SQUEEZING THE PAST TO BET ON THE FUTURE

How big tech is advancing AI ambitions

Last year, AlixPartners released its inaugural **Tech Sector Growth vs. Profitability Study, 'The Great Rebalancing Act,'** which surveyed nearly 150 technology executives in North America to study how industry leaders are confronting the growth versus profitability conundrum.

This year, we expanded our study to include insights from nearly 350 tech executives across both North America and Europe, the Middle East, and Africa (EMEA). The 2024 survey digs deeper into the strategic initiatives that tech companies are prioritizing in response to uncertain market conditions. It provides actionable insights across key topics that can help industry leaders make informed decisions in an ever-evolving landscape.

With tech's cloudy future—especially regarding the evolution of artificial intelligence (AI) over the next 5 to 10 years—leading players must experiment and make calculated bets to find creative solutions to grow.

Whether they believe AI will be transformative is moot, as the fear of missing out is fueling lofty investments to avoid being left behind. These investments come at the expense of other strategic initiatives at a time when tech companies are already navigating a high-interest-rate environment, ongoing efforts to course-correct over-hiring during the pandemic, and a deceleration in the market growth rate. Freeing up capital for AI and other growth initiatives will first mean trimming excess costs where feasible across the business—a bet for the industry we will watch play out in years to come.

We have identified three critical themes from our study that will significantly influence tech companies' strategic priorities for the foreseeable future:

1 **AI REQUIRES A CONSIDERABLE INVESTMENT.** Despite limited near-term benefits, companies will continue funding initiatives or risk getting left behind.

2 **GROWTH AT ALL COSTS LOOKS TO BE GONE FOR GOOD.** Instead, companies will emphasize sustained profitability to facilitate investment in future growth opportunities.

3 **SHIFTING DEMAND AND MARKET NEEDS** are forcing a rethink of product and go-to-market strategies.
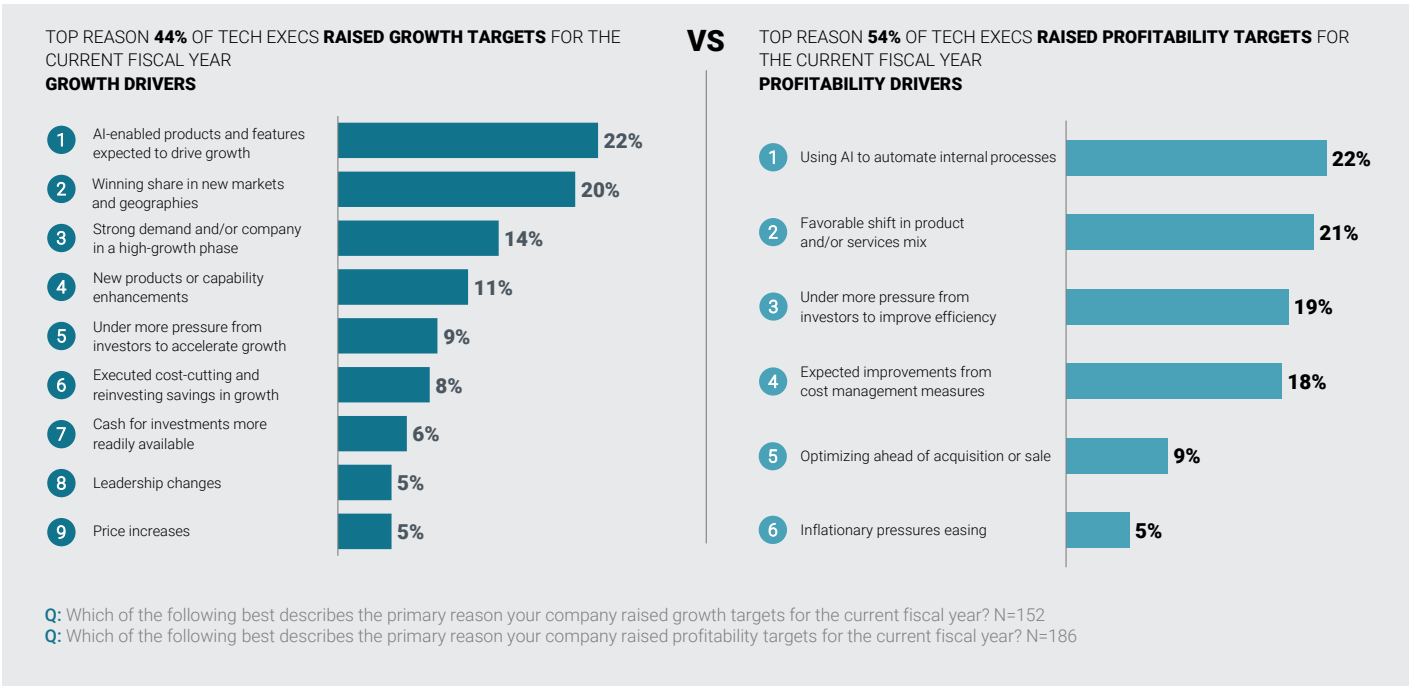
To navigate this ever-evolving landscape, we conclude this report with five strategic levers that technology companies can implement today to boost their efficiency and profitability.

TECH EXECS SAY AI IS CRUCIAL TO LONG-TERM GROWTH, BUT INVESTORS ARE GROWING SKEPTICAL WITHOUT SHORT-TERM RETURN ON INVESTMENT (ROI)

The push to implement AI capabilities, especially generative AI (GenAI), is rooted in the widespread belief that it will be a game-changer—something with which we generally agree.

According to our survey, AI is seen as the top catalyst for the next generation of growth and future profitability gains. While only 22% of executives are raising growth targets this year due to AI-enabled products and features, 76% identify AI as a primary driver of their companies' long-term growth. Additionally, 22% cited using AI to automate internal processes as a primary driver of profitability this fiscal year (figure 1).

