

IT Spending Will Hinge on Economy, Not Strategy, in Early 2024

Companies: AAPL, ADBE, AMZN, ANET, ARM, CHKP, CRM, CSCO, DELL, FTNT, GOOG/GOOGL, IBM, MSFT, NVDA, PANW, SAP, SNOW

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

Research Question:

Have spending patterns across IT networking improved, stayed flat, or gotten even worse heading toward 2024?

Key Findings

- Sources report that customer information technology spending is settling into what one called “a lot more thinking before any check-writing.” That means IT spending to begin 2024 is going to depend heavily on near-term business prospects for enterprise customers and less on long-term strategy regarding the adoption of new technologies like artificial intelligence.
- “We’ve had a very tough year,” said the CEO of an East Coast value-added reseller (VAR)/integrator. “There has been a lot of downsizing of what were supposed to be large projects at significant clients. It became a drawn-out process across the second half of the year, as we have previously discussed. Now what we are hearing is customers are going to see how next year starts before they make any significant moves. So more delays. That is screwing up pipelines and making it very difficult for us to forecast our own business. You will see software license renewals as needed remaining fairly stable. Network hardware is going to remain flat to down. The cloud will continue to pick up more business but likely at a slower rate until there is a sense of what the economy is doing around the end of January and into February.”
- Other sources have also reported that they are seeing no uptick in what has been a sluggish 2023 headed into the start of next year. “We are delivering on contracted services for our security clients and making sure they are current on all their licenses while we monitor their networks. But that is status-quo-level business, not new customer adds or increases in spend with existing customers,” said the CEO of a Midwest-based data security and management firm. “Discussions are constantly revolving around cost, as they have been all year. We have been discussing strategy with customers, and they are asking about what they are doing today and how to contain costs. The [security] vendors hate it because they have been pushing very hard to make up for what has gone on this year by pushing their advanced AI claims at customers—but customers aren’t listening yet. It is a wait-and-see what the new year brings before those discussions can take off, depending on what the economic outlook is in areas like healthcare, retail, and manufacturing—where our customers live.”
- Sources said customers will continue to migrate toward the cloud—especially to Microsoft Corp. (MSFT)—as they take advantage of the ability to protect stored data, operate application workloads, and add advanced AI features on an incremental basis vs. trying to tackle those things on their own. “Maybe it will not start off as fast at the beginning of the year, but the overall economics and plain common sense of combining everything in one place where an operator like Microsoft provides the layered security for everything, while the customer decides what they want to use in the cloud, will be the clear winner in terms of spending capture,” said the CEO of a company that manages cloud deployments for large West Coast and national clients. “I think we forecast there is going to be a static period to start the year, and clients will start making decisions sometime in the first calendar quarter as to what they want to do. If you are already up and running, there isn’t going to be any rush.”
- Sources expressed a small level of optimism that we have seen the worst for the overall tech economy—as opposed to sentiments expressed in earlier Tech Trends reports, particularly during Q3 of this year.
- That said, no sources predict a return to the pre-pandemic, do-it-yourself world of IT networking. “That is all over,” said a senior executive with a large UK-based IT services company. “Anyone suggesting that there is going to be anything even partially resembling a return to what the data networking world was pre-pandemic is either vying for a championship in cognitive dissonance or lying to you. Of course, there are scores of people in the business who long for the good old days of five to 10 years ago. ... But they know it is never going to be the case. To couch things in a holiday metaphor, for so many of the tech workers we encounter when we advise clients, it is likely a terrible thing trying to sleep at night hoping for the past to return, while knowing the future is lurking behind the curtains like a bad night at Ebenezer Scrooge’s house.”

Positive: AAPL, ADBE, ANET, ARM, AMZN, GOOG/GOOGL, IBM, MSFT, NVDA, SAP

Negative: CHKP, CRM, CSCO, DELL, FTNT, PANW, SNOW

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Can AI Become Large Enough In 2024 To Energize Overall Enterprise Tech Spending?

All 16 sources interviewed for this report said “no” and cited several reasons why.

