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IT Spending Forecast, 4Q24

Update: GenAI's Impact on a \$7 Trillion IT Market



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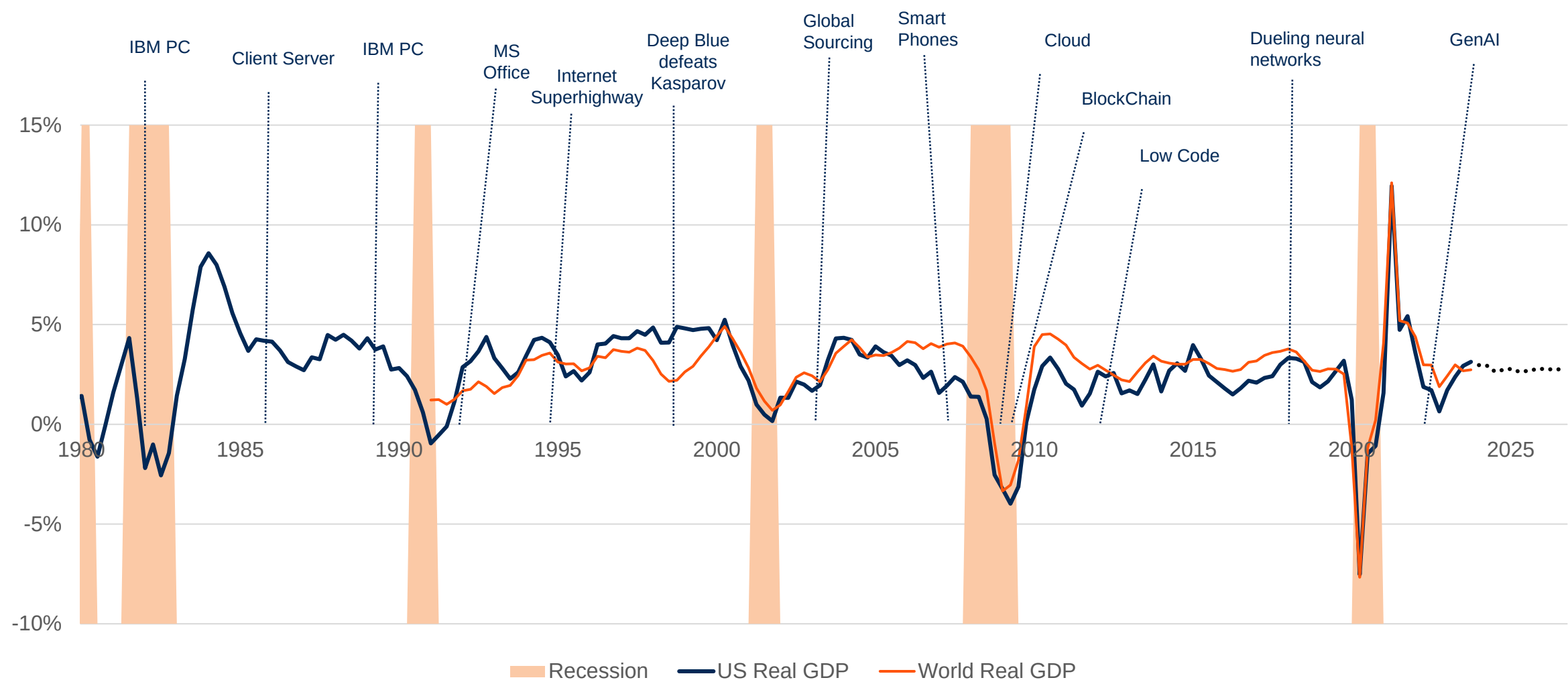