FIGURE 1: WHAT IS DRIVING GROWTH AND PROFITABILITY FOR TECH COMPANIES IN 2024?
Percent of respondents in North America and EMEA

TOP REASON **44% OF TECH EXECS RAISED GROWTH TARGETS** FOR THE CURRENT FISCAL YEAR
GROWTH DRIVERS

VS

TOP REASON **54% OF TECH EXECS RAISED PROFITABILITY TARGETS** FOR THE CURRENT FISCAL YEAR
PROFITABILITY DRIVERS

#	Growth Drivers	%
1	AI-enabled products and features expected to drive growth	22%
2	Winning share in new markets and geographies	20%
3	Strong demand and/or company in a high-growth phase	14%
4	New products or capability enhancements	11%
5	Under more pressure from investors to accelerate growth	9%
6	Executed cost-cutting and reinvesting savings in growth	8%
7	Cash for investments more readily available	6%
8	Leadership changes	5%
9	Price increases	5%

#	Profitability Drivers	%
1	Using AI to automate internal processes	22%
2	Favorable shift in product and/or services mix	21%
3	Under more pressure from investors to improve efficiency	19%
4	Expected improvements from cost management measures	18%
5	Optimizing ahead of acquisition or sale	9%
6	Inflationary pressures easing	5%

Q: Which of the following best describes the primary reason your company raised growth targets for the current fiscal year? N=152
Q: Which of the following best describes the primary reason your company raised profitability targets for the current fiscal year? N=186

The above, coupled with increasing competitive pressure to leverage AI (or risk getting left behind) and customer expectations for integrated capabilities, is driving tech companies to free up capital and reduce costs where feasible to invest heavily in AI.

Equity analysts broadly believe that global AI-related capital expenditures (capex) will surpass $1 trillion in the coming years, as major tech companies anticipate significant future returns on their AI investments. According to our survey, 90% of tech executives plan to boost capex and research and development (R&D) investments in AI during the next year, with 54% expecting to increase AI investment by more than 10% (figure 2).

FIGURE 2: SHARE OF RESPONDENTS THAT WILL INCREASE CAPEX AND R&D INVESTMENT IN AI DURING THE NEXT 12 MONTHS, BY PERCENT INCREASE AND COMPANY SIZE
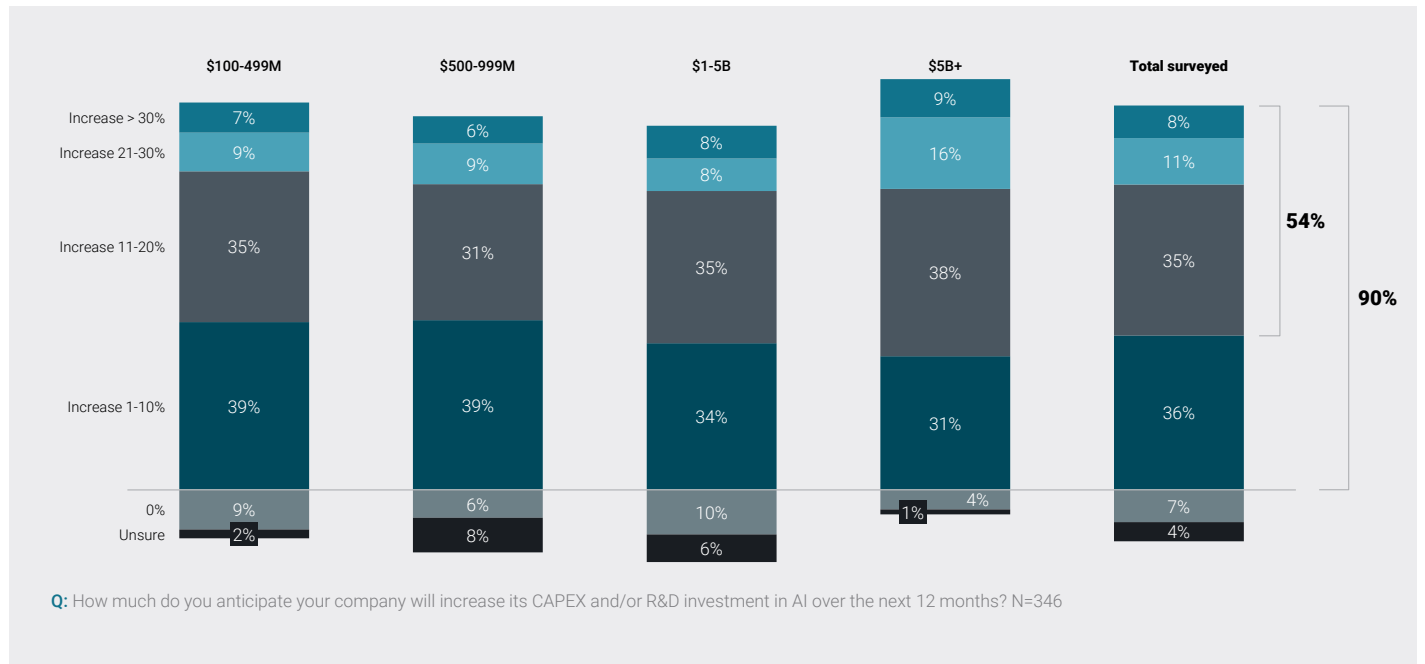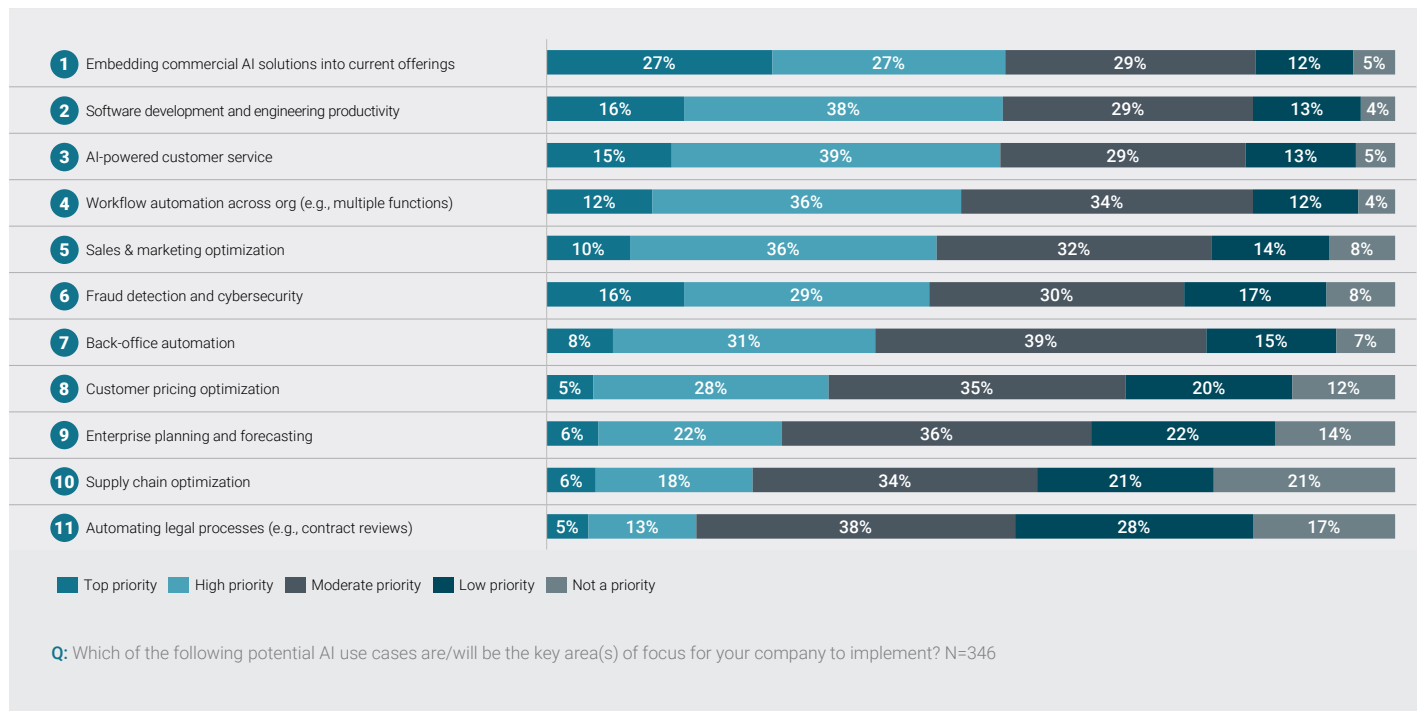
Percent of respondents in North America and EMEA

