Battery

SEPTEMBER 2024

State of Enterprise Tech Spending

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Tech Spend Rising Amid Continued AI Enthusiasm

RISING TECH SPEND & STABILIZATION

1. TECH SPENDING STABILIZING & RISING

Overall budgets are trending upward with 74% this quarter vs. 55% in Q1'24 expecting an increase over the next year. Most increasing budget (59%) **are focusing on experimental initiatives and new tech**, presenting early-stage companies with fresh opportunities.

2. TECH EMPLOYMENT REACHES STABLE GROUND

The number of organizations looking **to slow down or enter a hiring freeze has dropped 19 percentage points from 46% in Q1 2023 to 27% in Q3 2024.** Overall outlook on hiring has improved, with 42% of respondents expected to increase hiring.

AI WAVE STILL FORMING

3. AI OPTIMISM VS. REALITY IN ADOPTION CURVE

Generative AI deployments increased since our last survey but still pace behind the expected hype or optimism of roll-outs that survey respondents expressed in Q3'23 and in Q1'24.

4. AI USE CASES IDENTIFIED VS. IN PRODUCTION

Today roughly 5.5% of identified AI use cases are in production , a sobering reality check on respondents' Q1'24 projection that 52% of identified use cases would be in production over the next 24 months.

BRINGING AI TO LIFE

5. PARADIGMS IN MODEL DEPLOYMENT

Big budget (>$1B in spend) enterprises are less focused on closed-source models through their API (e.g., OpenAI GPT, Claude APIs) than average. Compared to organizations with smaller budgets, they appear more open to deploying models on managed cloud infrastructure.

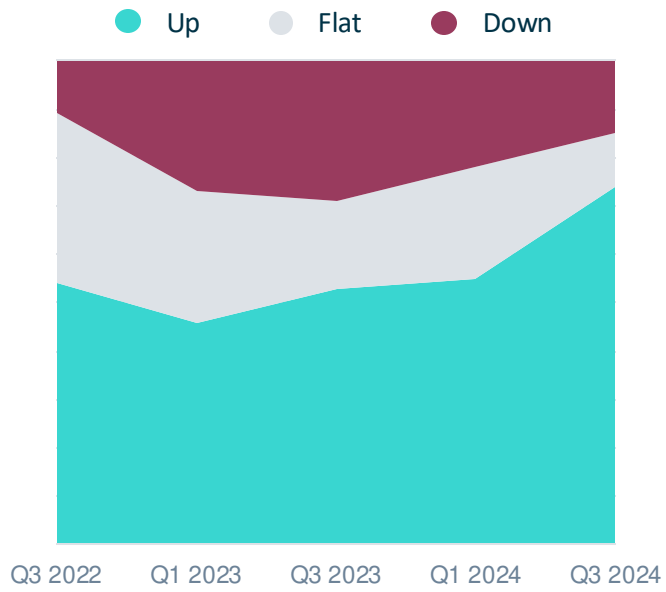
6. EVALUATE, OBSERVE, PROTECT

Model Observability and Model Training becoming a larger priority for enterprise buyers as more use cases are moving beyond concept to actual development and production.

Source: Battery Q3 2024 Cloud Software Spending Survey

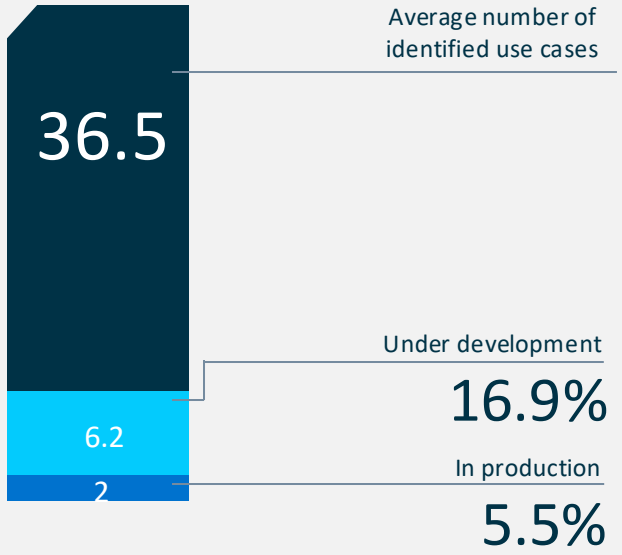
Budgets, AI Use Case Identification and Hiring Looking Up

BUDGETS INCREASING



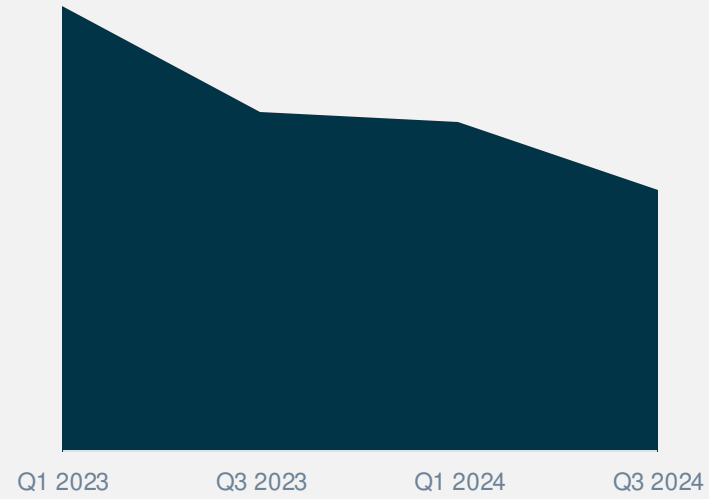
Budgets continue to **trend upward with 74% of respondents planning to increase budgets vs. 55% in Q1'24**. Fewer enterprises are staying flat, showing incremental budget increases and stabilization. Of those increasing, **59% cite Experimental Budgets – New Technologies as the driver,** favoring adoption of new technologies over existing vendor growth.

AI WAVE STILL COMING



Generative AI deployments increased but are pacing behind the optimism respondents expressed in both Q3'24 and Q1'24. **The vast majority of identified use cases still haven't moved to production,** with many not even under development. One reason seems to be a lack of in-house expertise: 2/3 of enterprises are seeking external assistance with implementations.

STABILIZED HIRING DOWNSIDE



Despite the continued news about layoffs, our survey revealed some stabilization—especially welcome news for those companies selling SaaS with seat-based pricing. The number of organizations looking **to slow down or enter a hiring freeze has dropped 19-pp from 46% in Q1 2023 to 27% in Q3 2024.**

Source: Battery Q3 2024 Cloud Software Spending Survey

Enterprise Tech Spend Sentiment Index

Buyer sentiment rose significantly relative to prior quarters, which indicates a rebound in technology spending from buyers across industries.

We attribute this improved sentiment largely to projected increases in overall technology budgets, boosted by AI. Employment trends among technology workers are stabilizing, and approval times for enterprise contracts are also having a slight increase—both positive signs.

Source: Battery Q3 2024 Cloud Software Spending Survey

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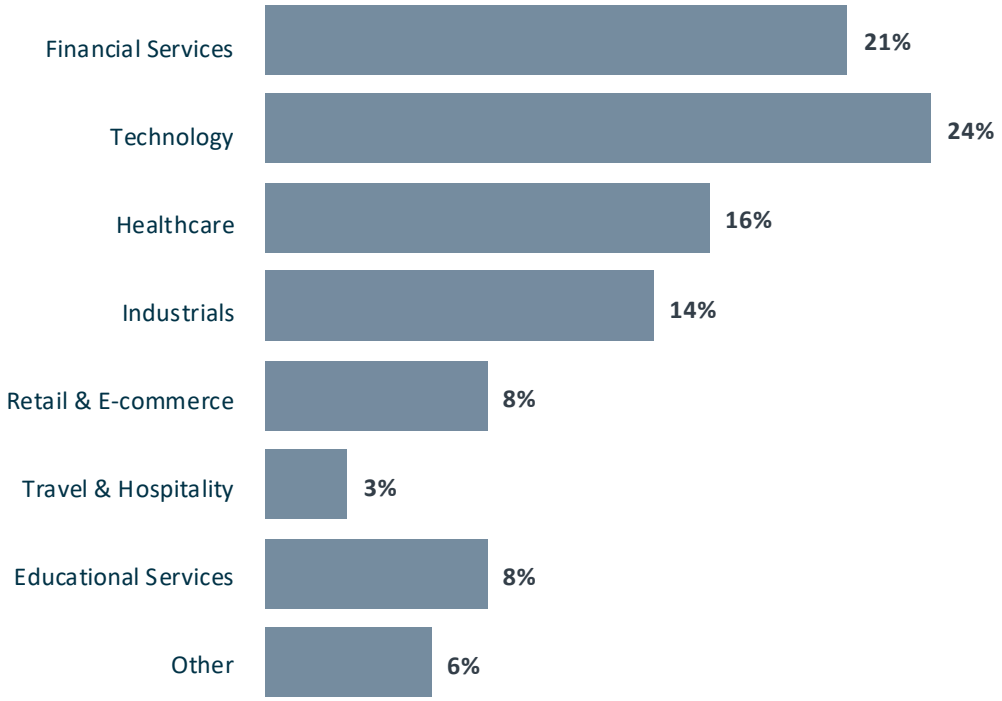
Demographics and Macro Trends

