

AI-Driven Big Partnerships Reshaping All Information Technology

Companies: AMZN, CRM, CSCO, DDOG, DELL, GOOG/GOOGL, HPE, IBM, MSFT, NTAP, ORCL, SAP, SNOW, SPLK, WDAY

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“Heard, tracked, understood, witnessed, confirmed, and you should really think about paying attention to this stuff.”

Research Question:

Will collaboration with AI-focused cloud operators help companies like SAP and others maintain their client bases and grow new business? What happens to companies outside such partnerships?

Senior Technology Editor John Harrington reports from the European Union on fast-moving mega-collaborations that are helping major IT companies reclaim lofty heights that were once threatened by the now-fading “unicorn” startup world.

Key Findings

- AI is triggering large information technology company “collaborations” that act like “virtual mergers” when it comes to the common interests of what several sources say is a revival—or, in the case of International Business Machines Corp. (IBM), “a rebirth” of its status as a global IT power. These collaborations are making it harder for traditional IT vendors to hold onto revenue. Sources are warning about earnings for a range of enterprise IT companies in the second half of 2023.
- Microsoft Corp. (MSFT), SAP SE (SAP), and IBM, along with Amazon.com Inc. (AMZN) and Alphabet Inc.’s (GOOG/GOOGL) Google, were all cited repeatedly by sources in Europe and North America as riding the automation wave of machine learning and artificial intelligence into collaborative application development, mega-scale hosting of advanced computing, massive data scraping capabilities for AI and machine learning training, security, and other applications made possible by combining forces. “The big cloud guys get bigger; the guys that used to be the biggest get bigger again,” said the CEO of an East Coast value-added reseller/cloud integration firm. “For everyone else, it’s a crapshoot.”
- These partnerships threaten to leave even large IT competitors further behind in the race to reinvent software and how it will function into the future. “All previous software is on the brink of extinction,” said a senior executive at a UK-based networking consultancy. “Self-driving cars may still be a bit off in the distance, but I can assure you that self-driving software is here, and it is the way everything is heading in enterprise technology. ... There are really two ways this goes. One is you are very small and developing the basic framework for AI applications that are useful in real-world situations—supply chains, logistics, argibusiness—and you sell them up to the cloud scalars. Or, you must have the footprint to develop and mass-scale those things in-house. Being caught in the middle trying to compete with the cloud scalars while being too large to be a small, nimble development shop is not a good place to be.”
- Said the CEO of an enterprise resource planning (ERP) consultancy based in France: “Anybody looking at AI as a product isn’t thinking clearly. It is actually a development tool for cloud-scale platforms, and as such, it poses a distinct threat to hundreds of technology companies. Imbedding machine learning and more sophisticated AI into cloud-delivered applications, such as [SAP’s using IBM’s Watson in the Sap Start platform and all of its cloud applications](#), is the direction everything is going. Then you may have your AI applications ready for global scale-out on Azure cloud or in any cloud. ... This shift in technology automation has opened the door for a corporate magic act. What you do not see are actual mergers that could never gain E.U. approval. You could not have a situation where companies the size of IBM, Microsoft, and SAP would be allowed to become one entity. Yet this is exactly the effect. By doing business with each other using AI application delivery as the common driver, you have an unregulated virtual merging of these companies that is a looming nightmare for certain competitors. This is the true way AI is determining where future growth will be. I’m afraid the days of the killer-app unicorn startup have met a cruel fate. Even large companies with many customers, such as a Salesforce [Inc./CRM], are surrounded by these collaborations. If it doesn’t scale at the level of these virtual mergers, it is at best a lesser technology investment opportunity. And even then, it has to be something that feeds up to these top-tier collaborations to be relevant. ... If it is something new, you invest in the startup hoping it will be absorbed by a top-tier company.”

Positive: AMZN, GOOG/GOOGL, IBM, MSFT, SAP

Neutral: ORCL

Negative: CRM, CSCO, DDOG, DELL, HPE, NTAP, SNOW, SPLK, WDAY

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'A Business Collaboration Isn't A Merger, And Regulators Can't Do A Damn Thing To Stop This'

One U.S. West Coast software development executive calls the AI revolution “the ultimate gift, the perfect excuse for Microsoft, Google and AWS [Amazon Web Services] to go out and do whatever the hell they want without getting into the whole regulatory mess. It's not like the [Activision situation for Microsoft](#), where you have antitrust issues causing all the problems. No. Microsoft can do a project with a client; and the client is maybe Oracle [Corp./ORCL], SAP, or IBM, and you throw in AI as a reason; and it simply looks like a business-to-business transaction. In fact, the big clouds and a few others are combining to take over information technology entirely. This is how they are pulling it off right in front of everyone's eyes, and regulators can't do a thing. It's [this entire WatsonX thing from IBM](#). I mean, it's genius in that sense because, while they have some overlapping competition across their companies, that's fantastic, because they can't be accused of being anti-competitive. Technically, IBM, SAP, and Microsoft all compete against each other. Meanwhile, SAP brings in WatsonX as its AI brain, and they go to their clients and tell them we will deliver anything you need across our entire stack. Then the SAP customer says, 'We are on Azure,' and SAP says, 'Great, so are we.' Then [IBM and Microsoft collaborate on the consulting end](#) to get your SAP over in that cloud.