	$100-499M	$500-999M	$1-5B	$5B+	Total surveyed
Increase > 30%	7%	6%	8%	9%	8%
Increase 21-30%	9%	9%	8%	16%	11%
Increase 11-20%	35%	31%	35%	38%	35%
Increase 1-10%	39%	39%	34%	31%	36%
0%	9%	6%	10%	4%	7%
Unsure	2%	8%	6%	1%	4%

54%

90%

Q: How much do you anticipate your company will increase its CAPEX and/or R&D investment in AI over the next 12 months? N=346

FIGURE 3: WHICH AI USE CASES ARE TOP PRIORITIES FOR TECH COMPANIES TO IMPLEMENT?

Percent of respondents in North America and EMEA

#	Use case	Top priority	High priority	Moderate priority	Low priority	Not a priority
1	Embedding commercial AI solutions into current offerings	27%	27%	29%	12%	5%
2	Software development and engineering productivity	16%	38%	29%	13%	4%
3	AI-powered customer service	15%	39%	29%	13%	5%
4	Workflow automation across org (e.g., multiple functions)	12%	36%	34%	12%	4%
5	Sales & marketing optimization	10%	36%	32%	14%	8%
6	Fraud detection and cybersecurity	16%	29%	30%	17%	8%
7	Back-office automation	8%	31%	39%	15%	7%
8	Customer pricing optimization	5%	28%	35%	20%	12%
9	Enterprise planning and forecasting	6%	22%	36%	22%	14%
10	Supply chain optimization	6%	18%	34%	21%	21%
11	Automating legal processes (e.g., contract reviews)	5%	13%	38%	28%	17%

Legend: Top priority | High priority | Moderate priority | Low priority | Not a priority

Q: Which of the following potential AI use cases are/will be the key area(s) of focus for your company to implement? N=346

Although 83% of respondents prioritize integrating commercial AI solutions into their offerings, internal use cases are at the top of tech executives' near-term agendas for improving and scaling operations.

According to our survey, 57% of tech executives prioritize the use of AI to automate processes and workflows in the next 12 months. AI ranks higher on their agendas than any other performance improvement lever surveyed (figure 4).

FIGURE 4: WHICH OF THE FOLLOWING OPERATIONAL ACTIVITIES WILL BE TARGETED AREAS OF FOCUS FOR PERFORMANCE IMPROVEMENT IN THE NEXT 12 MONTHS?
Percent of respondents in North America and EMEA

#	%	
1	57%	of tech execs are **using AI to automate workflows**
2	46%	of tech execs are reorganizing operating units to improve efficiency
3	45%	of tech execs are optimizing how they service existing customers
4	31%	of tech execs are pursuing strategic or bolt-on M&A
5	21%	of tech execs are increasing offshoring and outsourcing
6	19%	of tech execs are carving-out or winding-down non-core BUs
7	19%	of tech execs are focused on improving working capital
8	12%	of tech executives are insourcing external capabilities

Q: Which of the following operational activities will be targeted areas of focus for performance improvement over the next 12 months? N=346

This prioritization is largely driven by AI's potential to streamline routine processes, paving the way for significant operational advances. However, few quick wins exist. Even straightforward internal AI applications have yet to deliver substantial impact for most companies.

The fundamental challenge with investing in AI initiatives is that returns are not easy to measure and, for some, may never even materialize. Each initiative demands considerable effort to secure investment, increasing the pressure to do more with less across the organization, especially when self-funding is required. Major gains from AI will only materialize when coupled with structural changes to operating models, which are much harder to execute.

To date, few companies have reported revenues directly attributed to the technology, raising concern among investors and Wall Street analysts. "Despite its expensive price tag, the technology is nowhere near where it needs to be in order to be useful," said Goldman Sachs' most senior stock analyst Jim Covello in a June report. "Overbuilding things the world doesn't have use for, or is not ready for, typically ends badly."

Our survey revealed that 29% of tech executives worry that proofs of concept for AI use cases are not yet mature enough, and 26% worry about achieving substantial returns on their AI investments (figure 5). The unknowns for when and how AI investments will turn into profitable revenue streams make both overinvestment and underinvestment risky strategies.