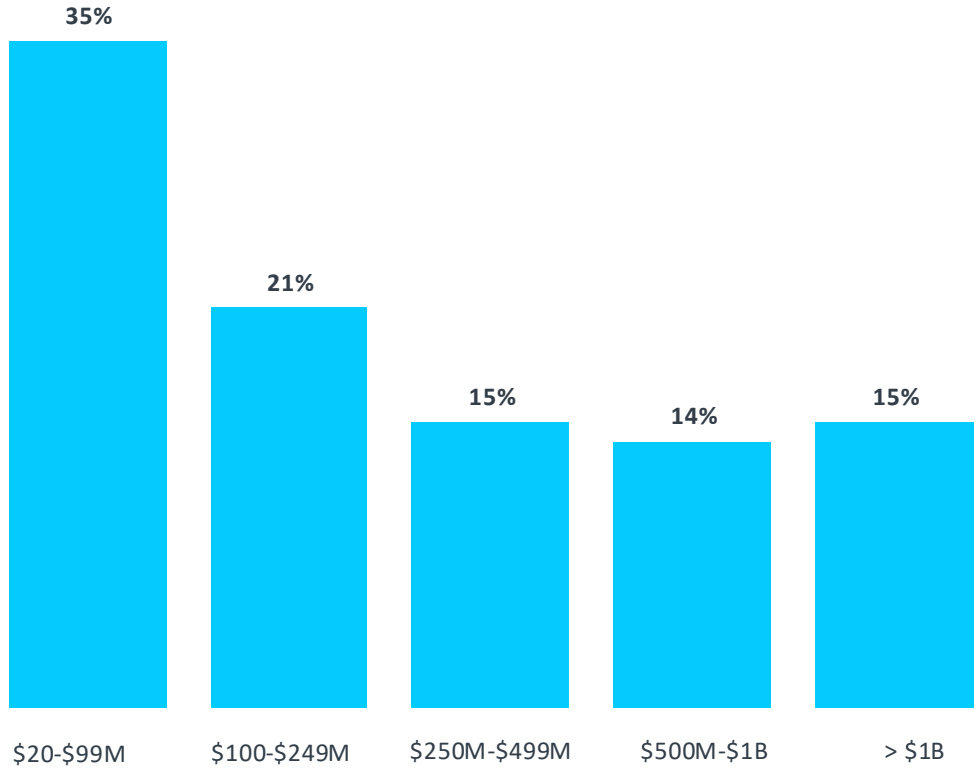
Survey Composition

- The Battery Cloud Software Spending Survey saw participation from **100 CXOs representing over $35B in annual technology spend**.
- **65%** of respondents spend **$100M+ on cloud infrastructure, application software, data platforms and ML tooling**.
- **89%** of respondents are from **companies with 1,000+ FTEs** in industries such as financial services, technology, healthcare and manufacturing.

INDUSTRY REPRESENTATION



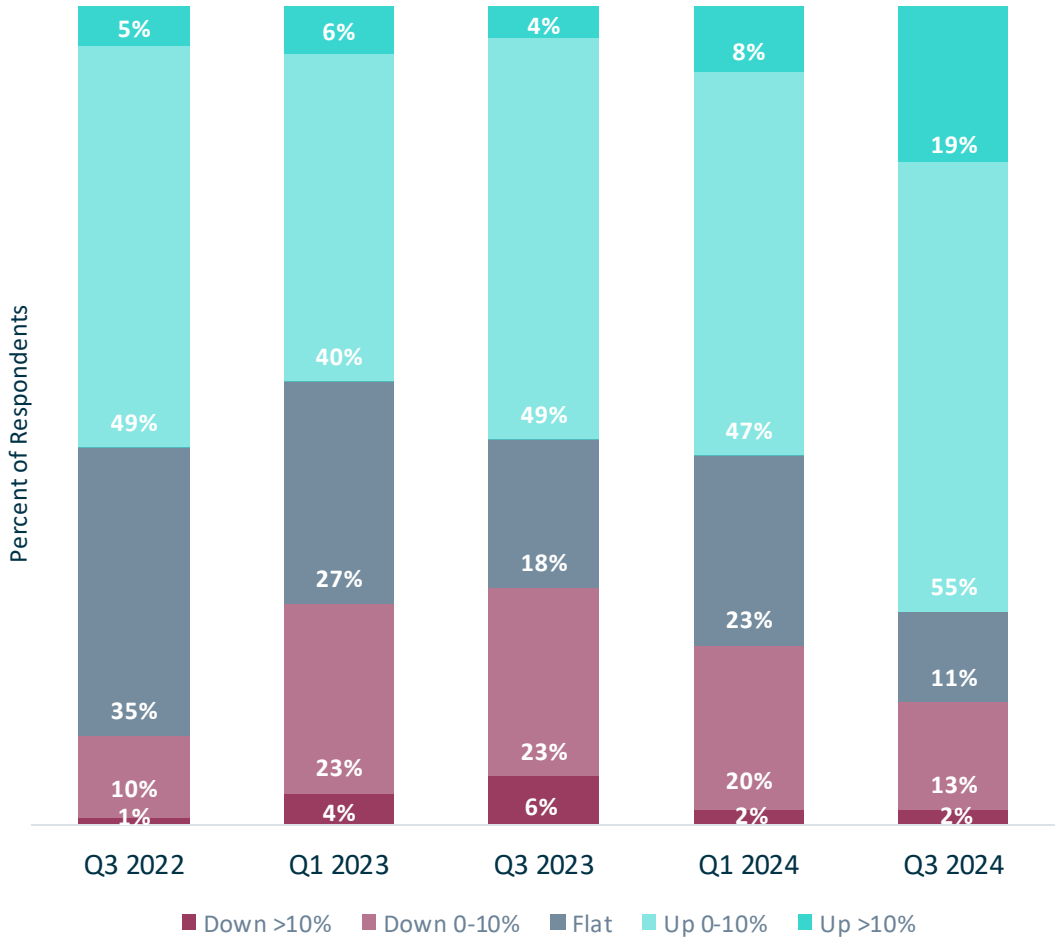
BUDGET DISTRIBUTION: TOTAL TECHNOLOGY SPEND PER COMPANY



Source: Battery Q3 2024 Cloud Software Spending Survey, Notes: 1) Industrial segment includes aviation, construction, utilities, manufacturing, transportation and warehousing. 2) Annual technology spend calculated based on mid-point of total technology budget.

Technology Budget and Spending Trends

POSITIVE MOMENTUM IN CXO BUDGET PLANS



BUDGET DISTRIBUTION: TOTAL TECHNOLOGY SPEND

1. In comparison to **Q1'24 overall budgets are continuing to trend upward with 74% vs. 55%** expecting an increase in budgets. The most notable increase occurred in those reporting 0-10% increases.

2. **Fewer companies are holding budgets flat** and technology executives are beginning to invest these new dollars.

3. For companies with increasing technology budgets, **59% cite Experimental Budget – New Technologies as the driver**.

4. Of those companies **decreasing budgets, the top two levers for reducing spend are vendor consolidation (87%) and workforce reduction (67%)**

5. For SaaS contract renewals, the **importance of a Generative AI component ranged from 34% rating it high (above 7)** and only 28% rate it low (below 3) on a 10-point scale of importance.

Source: Battery Q3 2024 Cloud Software Spending Survey

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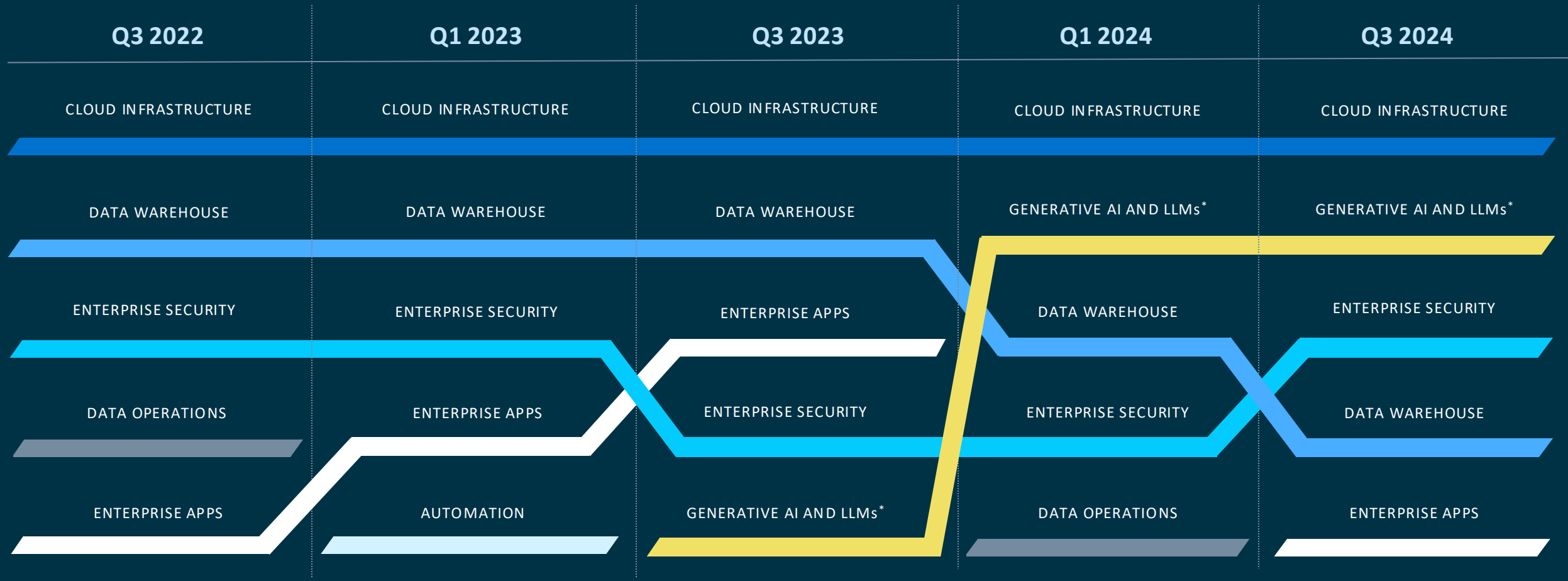
Priorities for 2025 Budget Planning

Top 5 CXO Spending Priorities (Next 12 Months)



Enterprises are less focused on pure data, both warehouse and operations, a trend reflected in slowing revenue growth in companies like Snowflake.[1]