- Training large language models for custom AI applications on a per-business basis takes time and resources. Microsoft, Alphabet Inc.’s Google (GOOG/GOOGL) and International Business Machines Corp. (IBM) have embarked on building AI for individual customers. Now Amazon.com Inc.’s (AMZN) Amazon Web Services has just announced it is entering the fray to supply custom-trained chatbots to businesses, a program it calls [Amazon Q](#). However, sources said, the push by these four companies to get customers to dive into AI is actually going to damage the rest of their field of tech vendors racing to get in on the AI action. “There is no way, despite how much they market and advertise, companies outside these clouds are going to be able to compete against the collective resources these four have,” said the CEO of a West Coast network integration and cloud management company. “In order to build specific AI apps for unique business cases, you need to have secure access to the data needed to train the AI. If you are Salesforce [Inc./CRM], you will have to train from limited data sets to build a limited AI app like Einstein from whatever your clients are doing on your platform. That is a small fraction of what a large enterprise that is storing petabytes of data at Microsoft or AWS can accomplish when those clouds access your data to train AI. It’s night and day. That means, over time, we will see the spending on AI concentrate more and more toward three or four companies and further away from the rest of the field. That is not a prescription for a robust tech economy.”
- Sources picked some companies that they see as already experienced in cloud networking—like IBM, SAP SE (SAP), and Adobe Inc. (ADBE)—profiting from close relationships with the major cloud providers on AI. Tech Trends [reported on July 14](#) that partner relationships among the biggest companies and cloud providers were already changing the face of the global IT landscape when it comes to AI. “There is an inherent problem for companies in areas such as data analytics—say, Snowflake Inc. (SNOW) or Salesforce—and equipment companies like Dell [Technologies Inc./DELL] and Cisco [Systems Inc./CSCO] that are caught in the past while trying desperately to see how they fit into the future where the cloud is the game. You really can’t go it alone, and you are already reliant on your clients having their data in the cloud anyway. That sets up the competition conflict. Microsoft competes with Snowflake and Salesforce’s Tableau, for example. It supplies the computing infrastructure that Cisco used to sell to customers in a damn near monopoly. Microsoft’s cloud has crippled Dell’s data center fabric business. Over time, who wins customer business if automation is more cost-effectively delivered to you by Microsoft because they have everything?”
- **“Where everyone in the VAR community is hoping AI will float the enterprise tech spending boat, it is much more likely to sink it in a conventional sense.** The drive for faster computing is shifting toward the processor level and exotic developments like [IBM’s quantum efforts](#) and these very fast data center fabrics used by the cloud players to increase their respective efforts in AI. Outside vendors can’t afford the cost of building these advanced clusters that cost millions of dollars for even small arrays. Going big on AI training costs billions. Cisco is trying by building its own chips to compete against the GPU [graphics processing unit] suppliers. Good luck there. At the minute, if you are trying to play in the AI race, you have to use the clouds to run the compute. Therefore, any way you look at it, the underlying infrastructure suppliers selling to the cloud rake it in. The Nvidias [Nvidia Corp./NVDA] of the world. Or we see Microsoft, Google, and Amazon working on their own chips with Arm Holdings PLC [ARM] the way Apple [Inc./AAPL] has. Fast data center fabrics have helped Arista [Networks Inc./ANET] sell more switches, and that has hurt Cisco. But AI is a mega-cloud game. Outsiders are going to be hurt.”
- “AI is a function of data, nothing more,” said an executive at a data management company with clients in the UK and North America. “It learns from what humans have input into whatever data the LLMs [large language models] are made of. If it is running data—say, transactional information that is moving in real time—there is already a plethora of software out there that has been learning from accumulated data for years. That is not new. What is new is creating these chat assistants inside a business that can do a search for you and return what you are looking for in a matter of seconds, as opposed to having an employee running queries and taking hours or days to compile a report. This is where the clouds have a tremendous advantage. We will never consult one of our insurance clients now to try to develop AI in-house using a company that isn’t at the level Microsoft is. That would be absolutely foolish because you would run the risk that the effort would fail. We have three very large clients developing with Microsoft now. I do not see how any noncloud firm can go to any large enterprise and convince them to hire them to build AI applications for the enterprise where that noncloud firm is going to have to use the cloud to train the AI anyway. This is where there is such a level of ignorance in regard to who controls the

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capability to bring AI into widespread use. You have to own the horsepower, or you have to rent the horsepower to do the development.

- “I think this has had a lot to do with the upheaval we just witnessed at Open AI. When Open AI got started, it was something of an altruistic pursuit. When Microsoft became involved, that changed everything. It became a capital-intensive arms race aimed at broadsiding Google. The AI game is now 100% capitalistic in every sense. The going rate for a Nvidia H100 chip board is between \$35,000 to \$40,000 U.S. dollars for one. If you want to accelerate vast amounts of data through a system for AI training at scale, you need thousands of them strung together. Think of the impact this will have on how money is directed to build the foundations of scaling AI to everyday use. Small entrants are going to be marginalized. Even companies the size of Cisco are under threat. What I am saying is do not expect AI to be an elixir for enterprise tech spending, especially in the coming year. Expect it to continue to muddy the water while everyday concerns among business will continue to focus on keeping operations running while the economy sorts itself out one way or another.”
- Security-focused sources continue to report that they see Microsoft cutting more deeply into other security vendors’ revenue moving deep into 2024. “The more of our clients’ data that is accumulating on Azure, the less the client needs all these duplicative security products like on-prem firewalls like we are seeing with Fortinet [Inc./FTNT], Check Point [Software Technologies Ltd./CHKP], and Palo Alto Networks [Inc./PANW], said the CEO of a security implementation and monitoring company. “The vendors don’t want to hear it, and they pester our clients to try to keep them or sell them something new. But then Microsoft lays out exactly what they need. We handle the ongoing management, and the process is smooth and much less costly. That’s a win-win—except for the vendors watching Microsoft dent their client counts.”

Background

John Harrington has been the senior technology researcher for Blueshift Research since February 2014. He has an extensive background in reporting on trends for more than 20 years across all areas of information technology. He also has an industry background in network security and data protection. For this report, John talked with 16 key repeat sources, 15 in the United States and one in the UK, to determine IT spending patterns heading into 2024 and what effect the development of AI might have on enterprise IT spending. Interviews were conducted in the second two weeks of November.

About the Author

John Harrington is an award-winning investigative reporter and veteran Wall Street researcher. John previously served as senior editor and senior researcher at OTR Global and was a three-time Emmy Award-winning TV journalist.

John brings expertise and relationships in internet networking, network security, fiber-optic communications, and data center computing to Blueshift Research. He will contribute regularly, sharing deep insight into tech and communications trends, often before they are recognized by Wall Street.

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