FIGURE 5: WHAT IS DRIVING UNCERTAINTY AND DOUBT SURROUNDING AI USE AND IMPLEMENTATION?
Percent of respondents in North America and EMEA

#		%
1	Data privacy and security	35%
2	Balancing AI investment with other growth & R&D initiatives	32%
3	Use case readiness and scalability; Proof of concept is not mature enough yet	29%
4	Data readiness/quality and data architecture	26%
5	Return on AI Investment (ROI)	26%
6	Talent acquisition and upskilling current workforce	23%
7	Cost of implementation	23%
8	Pricing for AI solutions (e.g., products and add-on features)	17%
9	Gap to operationalize and scale successfully; Reaching the Minimum Viable Product (MVP)	16%
10	Shifts in company culture and change management	16%
11	Ethical considerations and governance	15% **19% for EMEA respondents vs. 9% for North America**
12	End-to-end accountability for AI solutions (as required by the EU's 'AI Act')	15%
13	Copyright Infringement	5%

Q: What are the top concerns surrounding AI use/implementation at your company and the potential implications? N=346

The growing pressure to innovate and lead in AI may also come at the expense of other critical technologies and strategic initiatives essential to the core business. While it may be necessary to deprioritize other initiatives, a substantial reallocation of funds could introduce new headwinds, especially if resources become strained without investments yielding near-term returns. Our survey found that 32% of tech execs now worry about balancing AI investments with other critical growth and R&D initiatives (figure 5).

As companies aim to strike this careful balance between competing priorities, they are also navigating ongoing efforts to course-correct from over-hiring during the pandemic, a high-interest-rate environment, and significant deceleration in the market growth rate. Collectively, these trends are driving the industry to maintain its focus on profitability to enable future investments in both AI and other growth initiatives.

AlixPartners offers a perspective on this balance, which we detailed in a recent playbook on how to realize value from AI investments and initiatives.

To learn more, download our **'Practical AI for CEOs' playbook.**

IS 'GROWTH AT ALL COSTS' GONE FOR GOOD?

A brief reminder of what we observed in last year's study: After more than a decade of explosive growth, the technology sector underwent a pivotal shift from a 'growth-at-all-costs' mindset to a sharper focus on profitability during the 2022 to 2023 period. Our 2023 survey revealed that 72% of tech executives in North America prioritized profitability more than or equal to growth, up from 56% in the previous 24 months. A perfect storm of inflation, higher interest rates, reduced enterprise spending, and COVID-19 pandemic over-hiring drove this transition. Due to these macroeconomic uncertainties, companies scrutinized technology expenditures more closely (which reduced demand for the tech sector) while the rising cost of capital put increasing pressure on liquidity. As a result, tech multiples dropped by nearly 50% after years of steady gains, and tech companies were forced to confront the reality that their rapid growth patterns might not be sustainable.

Our report last year centered around our hypothesis that tech companies would need to rethink their strategic priorities and operations to sustain long-term growth and effectively respond to fast-changing market conditions. To achieve this, they would have to strike and maintain an optimal balance between growth and profitability.

Our survey this year found that over 70% of tech executives prioritize profitability levers over or equal to growth for 2024 and the next 12 months. This underscores that only 30% are in pure growth mode.

This profitability trend has remained steady year-over-year, which could reflect a new normal for the industry—one that favors sustainable growth over rapid expansion.

It's no surprise that larger, more mature enterprises must place a greater premium on demonstrating sustained profitability. However, even early-stage, high-growth tech companies—which have traditionally prioritized rapid expansion above all else—are now maintaining an equal focus on growth and profitability as well.

FIGURE 6: HOW TECH EXECUTIVES BALANCE GROWTH VERSUS PROFITABILITY
Percent of respondents in North America and EMEA

PRIORITIZE PROFITABILITY OVER OR EQUAL TO GROWTH | **PRIORITIZE GROWTH OVER PROFITABILITY**

Early-stage high growth: 46% / 54% / 49% | 54% / 46% / 51%

Mid-stage maturing growth: 70% / 75% / 74% | 30% / 25% / 26%

Later-stage mature growth: 77% / 69% / 71% | 23% / 31% / 29%

Total surveyed: 70% / 71% / 71% | 30% / 29% / 29%

Legend: Previous 12 months | Current | Next 12 months

Q: Which of the following best represents your company's primary focus over the prior twelve months/current/next twelve months? N=346

Course-correction from pandemic over-hiring will continue

One explanation is the painful lesson learned from over-hiring during the pandemic, which companies are eager not to repeat. The surge in hiring from 2021 to 2022, when more than one million jobs were added to the tech sector, was not sustainable. Subsequent waves of layoffs—both last year and this year—demonstrate the consequences of poorly managed growth and underscore the broader need for companies to ensure they scale efficiently.

Our study found that 64% of tech companies in both North America and EMEA executed some form of headcount reduction in the past 12 months, a slight decrease from the 72% in North America found by our survey last year. Among those that laid off more than 5% of their staff this year, the top two reasons cited were cost-cutting due to rising operational expenses (opex) and the need to right-size after extensive hiring.

We fear this trend may continue. Despite the layoffs in 2023 and 2024, the net correction (additional jobs added minus layoffs) has only accounted for about 20% of total pandemic hires, according to our estimates. This means the tech industry has retained over 80%[1] of the capacity added during the pandemic, suggesting workforce levels may still not fully align with current market conditions.

1. Analysis of 600 public companies earning >$100M in revenue in North America and Europe and their reported HC on 10-Ks for 2020, 2021, 2022, and 2023

Looking ahead, in North America, 25% of tech executives say they expect to implement layoffs in the coming year, with an additional 37% expressing uncertainty about the need for workforce reduction. In EMEA, the situation is similar, with 28% of tech leaders anticipating layoffs. However, there's slightly less uncertainty in EMEA, where only 20% of executives remain unsure about whether layoffs will be necessary.

Reduced access to capital is pointing companies towards self-funding strategies and measured investments

Obtaining credit and equity financing to fuel growth for tech companies remains both expensive and limited because interest rates are expected to start declining only towards the end of the year. Our study results showed that 59% of tech companies found credit and equity financing have become more limited during the past 12 months due to the current higher-for-longer interest rate environment. That impact has been most pronounced for early-stage companies, which rely heavily on venture capital investment to sustain high growth; 66% of early-stage, high-growth companies found funds to be more limited in the past year.

