AaS may cannibalize current offerings and those not offered AaS — possibly putting compensation packages at risk by changing how they sell. What is required from executives then is not only a change in the model, but also a recalibration of the sales force to prepare them for selling under the new model.

Figure 4:

How ready are enterprises to adopt an AaS model?

The sales force is equipped to handle the shift from transaction-based to outcome-based compensation.

86%
Yes

13%
No

1%
Don't know / Unsure

The sales force's willingness to embrace new compensation models is key to enabling AaS.

85%
Yes

14%
No

1%
Don't know / Unsure

87%
belive technology-led ARR transformation crucially boosts competitive differentiation.

Almost 9 out of 10 respondents agreed or strongly agreed that deploying new customer experiences in the AaS model requires cloud, data management and AI to meet them in a timely and cost-effective manner. This means not only investing in a strong digital core that replaces legacy systems, as mentioned above, but also providing the sales team with the data and tools required to sell effectively.

Generative AI can be a key driver for recalibrating the sales team. It can bolster training programs by personalizing learning experiences based on performance and needs, accelerating adaptation to outcome-based compensation models. The technology can also create deeper customer insights, identifying patterns and predicting needs even before they are expressed — allowing the sales team to proactively offer solutions. This capability not only enhances customer satisfaction but also positions the company as a leader in customer service and satisfaction.

In all, there is good reason for optimism: 87% of respondents said an important or very important benefit of technology-led ARR transformation is greater competitive differentiation. But the shift from a hardware to a subscription-based sales approach must start with the sales force. The change in metrics away from revenue and shipments — focusing instead on a reinvented sales approach and AaS relevant metrics like churn, conversion rates, customer acquisition cost and customer lifetime value — may be less challenging than anticipated. But only if executives give the sales force the tools and technology foundation they need.
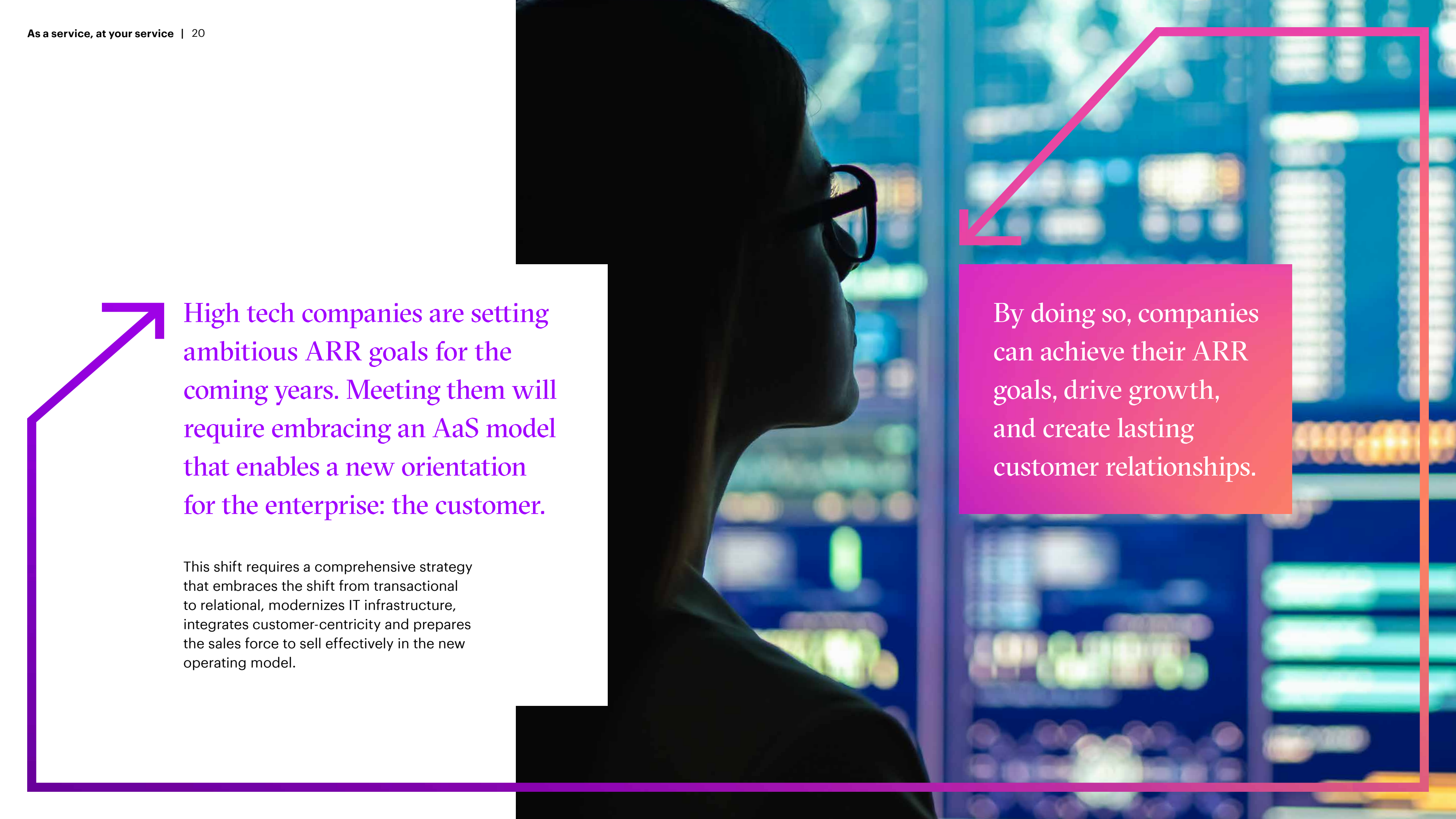
A vision for the future: Setting new horizons

Section 6

High tech companies are setting ambitious ARR goals for the coming years. Meeting them will require embracing an AaS model that enables a new orientation for the enterprise: the customer.

This shift requires a comprehensive strategy that embraces the shift from transactional to relational, modernizes IT infrastructure, integrates customer-centricity and prepares the sales force to sell effectively in the new operating model.

By doing so, companies can achieve their ARR goals, drive growth, and create lasting customer relationships.

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About Accenture

Accenture is a leading global professional services company that helps the world's leading businesses, governments and other organizations build their digital core, optimize their operations, accelerate revenue growth and enhance citizen services — creating tangible value at speed and scale. We are a talent and innovation led company with 733,000 people serving clients in more than 120 countries. Technology is at the core of change today, and we are one of the world's leaders in helping drive that change, with strong ecosystem relationships. We combine our strength in technology with unmatched industry experience, functional expertise and global delivery capability. We are uniquely able to deliver tangible outcomes because of our broad range of services, solutions and assets across Strategy & Consulting, Technology, Operations, Industry X and Accenture Song. These capabilities, together with our culture of shared success and commitment to creating 360° value, enable us to help our clients succeed and build trusted, lasting relationships. We measure our success by the 360° value we create for our clients, each other, our shareholders, partners and communities.

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About the Research

In June and July 2024, Accenture conducted field research across 14 countries, interviewing 300 global high-technology executives, 64% of whom are C-level leaders. Respondents represented companies in the Networking Equipment, Enterprise Technology, Software & Platforms, Medical Equipment and Consumer Technology industries. Our interviews focused on four main topics: (1) business and customer experience; (2) ARR; (3) AaS offerings; and (4) technology associated with ARR and AaS .

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