John Lovelock

Distinguished VP Analyst, Chief Forecaster



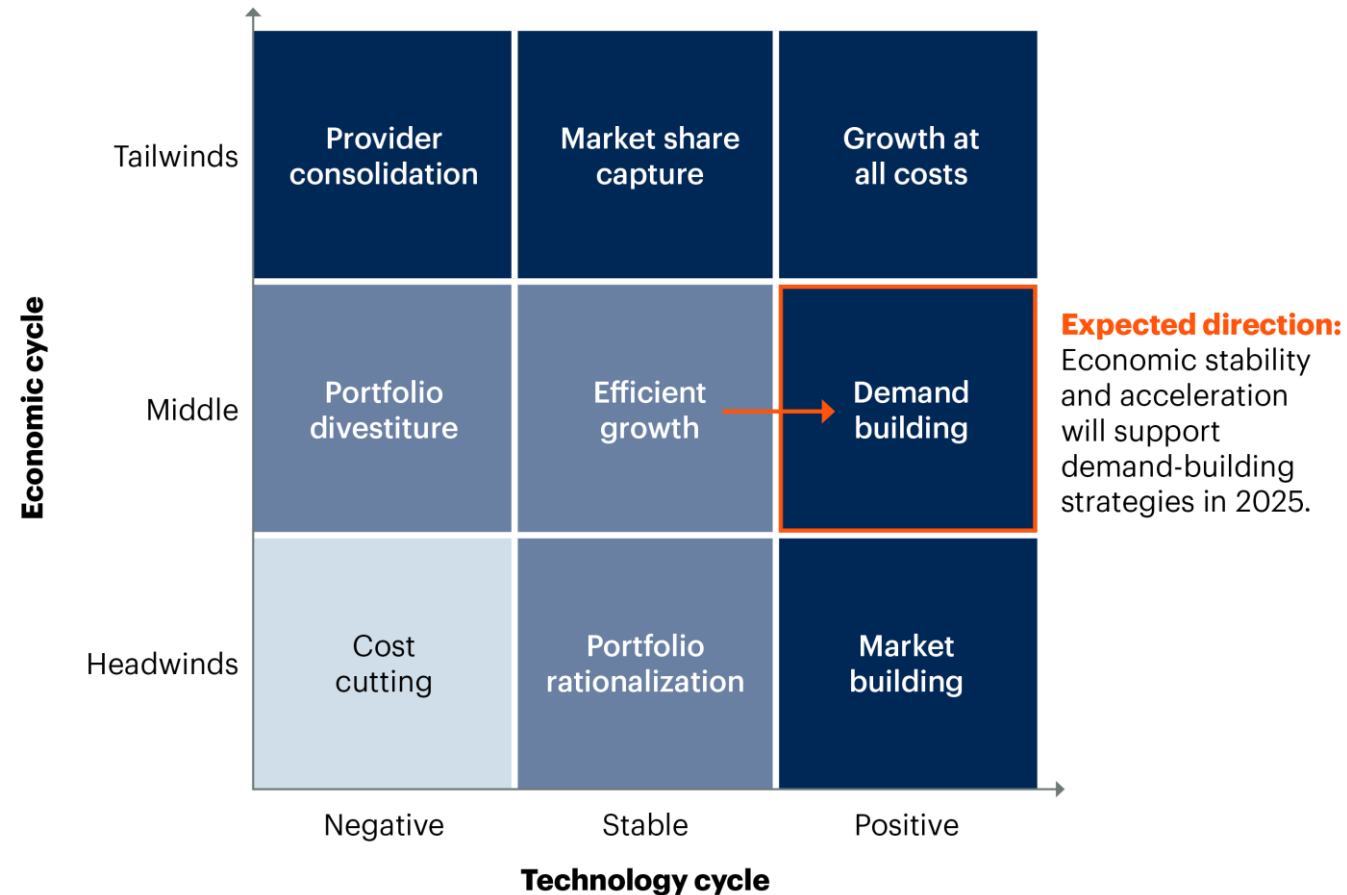
2024 GDP Growth: Returning to the 3% Norm



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The 2025 Economic Environment

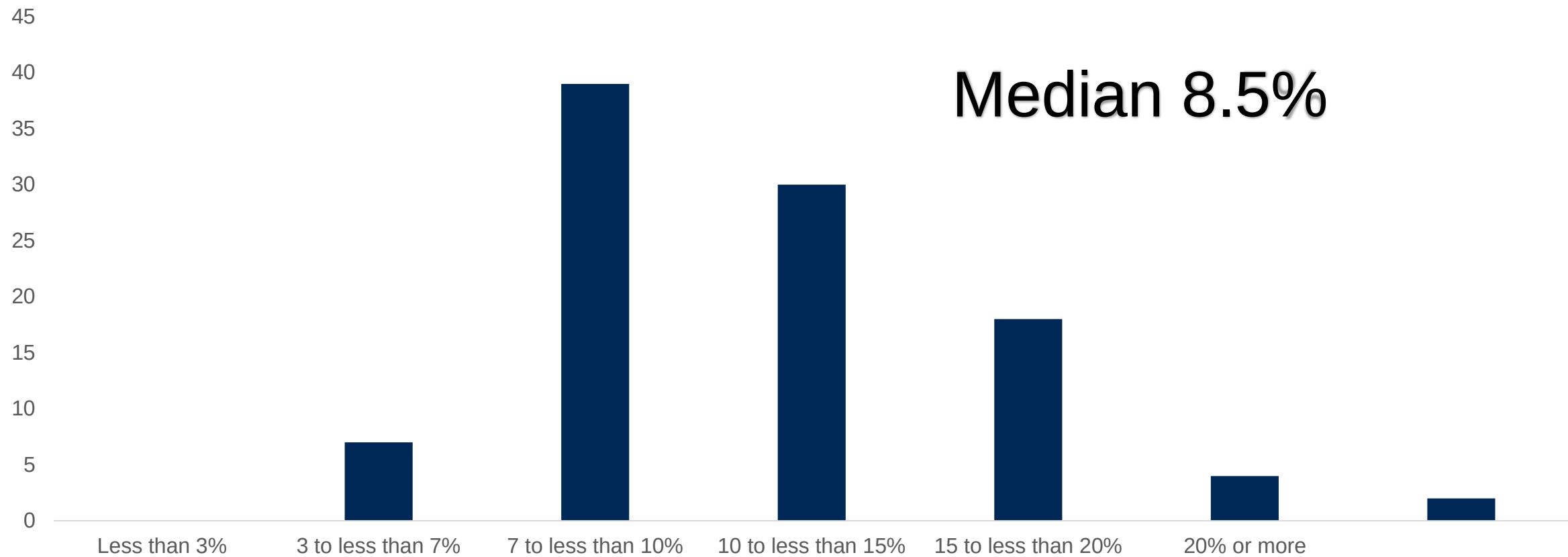
Interactions and Themes Between Economic and Technology Cycles