FIGURE 7: **TECH EXECUTIVES NOTICING A CHANGE IN CREDIT AND EQUITY FINANCING AVAILABILITY DURING THE PAST 12 MONTHS**

Percent of respondents in North America and EMEA

	FUNDS ARE MORE LIMITED		FUNDS ARE MORE AVAILABLE...		NO CHANGE
Early-stage high-growth	10%	56%	15%	5%	13%
Mid-stage maturing growth	13%	46%	17%	10%	14%
Late-stage mature growth	10%	46%	15%	5%	25%
All surveyed companies	11%	48%	16%	8%	17%

Legend:
- Substantial impact limiting funds availability
- Moderate impact limiting funds availability
- Moderate improvement in funds availability
- Substantial improvement in funds availability

Q: In the past 12 months, have you noticed a change in credit and/or equity financing availability due to higher interest rates and/or shifting market conditions? N=346

In 2024, venture funding saw a steep decline, with capital commitments from limited partners (LPs) reaching a nine-year low of only $80.5 billion raised globally—down from $196 billion in 2023 and $345 billion in 2022. This increases the pressure on companies to achieve more with less and free up capital for self-funded growth.

In an environment where cash is more expensive and liquidity is strained, tech executives must make difficult decisions about where to allocate limited funds. These decisions requires meticulous planning and greater visibility across business operations to ensure positive ROI.

As tech competition intensifies, the sector is showing signs of market maturity and saturation—causing growth rates to slow

According to AlixPartners' analysis, median year-over-year revenue growth rates for the broader tech industry have slowed for a third consecutive year to 5% in 2024, down from 7% at the end of 2023, 16% in 2022, and 20% in 2021.[2] Even software-as-a-service (SaaS) companies—which until now could count on hyper-growth of 30-40% year-over-year for annual recurring revenue (ARR)—have been among the hardest hit by shifting market dynamics. In 2024, SaaS companies' median growth rates have been cut in half, dropping to around 20%.[3]

Slowing growth trends increasingly pressure tech companies to deliver value for investors through both growth and margin expansion—a major adjustment for the industry. According to our study, 53% of software companies worry that they lack the operational readiness and agility needed to balance growth and profitability. Additionally, over 50% of tech companies with revenues exceeding $100 million are struggling to achieve profitable growth.

RULE OF 40 (GROWTH + PROFIT MARGIN)

Source: Company data, Capital IQ, AlixPartners Analysis.
Analysis for median figures includes over 600 public companies in the North America and Europe earning >$100M in revenues; LTM is as of CQ1 '24, Not all 600 companies are displayed in the visual

A demand landscape in transition, bringing both new headwinds and opportunities

After a period of slow demand, largely due to declining IT budgets, 62% of respondents said they experienced a re-acceleration in demand levels during the past 12 months, whereas only 23% noticed a slowdown. This revival is in line with Gartner's expectations that IT spending will grow nearly 9% in 2024, up from 5% growth in 2023. This growth will be driven in part by rising demand for classic AI, GenAI, and other emerging technologies.

FIGURE 8: TECH EXECUTIVES NOTICING A CHANGE IN DEMAND LEVELS DURING THE PAST 12 MONTHS
Percent of respondents in North America and EMEA
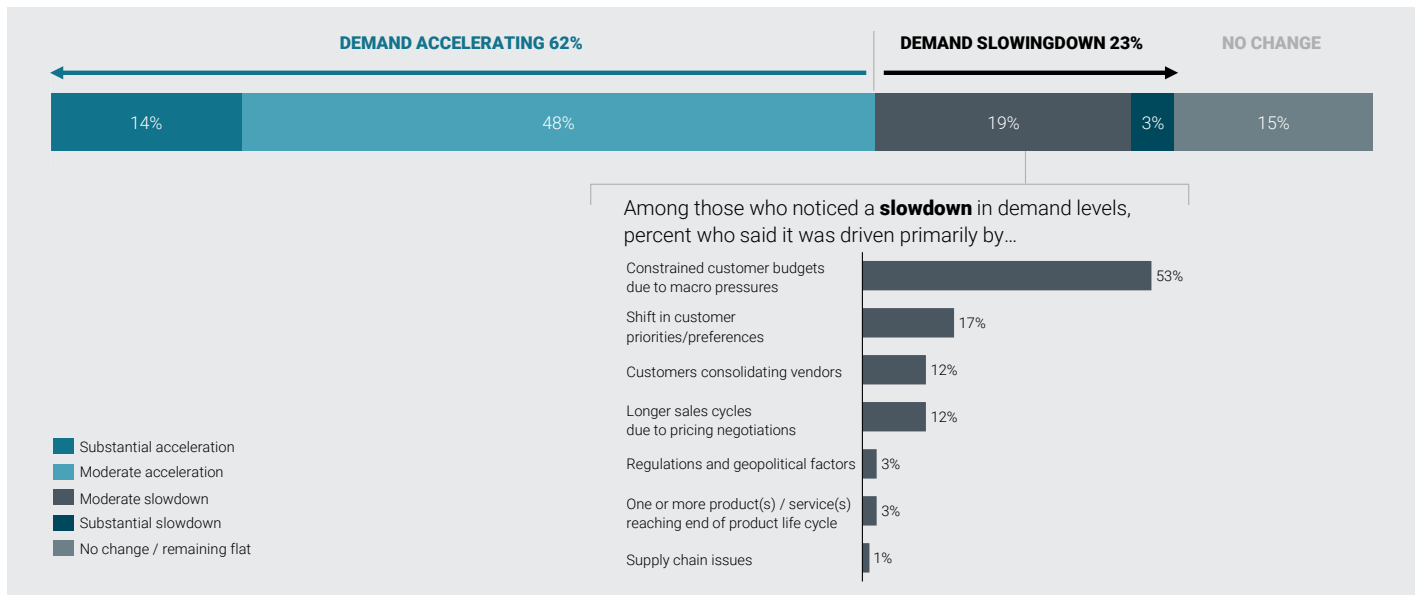
However, some companies are benefiting more than others with 44% of companies raising their growth targets, while 40% reduced them.