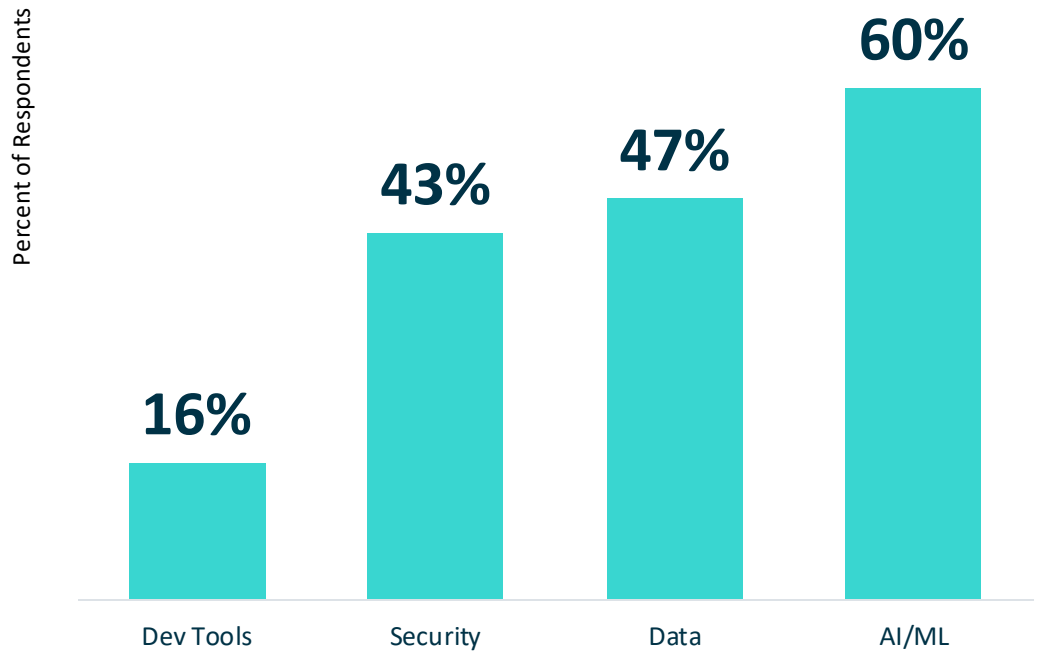
[1] Source: Snowflake quarterly earnings

Source: Battery Q3 2024 Cloud Software Spending Survey

* Note: Generative AI and LLMs were new priority option in Q3 2023 Survey

Trends in Spending by Category (Next 6 Months)

GROWTH IN CXO BUDGET PLANS OVER NEXT 6 MONTHS



WHERE ARE BUDGETS MOVING?

We asked respondents to forecast budget trends over the next six months. **AI/ML, Data and Security** saw the most significant increases.

AI/ML Takes the Lead - A notable **60% of enterprises plan to increase their AI/ML spending**, driven by its potential to enhance efficiency, automate processes and deepen data insights. This underscores the growing emphasis on AI/ML capabilities.

Data and Security Rising - As companies face exponential data growth and an increasingly complex threat landscape, investments in **data strategy and security have become essential**. This growth outpaces the modest 16% rise in developer tool investments.

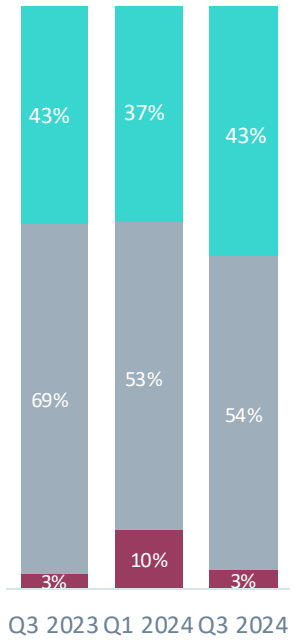
Opportunities for Startups - With **74% of enterprises increasing their overall budgets and 59% focusing on experimental initiatives and new technologies**, early-stage companies have fresh opportunities. Enterprises are **actively seeking solutions in AI/ML, Data and Security,** creating demand for innovative technologies outside their existing vendor relationships. Early movers in these sectors stand to gain significant market traction.

Source: Battery Q3 2024 Cloud Software Spending Survey

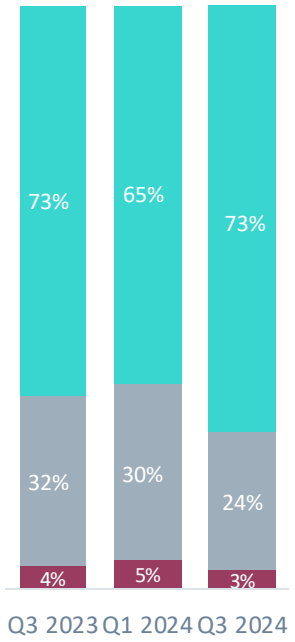
Expected Cloud Software Spending Change by Category

SECURITY

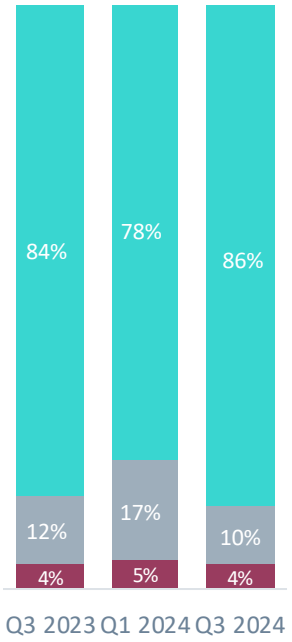
Next 6 months



Next year



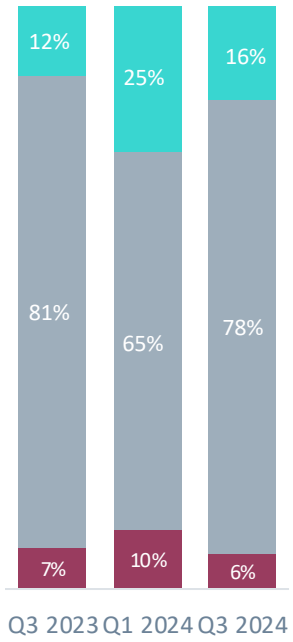
Next 5 years



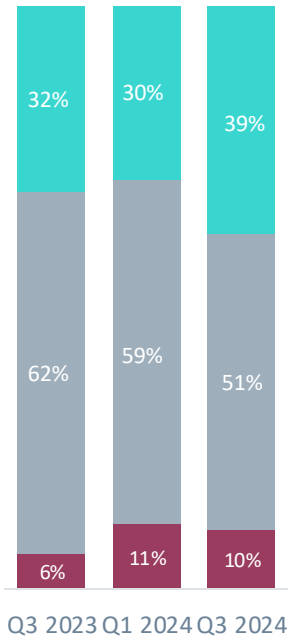
Predicted security tool cloud software spending shows minimal decreases, with most trending toward an increase in budgets over time.

DEV TOOLS

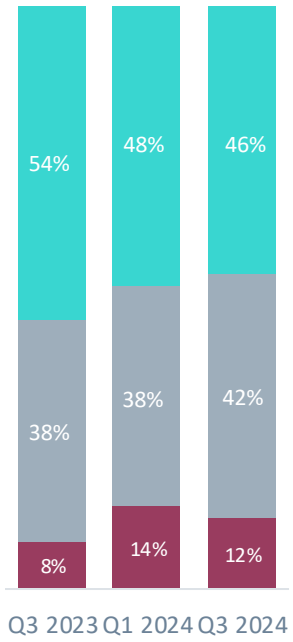
Next 6 months



Next year



Next 5 years



Predicted dev tool cloud software spending trends downward over the next five years. 42% of respondents stated they are looking to consolidate their developer toolchain.

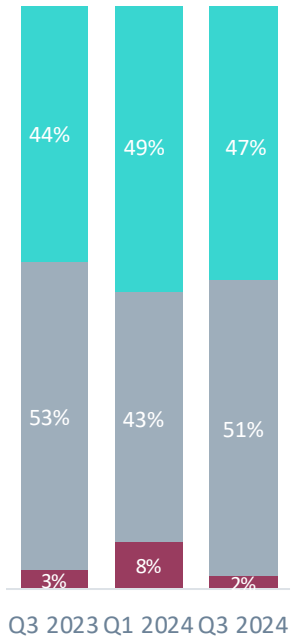
Increase Spend No Change in Spend Decrease in Spend

Source: Battery Q3 2024 Cloud Software Spending Survey

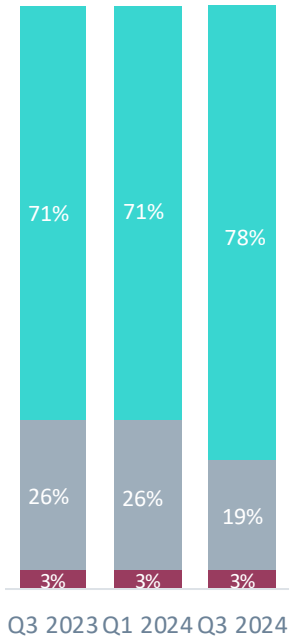
Expected Cloud Software Spending Change by Category

DATA

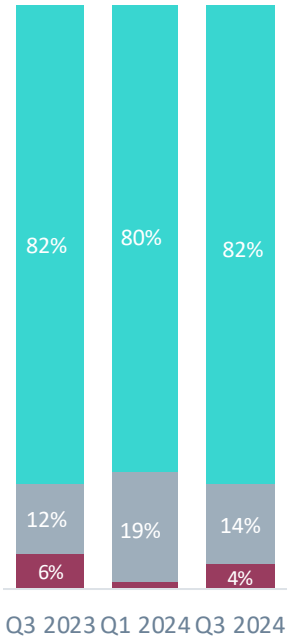
Next 6 months



Next year



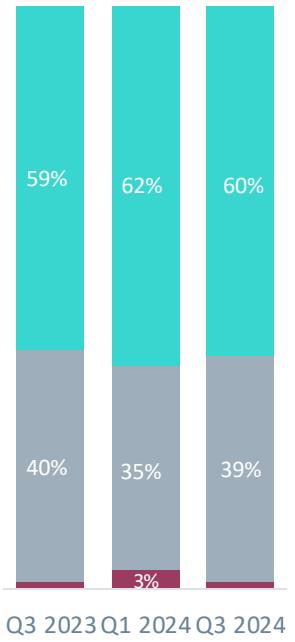
Next 5 years



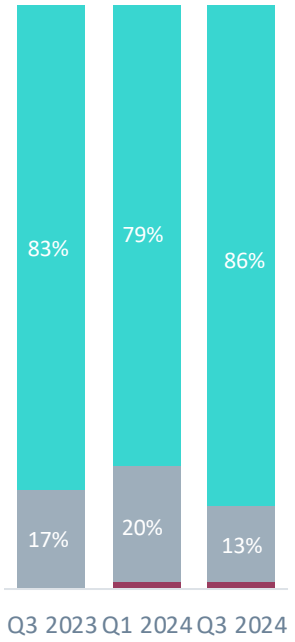
Predicted data tool cloud software spending shows both a solid mid- and long-term growth expectation in spend.