“I mean, come on. Look at that. They have thrown in together, and this leaves a lot of other companies on the outside looking in. The whole best-of-breed thing is back big-time. Remember back a whole two years ago, and we'd talk about a company being “disruptive”? How can you disrupt these cross-partnerships? It is impossible. How is Salesforce going to beat that over time? They will be slowly whittled down. Every area is covered by SAP, IBM, Microsoft—all of it. Analytics, data protection and network security, HR, CRM, ERP, all the back end. [If you want Oracle, pull it in on Azure](#). Again, it's not anti-competitive, right? This AI shift is going to blow up old tech like nothing before. Plus, they can set the prices because they own the playing field.”

The shift to large collaborations behind the scenes is causing a seismic reaction across enterprise tech. **Sources warned that earnings from companies that aren't tied into these strategic collaborations are likely to suffer heading into the second half of the calendar year.**

“We are projecting some very bad numbers for the rest of the year in enterprise sales for on-prem,” said the CEO of an East Coast network integration company. “It's going to be ugly for a lot of companies, and I think it hits the fan in the upcoming reporting period [in late August] because sales forecasts are weak. I have no idea what people are drinking to be propping up so much of the last-gen tech companies. I have to sit in on these vendor presentations from the likes of HPE [Hewlett Packard Enterprise Co./HPE], Dell [Technologies Inc./DELL], NetApp [Inc./NTAP] and silently shake my head when they present their latest idiotic plans to try to recapture their glory days. They are all chasing an evaporating pond that is on-prem corporate IT implementation. I think they will all eventually collapse into a single company that just services the dinosaurs. Unlike Oracle, SAP, IBM, they have no software story or anything that connects to the [mass scale] cloud in any meaningful way. AI is the only real innovation that has happened in software development in the last 20-plus years, because it addresses real-world business problems at an efficient cost for end customers. The second- and third-layer vendors never could deal with cloud-scale problems or even attempt to do so because they were all built on the 1980s big-iron/big-cost old IBM model. That model could have killed off IBM. They woke up just in time and got in first on AI [Watson], got together with Microsoft to get their hands on real cloud hosting horsepower after screwing it up themselves, and they have literally crawled out of a hole in the dirt. SAP steps in and that is one hell of a story they cooked up together. AI isn't about chatbots as the main application. It is about getting things done. IBM is back.”

Said a senior vice president of a Netherlands-based applications integration company that does business across the E.U.: “If you want to understand the depth of power SAP has developed here [in Europe], please study Ikea. You can say SAP has created solutions for one of the most complex retail operations in the world. It is 390 stores, 700 million customers in more than 30 countries. Finance, logistics, operations—I would say everything—is in their software. The way they [SAP] present their goods, the software is much like the way Ikea sells furniture—modular, fast, deployable in package form. Now add in AI and global cloud making the operations more efficient each day. So this is the way it will go now because even the small business has the opportunity to automate like this. It was not too long ago we were always looking at these next new companies with some applications that you think, 'Well, that is interesting.' Of course, you soon realize after trying these in real situations and see some mistakes, and then you are considering if there are some new things that will work, but you are also wary because of all the mistakes. Then the cloud expands and offers this area of software as a service. Great. SAP went for this right at the beginning, and now they have become very dominant here and also in North America. SAP HANA, Celonis, so much more. Now you have SAP on Azure, AWS, and GCP [Google Cloud Platform]. These are critical alliances for deployment and use of tools for streamlining to these platforms. [The Google Cloud is a good example of this.](#)”

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Said the CEO of a UK company that manages cloud deployments for companies delivering a variety of services and logistics: “Growth moving forward will be tied up with the great reinvention of the way applications function. We call it the ‘great reinvention’ because we have crossed the point where end customers are simply no longer responsible for the delivery of their information technology needs. It is delivered. It is there for them to access regardless of location—of course, with some limitations regarding local connectivity. That is always an issue here [in the UK] in some areas. AI is another way of saying everything previous to now is fast moving toward obsolescence. In that regard, it isn’t all that different than the way the world has evolved through its various stages of development—except for one critical difference: Previously, the world did not have instant global digital communications, as it now does. When you inject the automation layer into the functionality of the digital economy, everything must change because this is the point where it has to become intelligent and self-managing due to the waves of data that are inundating systems. This has to be a tremendous concern to all the various companies that have been supplying the elements of the digital economy up to this point. The cloud model usurps the operate-it-yourself model. This has been going on for some years now. What is entirely new is the rush to permeate software with intelligence. I am glad I am not tasked with advising Cisco [Systems Inc./CSCO] what to do next, because the cloud is the only way to effectively deliver AI in commercial form through applications that are all cloud-based.”