FIGURE 9: HOW SHIFTING GROWTH TARGETS FOR FISCAL 2024 DIFFER BY COMPANY SIZE
Percent of respondents in North America and EMEA
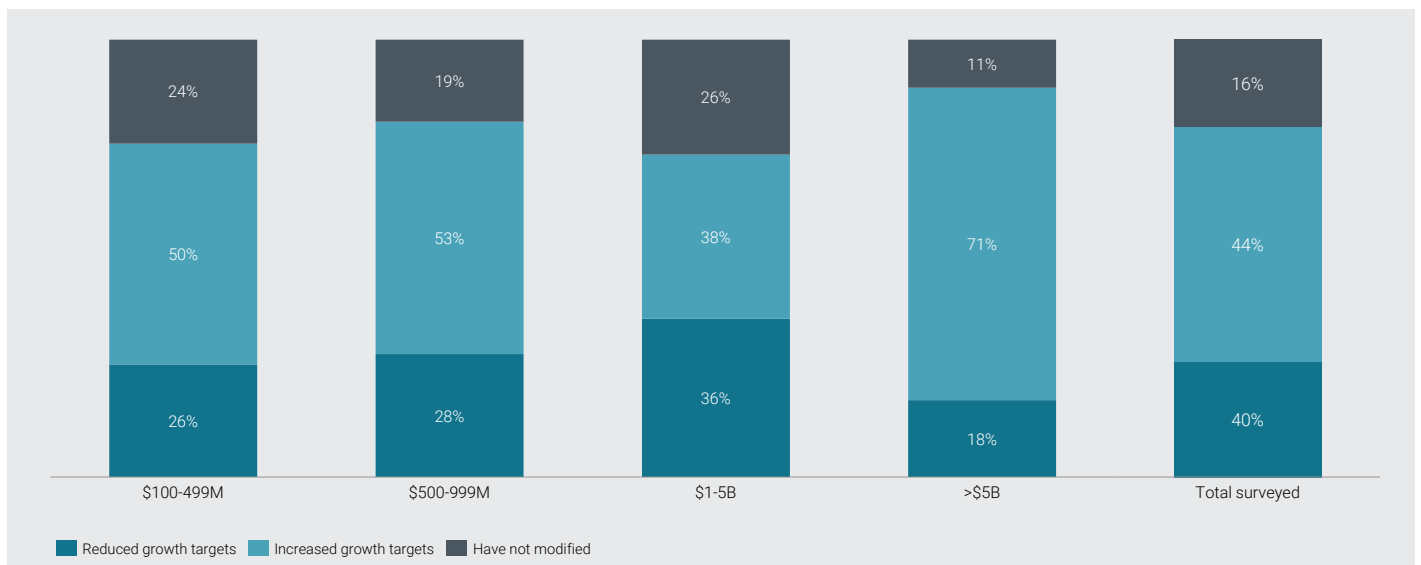
Players seeing greater realized benefits from accelerated demand likely have strong pricing power or a better product-market fit that is either more aligned, adaptable, or resilient to disruptive market trends. These disruptions include centralized purchasing decisions, vendor consolidation, and AI-driven reprioritization of IT spend.

Shifting customer needs, priorities, and buyer behaviors are slowing the sales cycle and disrupting both product and go-to-market strategies

A proliferation of competitors offers increasingly cost-conscious customers more choices, thereby driving massive disruption of the sales cycle. This is leading to market fragmentation and causing longer sales cycles, tougher pricing negotiations, and ultimately, fewer sales for vendors. At the same time as customers reprioritize budgets to unlock funding for AI investment, tech companies are under pressure to invest in a new generation of products that require a completely different sales and operating model.

Centralized purchasing decisions

In 2021, the B2B tech sales cycle sped up. Companies rushed to adopt the latest digital technology so they could meet needs brought on by the pandemic. To facilitate quicker decision-making, isolated teams were given greater autonomy, often building and maintaining their own bespoke applications and tech stacks. However, that decentralization introduced several challenges, including both a lack of IT oversight and a focus on immediate needs at the expense of long-term strategic planning. The result was often the inefficient use of enterprise resources such as excess seat licenses and a proliferation of potentially duplicative software products.

In response to those challenges, companies are now centralizing software procurement to better manage and control costs, negotiate pricing, mitigate shadow IT, and ensure that key tech investments align with bigger-picture and longer-term business objectives. That change to centralization is drastically slowing sales cycles compared with 2021. Additionally, it's driving companies to rationalize applications and add more hurdles to renewal negotiations, especially as customers right-size their multiyear contracts for the first time since the pandemic cycle.

Vendor consolidation

From 2021 to 2023, medium-to-large enterprises increased their numbers of applications used by a staggering 40 to 50%.[4] That rapid growth then prompted organizations to streamline tech stacks to simplify operations and effectively integrate across systems. We are seeing a continued shift away from niche point solutions to broader platforms that cover multiple functionalities, with tailored offerings for key verticals. With ROI expectations heightened, buyers want to see positive returns within months of purchase, which pressures vendors to demonstrate quick wins and deliver value soon after implementation. We expect the same value-oriented mindset will also be true for new investments in AI-powered software solutions.

AI-driven reprioritization of IT spend

As enterprise customers reprioritize budgets to free up funds for AI investment, spending on standard IT projects—such as non-core applications, IT services, and applications running on traditional or aging hardware—will likely be squeezed as a result. This may also mean reduced demand for some software solutions that do not embed AI capabilities.

Traditional hardware and IT infrastructure players are under pressure to revise revenue assumptions, alter product planning, and shift go-to-market strategies to rapidly deliver AI-capable products to the market. Simultaneously, they must navigate the complexities of defining their internal AI roadmap.

Collectively, these shifts in customer preferences and buyer behaviors mold a new paradigm for enterprise tech sales.

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4. Productiv (companies with up to 1,000 employees use about 335 apps up from 238, and enterprises (over 10,000 employees) use a staggering 473 apps up from 317).

HOW TO STRIKE THE RIGHT BALANCE BETWEEN PROFITABILITY AND GROWTH IN AN INCREASINGLY UNCERTAIN ENVIRONMENT

In today's dynamic and challenging environment, tech companies searching for incremental growth levers are contending with powerful market forces. Most of the focus has been diverted to two strategies, which are usually synergistic:

Pursuing a lean operating model that enhances agility and reduces operating costs	**Investing in AI-based solutions**

This approach enables companies to free up capital for strategic investments and leads to higher margins. This is especially crucial when short-term growth is modest and companies are still striving to achieve the Rule of 40.