AI/ML

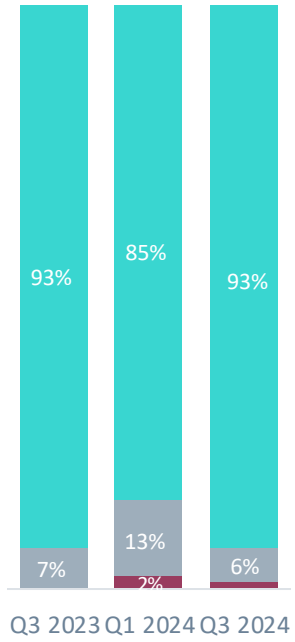
Next 6 months



Next year



Next 5 years



Respondents predict **AI/ML spending will increase over the short-term, with further growth expected in the years after that**. Very few organizations remain unchanged in their spending projections.

Increase Spend No Change in Spend Decrease in Spend

Source: Battery Q3 2024 Cloud Software Spending Survey

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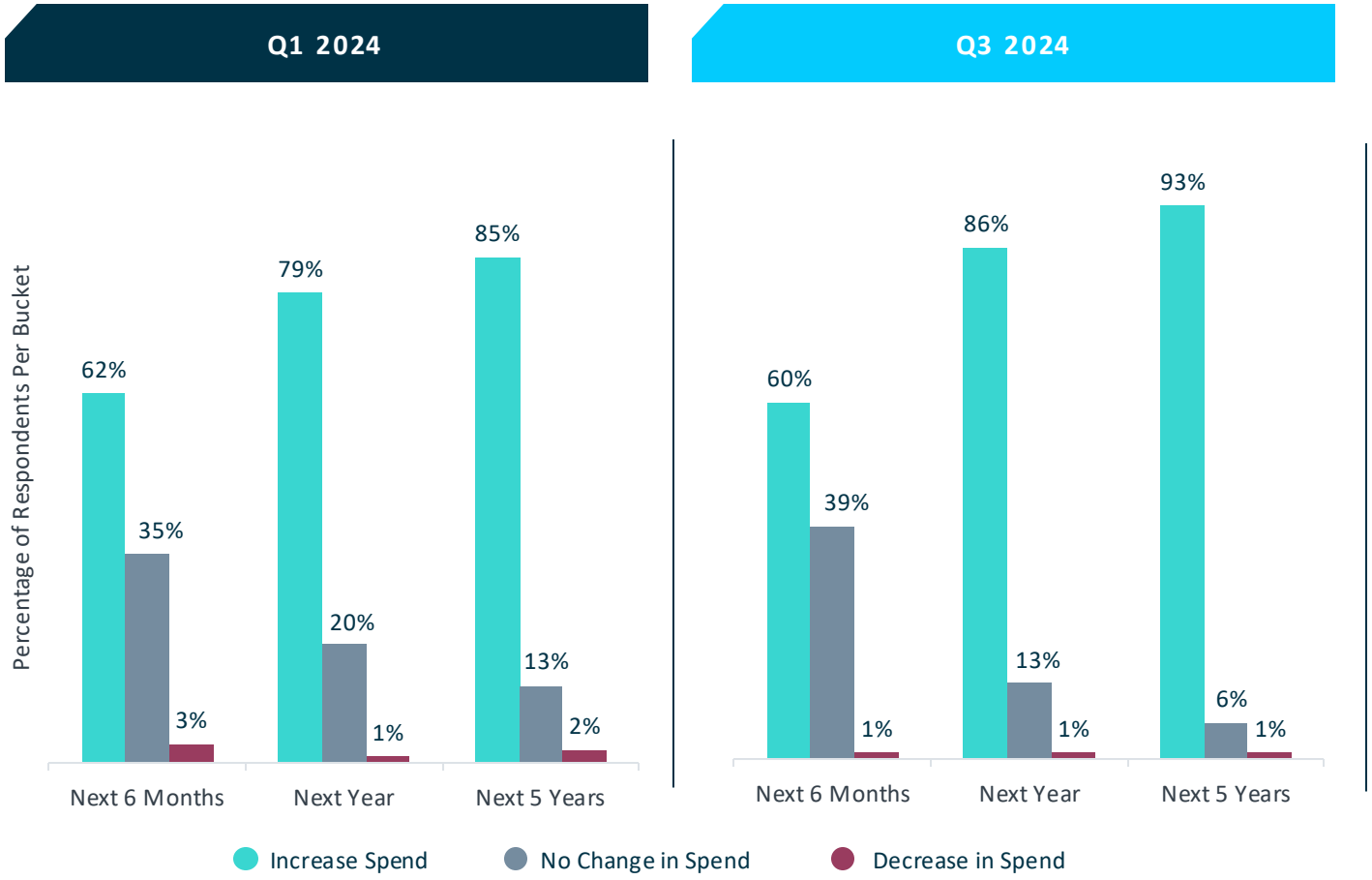
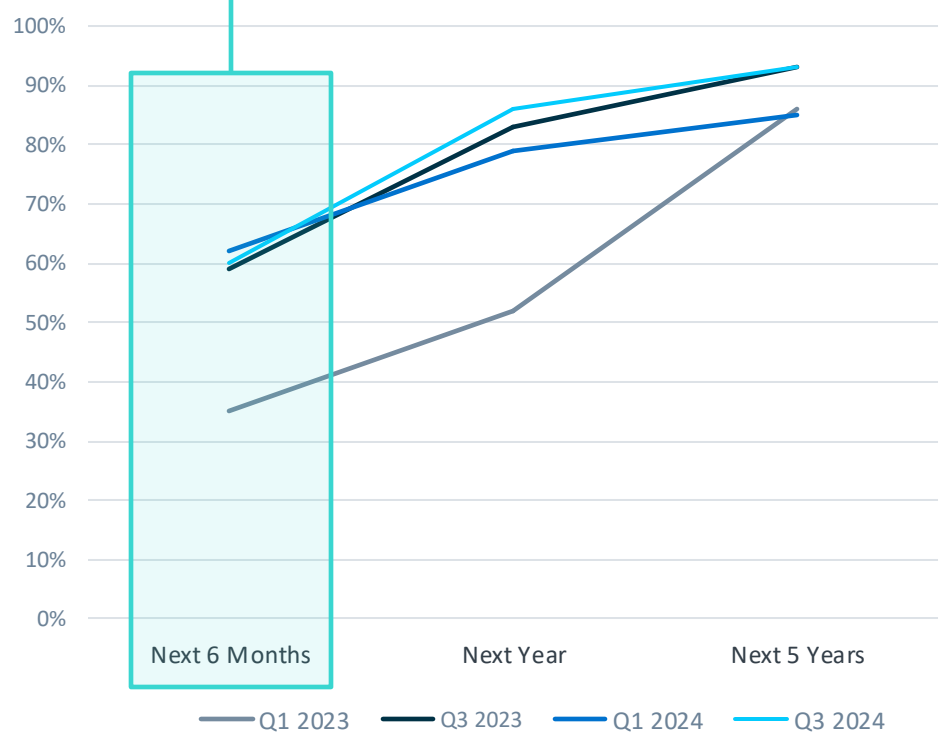
AI Adoption Wave: Optimism vs. Reality

