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Enterprise Tech Trends for 2019

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What a difference a decade makes! Waterstone has regularly sounded the drum for the tremendous impact of digital transformation in the enterprise, and that is largely because we have seen it firsthand. The maturing SaaS business model, IoT, big data analytics, and more have all evolved from early ideas in 2010 to near ubiquity today.

We expect to see this profound digital transformation continue as we enter the last year of the decade. Waterstone is tracking the following key trends in 2019 for the enterprise technology sector.

The Year of the Customer: Companies will continue to evolve their digital strategy to engage their customers, partners, and prospects across multiple channels of communication. This will evolve beyond phone, email, social, and into new channels like bots and non-traditional voice activated engagements. This proliferation of communication channels will also expand the sources of customer data and insights a company will be able to analyze and exploit. We expect enterprise tech companies to increasingly invest in using the data to better-understand their customer health and engagement, and to take proactive and predictive actions to guide customers to a better experience.

The Shift from SaaS to PaaS: We have seen a widespread acceptance of the subscription / SaaS model across numerous tech providers and industry segments over the past decade. Now that the model has been validated and the first few rounds of SaaS providers have achieved a level of portfolio maturity and scale, providers are seeking the next generation of growth through the leverage of their platforms. From an economic lens the benefits are obvious for the provider– it promotes customer stickiness, it fills in gaps in their solution stack, and ultimately increases ARPU. The customer also benefits, in that it provides niche functionality that they may not get with a standard offering, it minimizes integration costs across cloud platforms, and provides a more integrated data platform for analytics and insights. However, shifting from being a SaaS provider to a PaaS provider is easier said than done. It requires considerable thought in terms of how the product is architected and how the partner ecosystem is curated and managed. In addition, the commercial models must be structured as a win-win for the customer, provider and the developer network. We expect to see continued emphasis by emerging and scaled SaaS providers to frame and begin executing on their platform strategy.

Healthcare to make a big push into SaaS and the Cloud: Historically, the Healthcare technology sector has been slower to adopt cloud and SaaS solutions. A combination of security and privacy concerns, and extended purchase and replacement cycles served as inhibitors to rapid adoption. However, the past few years have seen significant venture investment in Digital Health, of which many offerings are taking advantage of scaled cloud and analytics platforms and are charging as a subscription. In 2018 alone, Digital health venture funding exceed $8 billion, primarily in areas of Digital Diagnostics, AI/Machine Learning and Digital Tools to manage chronic conditions. Pure-play SaaS companies like Veeva have flourished over the last few years, and new entrants like Butterfly Network are starting to offer hand-held ultrasound devices on a “fixed + subscription” model. Given these trends, we expect the Healthcare SW market will begin to play catchup with other industry verticals in pushing to SaaS and subscription models.

Data managed as a Strategic Asset and the Importance of the Chief Data Officer: There is an explosion of data in the enterprise, and moreover there is an explosion of AI and Analytical tools and capabilities to work with this data. However, data ownership in the enterprise today is still fragmented and siloed. Going forward, we expect companies to increasingly treat data as a strategic asset not only to drive a step change in their internal operations, but also to leverage the insights and analytics to deliver the next generation of products and services to their customers. Harnessing enterprise data whilst maintaining the requisite level of security and privacy will require systematic cross-enterprise coordination - a mandate that aligns with the Chief Data Officer charter.

Mega Cloud Providers Will Push “One-Stop-Shop” Strategy: Last year Tomasz Tunguz introduced the idea of “MonoCloud” – significant Cloud Providers (like Salesforce, Microsoft, AWS, etc.) becoming “one stop shop” providers of multiple cloud services across a wide variety of potential customer use cases. AWS has clearly positioned itself to deliver as many services as possible by use case (horizontally), by industry (vertically) and by customer size/maturity. Microsoft Azure (in partnership with Unisys) recently announced the launch of CloudForte, a service intended to automate and accelerate the transition of legacy technology stacks to the cloud. While this speaks to the success and maturity of these major providers, it does provide some strategic challenges to the broader ecosystem of cloud providers. In this competitive dynamic, players not named AWS, Azure, Google, or Alibaba need to deploy strategies to remain relevant and competitive. These would require a focus on continued innovation and differentiation by delivering purpose-built solutions, offering white glove services, or enabling edge computing use cases.

Cloud Security Needs Remain & Intensify: Cloud Security has been a top trend in the tech space for years and likely won’t stop. The persistence of security breaches in the news underscores its continued relevance. In addition, the developing data privacy regulations in the EU (GDPR) and other geographies means that companies will have to continually address data security concerns as 2019 progresses. This area could serve as another source of differentiation for cloud providers seeing to compete with the majors.

More Software Players Becoming "Open" to Open Source: While Open Source Software isn't really a new topic, the recent wave of M&A activity in this space is cause for great interest. Major players that have typically resisted in participation in the open source space have made some very interesting moves. IBM's recent acquisition of Red Hat puts them deep in the center of the support business for open source Linux. Microsoft purchased open source repository GitHub and has recently announced its Platinum level membership in the OpenChain Project. This is a culmination of a slow-but steady strategic shift towards leveraging open source development and solutions into go-to-market strategies which we expect will accelerate in the coming year. As newer and innovative open source start-ups continue to emerge, they will have the unenviable task of competing with the deep pockets of the incumbents that offer 'just enough' solutions at an affordable price. Consequently, the bar for innovation will continue to rise for newer Open Source entrants.

PE Firms on Path to Ramp Up Tech Investments: Last year the overall volume of tech deals in the PE space slowed a bit compared to 2017, despite a few sizable deals that did gain a lot of press. Although the credit market and the competitive presence of strategic buyers likely impacted that dynamic, we are already seeing new developments emerge. With nearly $2 Trillion dollars' worth of dry powder to deploy, plus some exceptional fundraising success in the past several months among the mega PE firms, it seems very likely that we will see a higher volume in PE sized tech investments being made and sold in the next 18 months. We expect to pay close attention to tech carve-outs, and roll-up plays as PE firms seek winning deals in a competitive valuation and market environment