Externally, such investments focus on transforming product portfolios and roadmaps to integrate AI features. Internally, it focuses on leveraging AI capabilities to automate processes and workflows.

Those that can incrementally improve profitability and efficiency in the present, without reducing their long-term growth potential, will be in the best position to quickly adjust course as market conditions evolve. Tech companies can pull the following improvement levers today to boost efficiency and increase profitability in the current landscape:

01

Rationalize and streamline product portfolios, roadmaps, and stock-keeping units (SKUs), with emphasis on ROI and strategic investments

WHAT COMPANIES NEED TO CONSIDER

Companies often struggle to accurately assess product profitability due to lack of transparency in product performance. Without a clear understanding of each product or service's true costs and profitability, they may continue supporting underperforming products or services instead of reallocating resources to more cost-effective options—or opting for discontinuation.

To overcome these issues, companies must develop robust profitability analyses and establish clear performance metrics. A key strategy is to decouple 'run-the-business' costs—expenses required to maintain current operations—from 'grow-the-business' investments—funds directed towards expanding and scaling high-value products or services. By separating these investment types and aligning them with precise performance data, companies can enhance transparency and efficiency. This is an approach that better balances investments between existing revenue streams and new bets.

When placing bets with AI, it's crucial to maintain clear visibility into progress and track key indicators that measure impact on revenue and the bottom line. If progress stalls, companies need to quickly identify and terminate initiatives that aren't delivering meaningful outcomes.

WHAT SUCCESS LOOKS LIKE

We worked with a multi-billion-dollar supply chain company and found that less than half of its more than 150 products accounted for more than 95% of its annual recurring revenue (ARR). That calculation left a 'long tail' of opportunity whereby a substantial percentage of its products collectively contributed almost zero gross margin. After identifying and subtracting 'loss leaders,' we evaluated the remaining products, marking them either for discontinuation or reducing spending by using a lower-cost offshore model. These strategic decisions streamlined the company's product portfolio, optimized investment allocation, and increased EBITDA margins.

02
Evolve pricing models to monetize initial AI investments

WHAT COMPANIES NEED TO CONSIDER

Pricing models in the tech industry have evolved through the years, from perpetual licenses to subscriptions, tiered pricing, per-user and per-feature pricing, and more. As companies contemplate how to monetize AI, we are once again on the precipice of a significant pricing shift.

Flexible pricing models, such as usage-based or key-performance-indicator (KPI)-based pricing, enable companies to charge based on specific data adoption and AI-enabled use cases. Companies leading this change are utilizing modern metrics like credits and tokens which serve as virtual currencies their customers can use to access services, thereby reducing the risk of customers hesitating to buy novel AI offerings. This evolution is critical not only to effectively monetize AI investments but also to differentiate vendor value propositions by aligning pricing more closely with true customer value.

WHAT SUCCESS LOOKS LIKE

We helped a billion-dollar technology company accelerate subscription revenue growth by launching a GenAI-embedded SaaS offering. Within months, we had validated our client's AI product architecture, value proposition, and monetization strategies, including its pricing, packaging, and sales enablement approaches. We then developed different pricing scenarios and evaluated them against emerging market examples to best monetize the new GenAI-based product.

To drive adoption, we worked closely with the client to align the client's product management, sales, and marketing teams to ensure they deeply understood the product and could elaborate critical use cases and customer journeys. We also established a robust deal desk process to provide upsell guidance for the sales team and prevent excessive discounting. As a result of the collaboration, the client became confident that most of their existing customers would convert to the new offering, leading to a substantial increase in SaaS revenue.

03
Modernize your sales motion to sell the next generation of products, including AI-enabled offerings

WHAT COMPANIES NEED TO CONSIDER

Go-to-market (GTM) teams generally scale early and rapidly, with an ever-growing number of products and specialized roles to support them. That early and rapid scaling can lead to a complex web of handoffs with unclear ownership as well as accountability that is expensive to maintain and confusing for customers, and certain strategic shifts brought about by AI have only exacerbated the problem.

It's more critical than ever to ensure that GTM teams can effectively adapt to changing conditions and operate in unison. Such adaptation usually requires a deliberate change in operating model and organizational design, underpinned by business systems that create transparency and predictability at every stage of the sales process.

WHAT SUCCESS LOOKS LIKE

We recently worked with a leading data and analytics company that had to address slowing revenue growth, negative EBITDA margins, and structural inefficiencies throughout the business. The project entailed a top-to-bottom redesign of the business's go-to-market organization, starting with top-of-funnel marketing strategies.

We first helped the client develop account-based-marketing and lifecycle marketing approaches to enhance scalable demand generation. In parallel, the company exited low-performing geographies and reallocated sales and marketing investments towards high-potential markets with a view to drive revenue growth. We also implemented new customer success motions such as digital and scaled customer success practices to support its revised commercial strategy and improve customer retention. By measuring impact through KPIs, ensuring cross-functional alignment, and continuously refining strategies based on performance and customer behavior, our client's brand-new end-to-end GTM process boosted its business effectiveness and streamlined its operational efficiency.

04

Deploy practical AI for internal operations to increase automation and efficiency

WHAT COMPANIES NEED TO CONSIDER

When AI projects fail, it's not due to lack of investment or focus but rather due to lack of business strategy alignment, poor use case selection, and failure to build strong technical and organizational foundations. Those issues lead to cultural impediments to the implementation of functional AI strategies and gaps in the efficient operationalization of internal use cases.

To solve the problem, ask yourself the following questions when developing AI strategies: Are we selecting use cases fit for AI-driven value creation? Are those use cases aligned with your strategic priorities? And can you embed AI insights into relevant business workflows?

WHAT SUCCESS LOOKS LIKE

We helped the C-suite of a consumer technology company identify AI use cases that aligned with corporate strategic priorities and that could result in significant value. The company's management team was focused on increasing its margins and driving its growth, so our selected use cases centered on pricing to maximize margins and hyper-personalization to increase cross-selling and overall sales.