Expected Cloud Software Spending – AI/ML



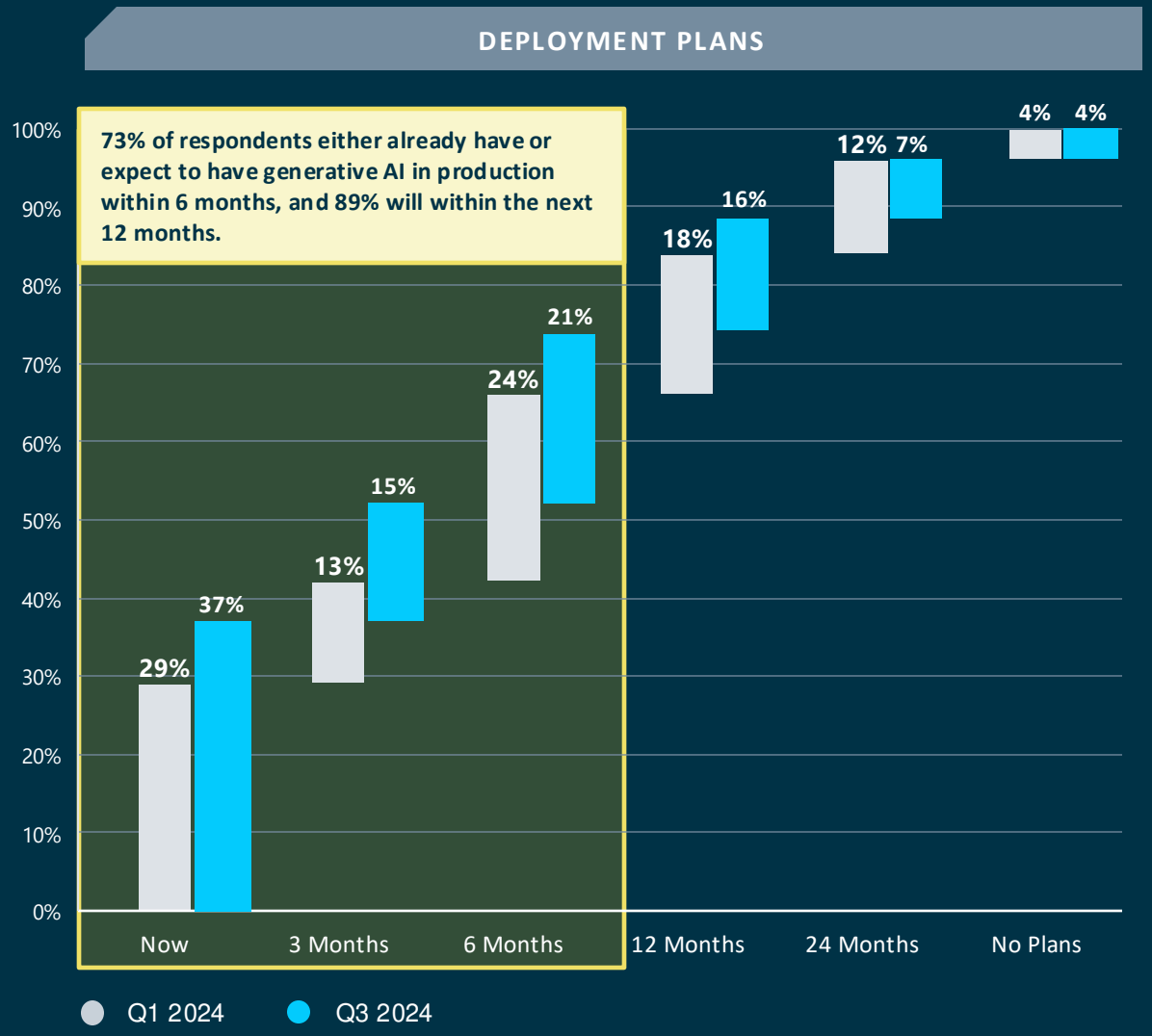
There continues to be interest in AI/ML tools, as CXOs maintain the projected near-term spending we saw expressed in Q3 2023 – a stark difference from what we saw only 18 months ago.



AI/ML investment is still growing, but more enterprises are holding budgets steady compared to Q1 2024 as they exercise caution in building without clear value. Nevertheless, the long-term outlook remains positive, with 86% of respondents planning to increase budgets in the next year, up from 79% in Q1'24.

Source: Battery Q3 2024 Cloud Software Spending Survey

Production Deployment for Generative AI



Still Early In Evolution & Cycle – What's Next?

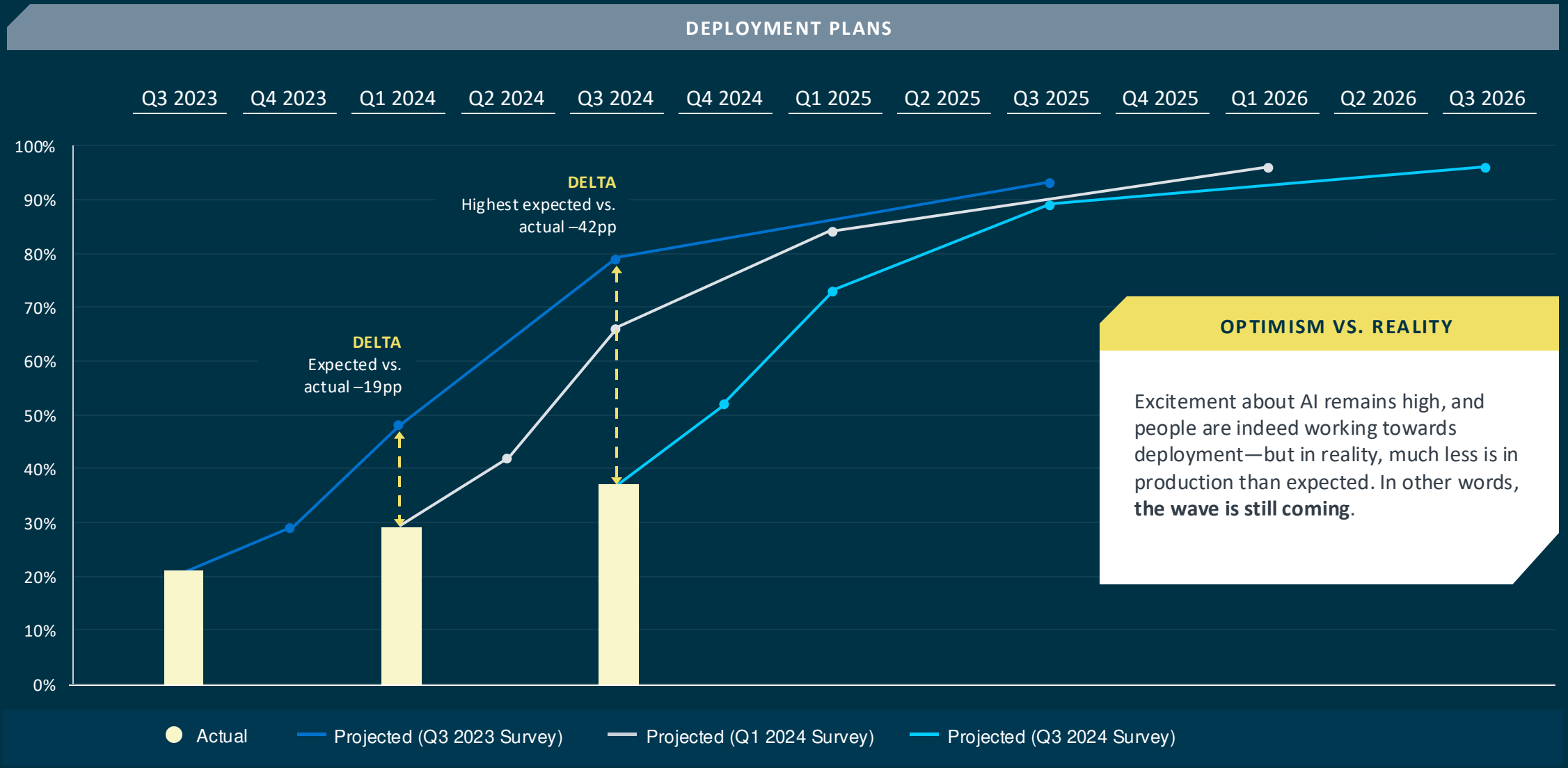
1. While enterprises remain optimistic in **accelerating plans to adopt generative AI,** the reality is lagging. This is likely due to the growing number of tools that streamline the deployment processes for the technology.

2. **CXOs are becoming less skeptical of implementing generative AI in production,** with only 11% either expecting to implement in 24 months or never, a 5-pp decrease from Q1'24 but a 10-pp decrease from Q3'23.

3. **Enterprise adoption of generative AI in production is still growing.** Our survey revealed an 8-pp increase in the number of CXOs with AI deployed in production today and a number of adoption and deployment patterns emerging.

Source: Pitchbook Data | Source: Battery Q3 2024 Cloud Spending Survey

Timeline Expectations for Generative AI



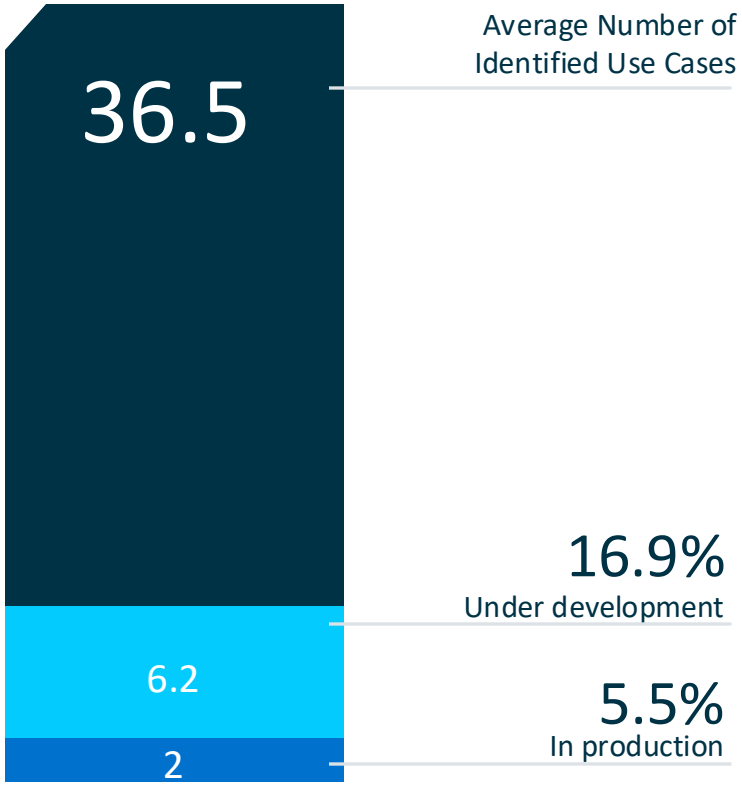
OPTIMISM VS. REALITY

Excitement about AI remains high, and people are indeed working towards deployment—but in reality, much less is in production than expected. In other words, **the wave is still coming**.