During lengthy discussions, sources reiterated that the overall picture for many IT vendors is looking like what one source termed “slow, torturous attrition.” Network components, stand-alone software in licensing models that do not correspond to a software-as-a-service (SaaS) cloud-hosted platform, on-premise data storage, data security vendors that compete against Microsoft in particular, observability and policy management software, and other enterprise-focused vendors will struggle to maintain their revenue. Sources said companies that do not fit into strategic collaborations resembling what SAP, IBM, Microsoft, AWS, and Google Cloud Platform have assembled will struggle to meet expectations for sales in the second half of this year.

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One longtime key Tech Trends source who is the CEO of a company focused on cloud migration and application management said: “The big players are colluding, not collaborating. They’ll shift everything their partners sell all to the cloud. It’s easy to understand the strategy, and it is working, with more about to be unleashed on the tier-two and three companies that have subscribers but are not developing inside the boxes being built by the clouds and their preferred partners. The Fortune 500 is where you begin. The big guys—IBM, Oracle, SAP—are all deep in the Fortune 500, and they have concluded the cloud is the survival mechanism. Then you have the others in various segments. Salesforce, Workday [Inc./WDAY], Splunk [Inc./SPLK], Snowflake [Inc./SNOW], Datadog [Inc./DDOG], all the other observability players. The NoSQL databases. Then you look at the tools Microsoft has, AWS has, Google has. They have already provided all the migration consultants like us with a lot of them, and more are being built and waiting to be unleashed. The tools can convert something like Salesforce’s various services into a uniformed stack at Azure, and there is just one bill to negotiate. This is aimed at getting customers off of doing it themselves with a number of outside vendors. Migration tools for Workday—I mean everything.

“The further we move into this—and this is the critical thing, as it all unfolds with these things like Salesforce’s Einstein AI application. If that works, what’s the outcome at a customer location? They pare down their workforce. If that spreads across all the customer base, say they are able to cut 25% of the collective workforce. Those are Salesforce’s customers getting rid of the reason they need Salesforce in the first place.

“We have a customer that used AI to put together a 400-slide PowerPoint with live video feeds based off of one of their consulting clients. The AI trained on the client’s needs and past interactions, and the whole thing was done on Azure. It is constantly updated, and it is part of a push by this customer to keep collecting the same fees from their client—but with the elimination of hundreds of jobs spread across the country because this new capability can repeat the scenario for any client our customer has. It really is over in the sense of the way things have been done up to this point. I have watched the market plowing back into the tech companies again, and watch out. Watch out.”

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About This Report

John Harrington is reporting from the European Union on collaborations between major cloud vendors and specific legacy IT companies, particularly SAP and IBM, to determine the effect on the broader enterprise IT sales picture in Europe and the United States. John interviewed 16 key executive sources, 11 based in the U.S., two in the UK, and three in the E.U. Fifteen are repeats from previous Tech Trends reports, with one new software executive based in the Netherlands. Interviews were conducted in the last week of June and first two weeks of July.

About the Author

John Harrington has been the senior technology researcher for Blueshift Research since February 2014, providing deep insights into tech and communications trends—often before Wall Street recognizes them. He is an award-winning investigative reporter and veteran Wall Street researcher, previously serving as senior editor and senior researcher at OTR Global. He is a three-time Emmy Award-winning TV journalist.

With his extensive background in reporting on technology trends for more than 20 years, John brings expertise and relationships in internet networking, network security, fiber-optic communications, and data center computing.

Report Coverage Areas and Companies

Blueshift Research has been reporting on the following technology areas since Feb. 14, 2014, covering these public companies:

- Cloud Computing/On-Demand Hosted IT (AMZN, CRM, GOOG/GOOGL, IBM, MSFT, ORCL, WDAY)
- Enterprise IT Networking (ANET, CSCO, CTXS, DELL, FFIV, HPE, IBM, JNPR, MSFT, ORCL, RHT)
- Data Security (CHKP, FEYE, FTNT, INTC, JNPR, MSFT, PANW, SYMC)
- Data Storage/Management/Analysis (AMZN, BRCD, CSCO, GOOG/GOOGL, HPE, IBM, INTC, MSFT, NTAP, ORCL, PSTG, RHT, TDC, WDC)
- Data Centers and Fiber Optic Networking (AMZN, CONE, DFT, DLR, EQIX, GOOG/GOOGL, IBM, INTC, MSFT, NVDA, QTS, ZAYO)
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