For the pricing use case, we developed a custom machine-learning (ML) model that generated simulations that projected a more than 10% margin upside. For hyper-personalization use cases, we developed customer lifetime value and microsegmentation ML models and an ML-based product recommendation engine. We then applied GenAI to quickly test multiple campaign messages, selecting the top performers for consumer outreach. The campaigns our client ran using our approach were 1.5x more effective per their KPIs than previous campaigns without this AI assistance.

05

Improve cross-functional coordination to profitably expand into new segments and geographies

WHAT COMPANIES NEED TO CONSIDER

When tech companies reach a certain stage of growth, they often find that the processes that worked when they were smaller no longer operate effectively at their new size. Those inefficiencies hinder their ability to scale and grow and instead, lead to organizations that perform at less than their potential.

Such companies must implement new processes that boost cross-functional work collaboration to ensure that operations continue running smoothly as teams grow larger and the business grows more and more complex. Without this step, companies will struggle to profitably expand into new regions and segments.

WHAT SUCCESS LOOKS LIKE

We recently worked with a leading enterprise software company to assess the company's process maturity across the full customer journey, from top-of-funnel marketing through sales and the post-sale customer experience. To do so, we conducted approximately 100 team interviews and ran quantitative analyses to get a comprehensive understanding of the company's operations. Within weeks, our experts identified pain points across the client's current processes as follows:

- Unclear accountability and decision-making ownership across functions
- A 'one-size-fits-all' approach to customer segments and geographies
- Tedious manual processes that rely on expensive resources
- Duplicative roles across the organization

Alongside our client, we developed a broad portfolio of improvement initiatives to systematically meet the challenges. Proposed process changes are poised to generate productivity gains by eliminating unnecessary costs and removing duplicative activities and resources, which will generate scaling benefits and margin expansion potential. By augmenting its operational efficiency, the company also expects an incremental boost to its top-line growth.

THE ROAD AHEAD

Every cloud has a silver lining. Tech companies may face unprecedented disruption, but that's par for the course in this industry. These market challenges bring with them abundant opportunities for those that strike the right growth and profitability balance, thoughtfully managing investments to fund emerging trends alongside core business areas.

AI investments will take time to pay off. Tomorrow's winners are likely being shaped today by those that can keep one foot in the present to mitigate investor concerns over short-term ROI and another in the future to unlock AI's potentially transformative impact.

The path ahead might be uncertain, but savvy tech companies can position themselves for present success and future flexibility. Enact the right strategy and take it one step at a time.

Leadership perspectives

GIUSEPPE GASPARRO
Americas Technology
Practice Leader

The tech industry is experiencing a period of significant disruption and uncertainty, and predicting the next developments is challenging.

Last year, many players shifted their focus from pure growth to cost efficiency in anticipation of potential headwinds. Although most of those headwinds have not yet fully materialized and may never do so, a separate but significant development occurred: the rise of AI. Companies are now preparing for the impending AI revolution, which promises to transform the industry once again, propelling the next wave of winners to new heights and driving overall industry growth.

We don't know when or whether this AI revolution will truly arrive, but tech companies are already bracing for its impact by driving internal efficiencies to free up capital and resources for reinvestment in AI capabilities. I do not expect this trend to end anytime soon.

The excitement surrounding AI capabilities and innovation should act as a catalyst for growth, driving top-line expansion. However, in the short term, the best strategy for tech companies remains familiar: streamline operations, rationalize products, optimize investments, and drive automation—in essence, cost reduction. Such internal efficiencies must facilitate new AI investments, meaning that they must be structural in nature, maintain velocity, and drive productivity improvements. All of this often requires significant changes to operating models, team structures, tools, and processes.

I am optimistic. Expectations for AI-driven growth may be high, but the transformative wave it is driving across the industry has already started to enhance maturity, efficiency, and readiness—positioning companies for whatever the future holds.

JANET TANG
Partner and Managing Director, Asia

Technology companies operate in one of the most dynamic sectors—technology advancement and heavy disruptions seem to cycle every few years. As such, it is not a surprise that tech executives see AI as the main lever for both operational and R&D improvement. This industry understands AI better than others and is best positioned to capture the value of AI development. But it's also the most vulnerable to AI disruption.

The opportunities and challenges the tech industry faces reside at a deeper level than just profitability versus growth. Although every tech company is thinking about how to better capture demand against competitors, hardware companies are witnessing a rare window of opportunity

to toggle the balance of power in a traditionally homogeneous hardware-OS-applications value chain that AI will redefine. As companies shift towards more diverse hardware technology stacks, hardware companies in turn will shift from purely delivering solutions to designing how user-hardware experiences will function with AI. This new landscape profoundly impacts their product architecture and ecosystem strategies. Application and SaaS players, on the other hand, face the existential threat of their service offerings getting displaced by emerging AI players of a fundamentally different 'species' (AI agents).

A set of challenging questions arises: How do companies maintain previous levels of profitability while investing in new capabilities when 65% of tech execs are focusing on the development of AI tools for R&D and 77% will be investing primarily in new product development or existing product enhancement? The more mature a company is, the harder the answer to that question becomes. Every executive will play a part by scrutinizing spend and rationalizing resources in support of what is coming. But that's much easier said than done—and companies will first have to align on their AI roadmaps to guide the right investments.

KLAUS HOELBLING
EMEA Leader of Technology, Media, and Telecommunications

When emerging trends and major changes arise in the tech sector, we often see a time lag in impact and adaptation between EMEA and North America. But this year's survey suggests that these regions are largely aligned on the perceived challenges facing the sector and their approach to confronting them. As the industry matures, it seems disruptions impacting tech businesses are truly global in nature.

The growth versus profitability balance is one such example. EMEA tech executives prioritize profitability over growth just as their North American counterparts

do (around three-quarters of respondents in each region). Additionally, 63% of EMEA executives experienced an acceleration in demand levels over the past year following slow demand the year prior, and 62% of North American executives said the same. 23% in both regions noticed a further demand decrease.

However, a noticeable difference exists between the regions around the adoption and use of AI. While 50% of EMEA executives are already using AI to automate workflows, this lags significantly behind the 66% of North American executives who reported the same. Furthermore, EMEA tech companies still predominantly use AI for back-office automation (80%), while this is only the case for 39% of North American respondents.

The above suggests that North American businesses have already moved beyond the low-hanging fruit of AI automation of repetitive tasks and onto more advanced, novel use cases. EMEA businesses will need to catch up to stay competitive.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.