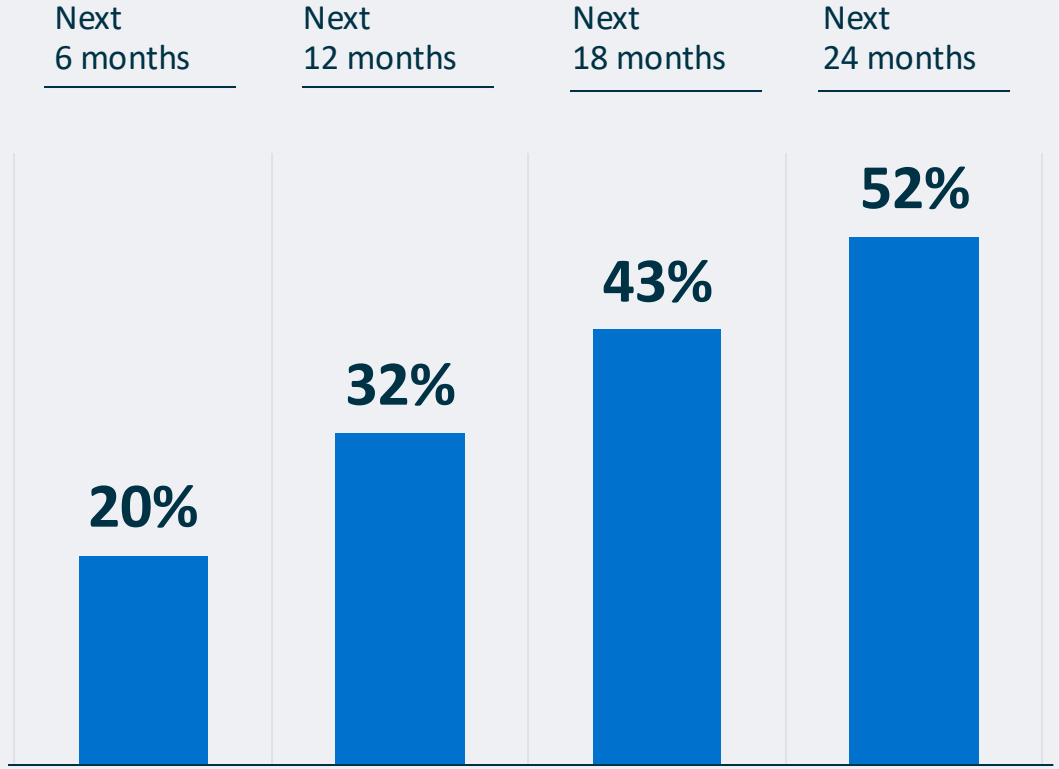
Source: Pitchbook Data | Source: Battery Q3 2024 Cloud Spending Survey

Building Wave of Generative AI Use Cases

STATUS OF AI ADOPTION OF USE CASES



EXPECTED PERCENT OF AI USE CASES INTO PRODUCTION



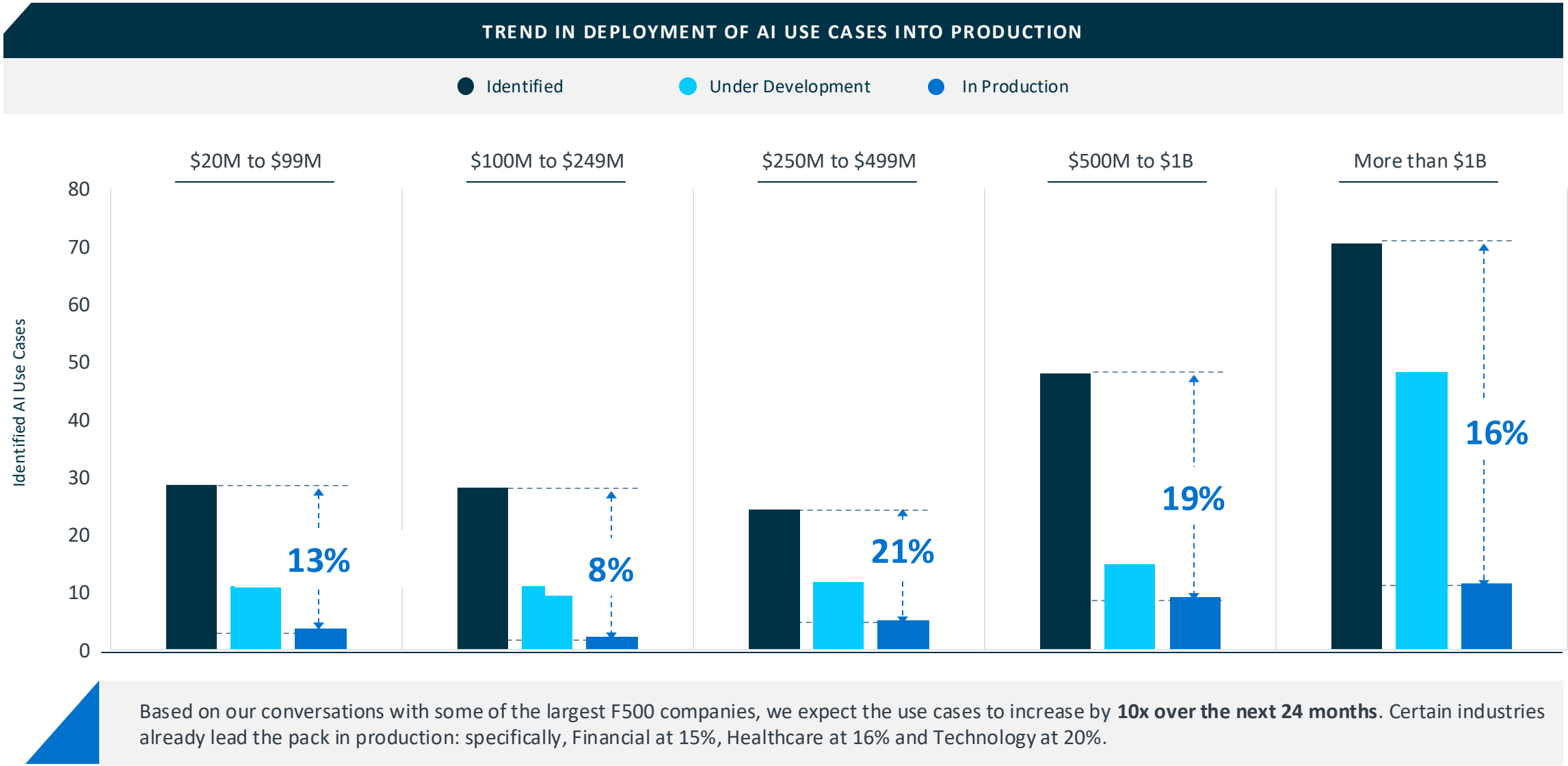
52%

of identified use cases are planned to be in production over the next 24 months. Moreover, 47% of enterprises expect to increase the number of identified use cases into production over the next 6 months.

With so many enterprise generative AI use cases going into production, new tooling will be required for IT to manage them, including security and governance.

Source: Battery Q3 2024 Cloud Software Spending Survey

AI Adoption of Use Cases

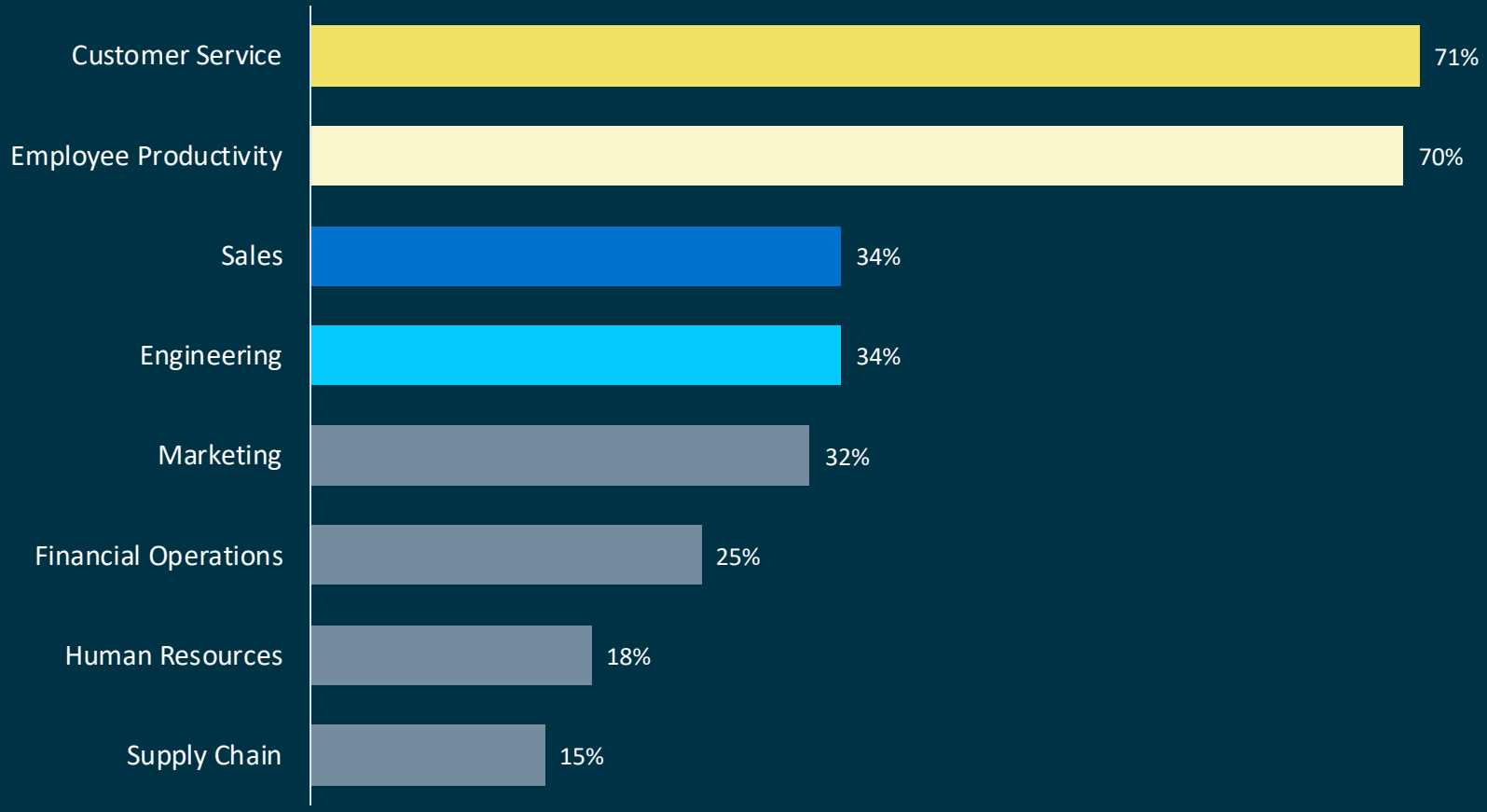


Based on our conversations with some of the largest F500 companies, we expect the use cases to increase by **10x over the next 24 months**. Certain industries already lead the pack in production: specifically, Financial at 15%, Healthcare at 16% and Technology at 20%.

Source: Battery Q3 2024 Cloud Software Spending Survey

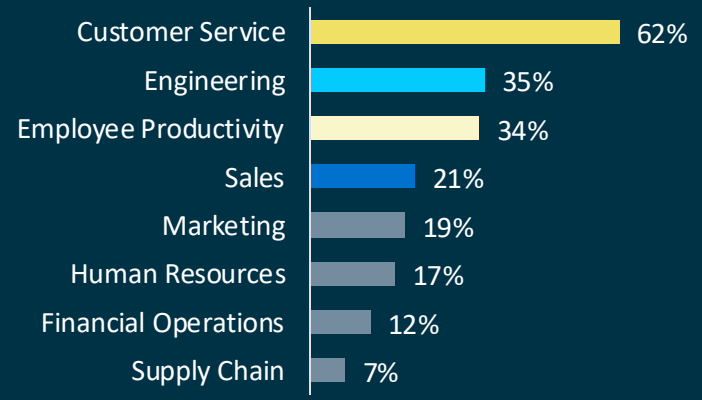
Top 3 Generative AI Focus Areas

PRIORITY FOR GENERATIVE AI CAPABILITIES RANKED TOP-3 BY CXOs



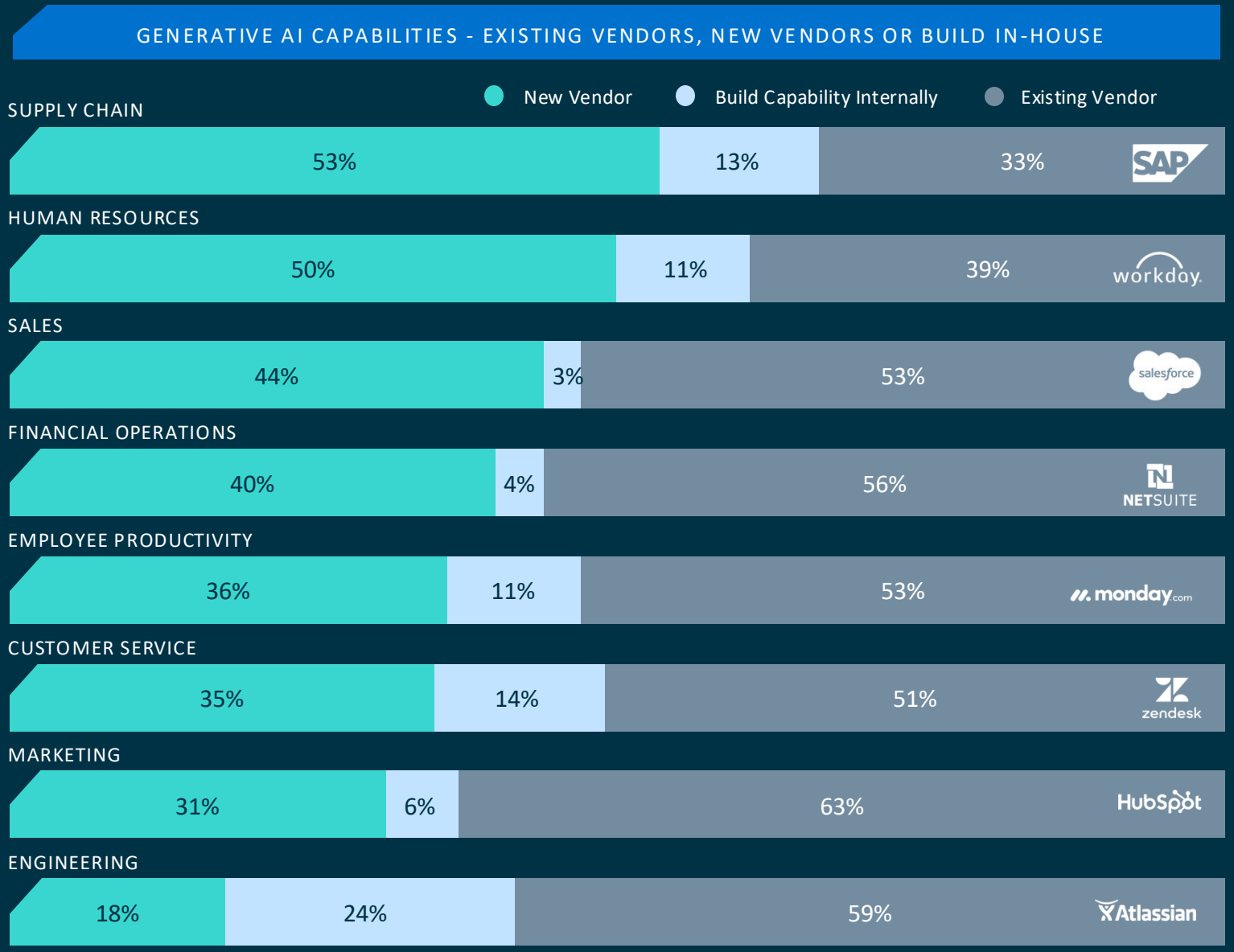
Most respondents want to use Generative AI today for Customer Experience and Employee Productivity. **Of companies with over $1B in tech spending, 80% ranked Customer Service in their top 3.**

#1 PICK BASED ON URGENCY



Source: Battery Q3 2024 Cloud Software Spending Survey

Startups vs. Incumbents for GenAI



AI is shifting the landscape as executives consider alternatives over incumbents

1. Over **45% of those enterprises seeking Customer Experience or Employee Productivity** tools are looking to buy from new vendors or build their own solutions, putting pressure on incumbents.

2. Supply Chain, Human Resources, Sales and Financial Operations are the categories that appear to have the most pressure on incumbents. **Engineering is the only category with over 20% looking to build capabilities internally**.

Source: Battery Q3 2024 Cloud Software Spending Survey, CBinsights Unicorn Tracker, Fidelity Market Caps
Note: [1] denotes a past or current Battery company. For a full list of all Battery investments, please click here.

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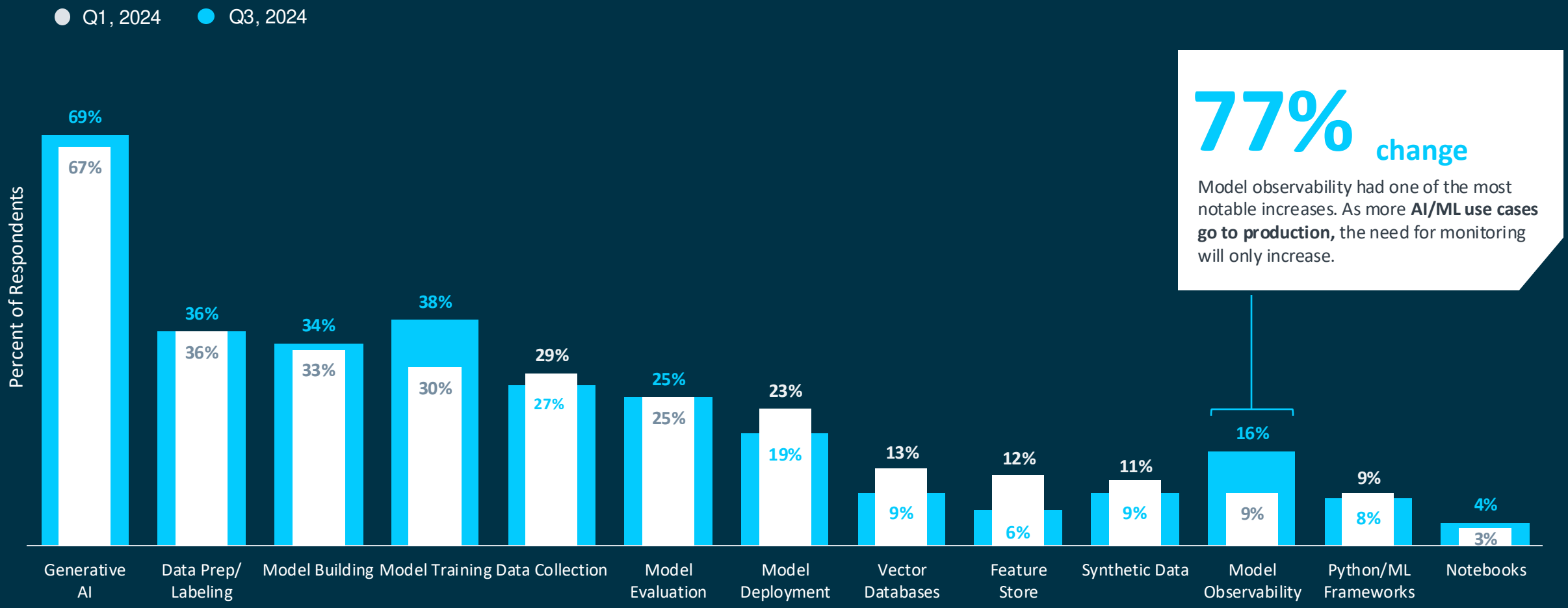
How Teams are Bringing AI to Life within Enterprises

Technology Priorities for AI/ML Builders

AI/DATA THEMES THAT CXOS CONSIDER TOP-3 PRIORITY OVER NEXT 12 MONTHS



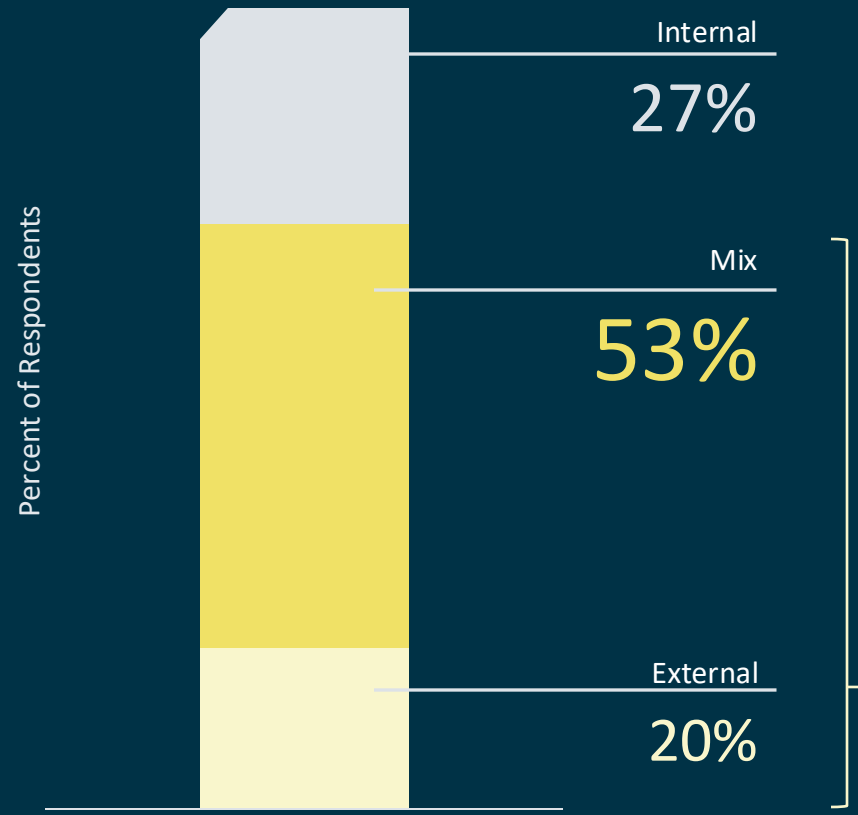
77% change

Model observability had one of the most notable increases. As more **AI/ML use cases go to production,** the need for monitoring will only increase.

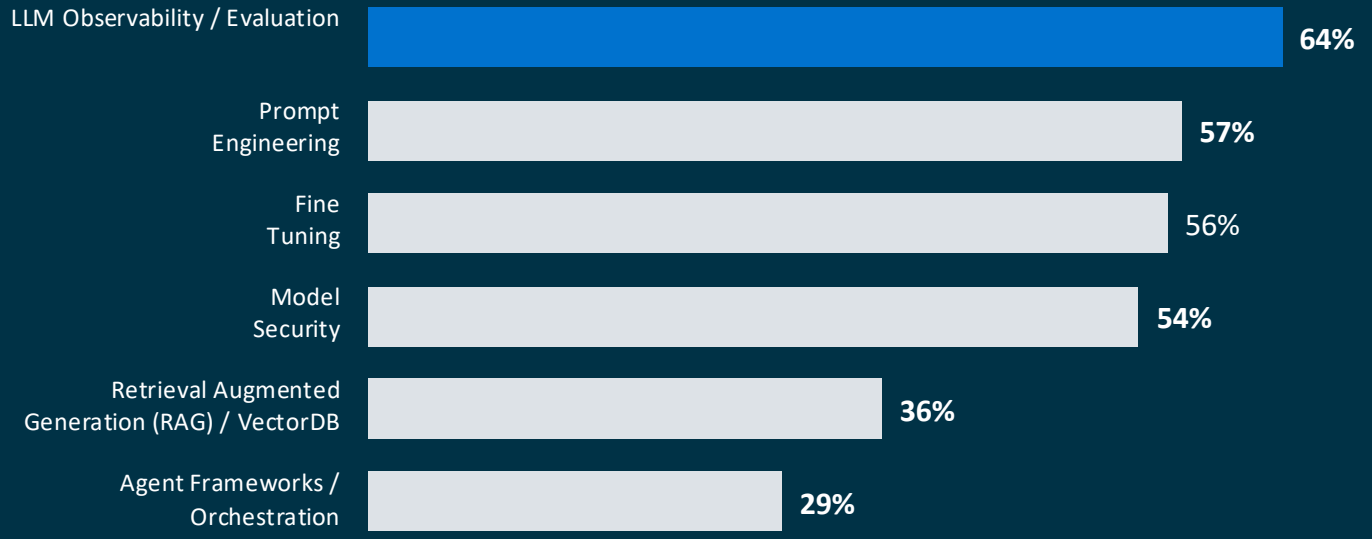
Source: Battery Q3 2024 Cloud Software Spending Survey

LLM Use Cases

IN-HOUSE VS. EXTERNAL IMPLEMENTATION



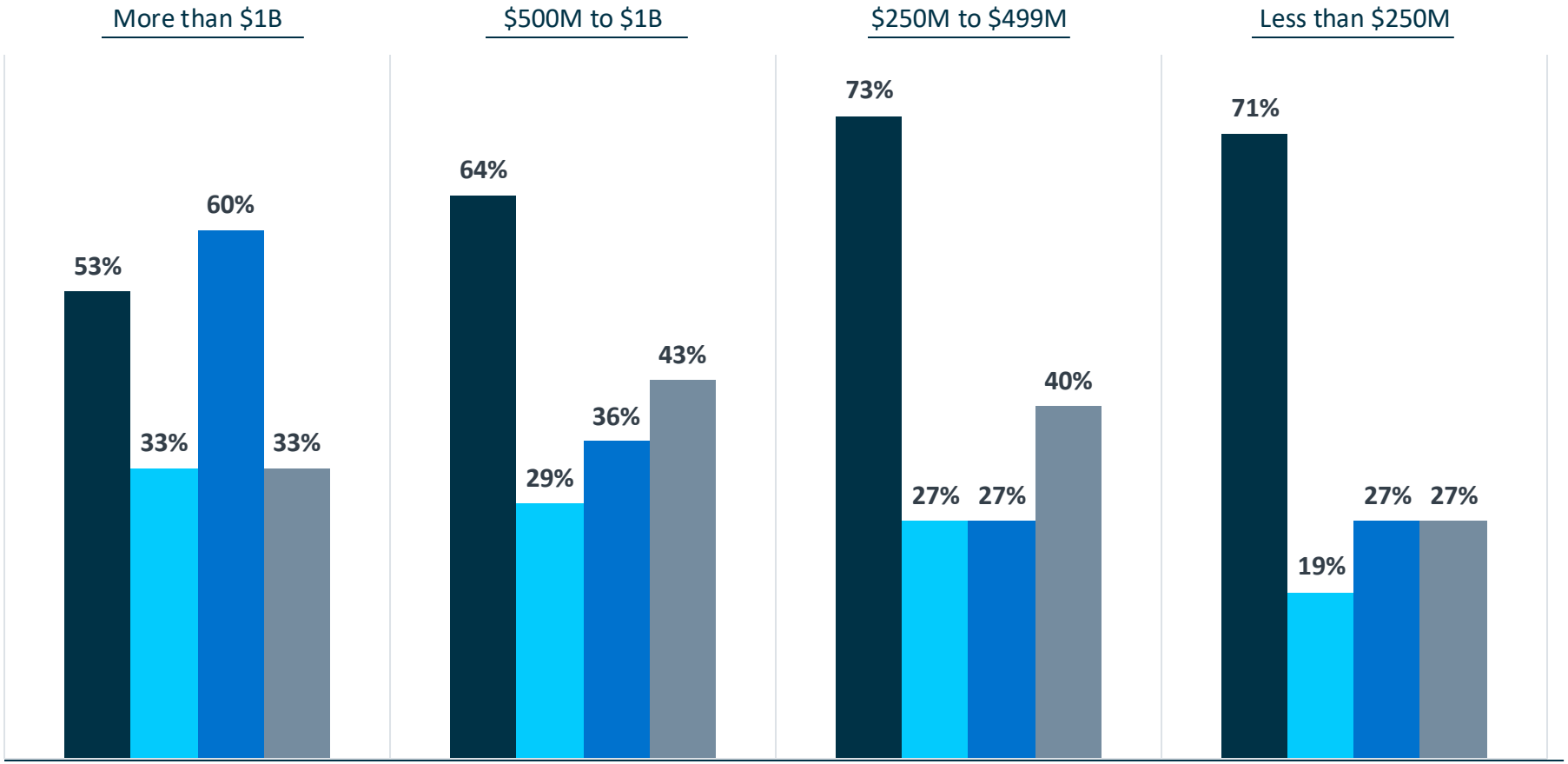
TOOLS AND TECHNIQUES UTILIZED



73% of organizations are using **external resources** to implement AI. Production deployments may be slower than expected due to a lack of in-house expertise: many organizations are bringing in external talent and services.

Source: Battery Q3 2024 Cloud Software Spending Survey

How organizations are fulfilling generative AI



30%

of CXOs with $1B+ in spend are planning to implement generative AI through APIs vs. 49% of those with less than $250M. Large enterprises show a trend toward managed cloud through systems like Together/Fireworks. They also have better access to GPUs at scale while bringing generative AI to life.

- Closed Source models through their API (e.g., OpenAI GPT, Claude APIs)
- Hosted open source models through their API (e.g., Fireworks, Replicate)
- Deploying models on managed cloud infrastructure (e.g., Fireworks, Together)
- Deploying models on their own cloud infrastructure (e.g., On Prem or VPC)

Source: Battery Q3 2024 Cloud Software Spending Survey

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