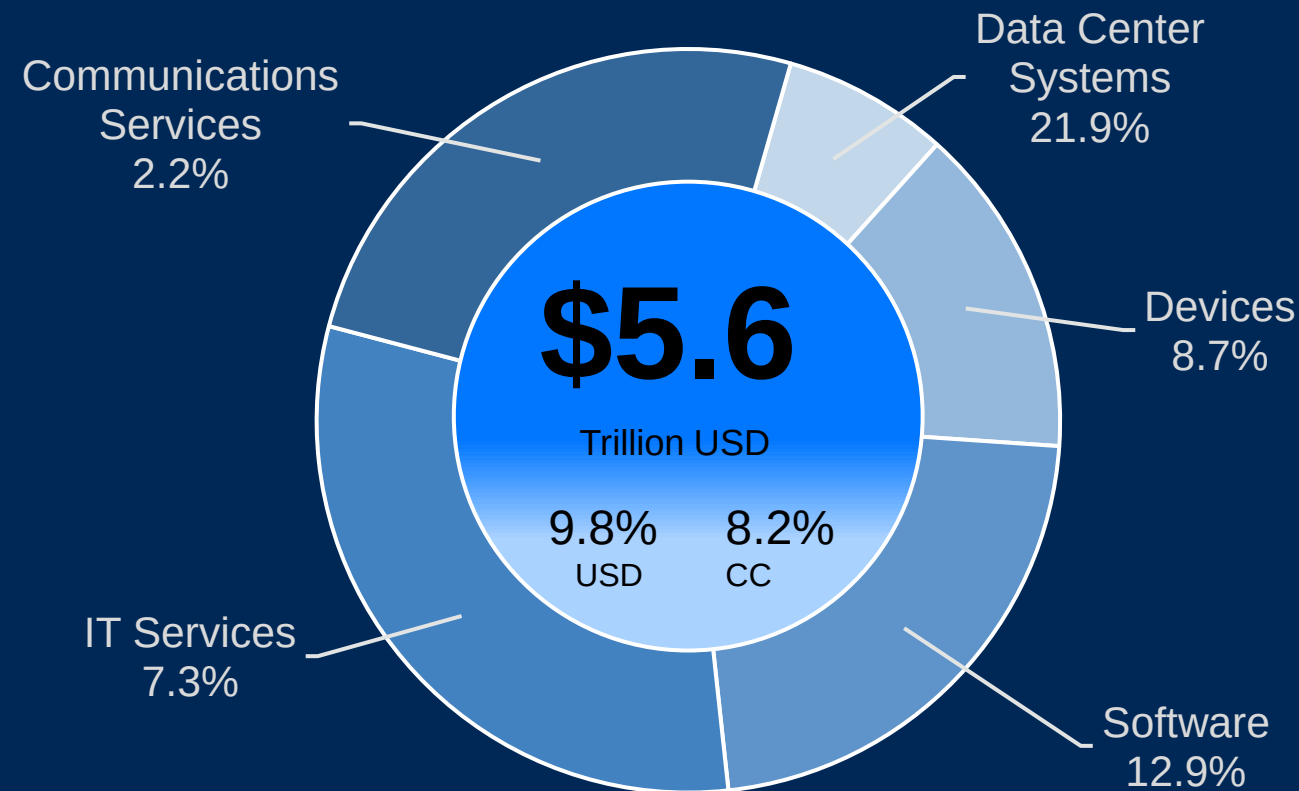
Source: Gartner
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Budget Increases Absorbed by Price Increases

What percentage of your organization total 2025 central IT Spending will be allocated to cover **Price increase** for reoccurring expenditures (eg: hardware, software, services, licenses and other contractual spending)?

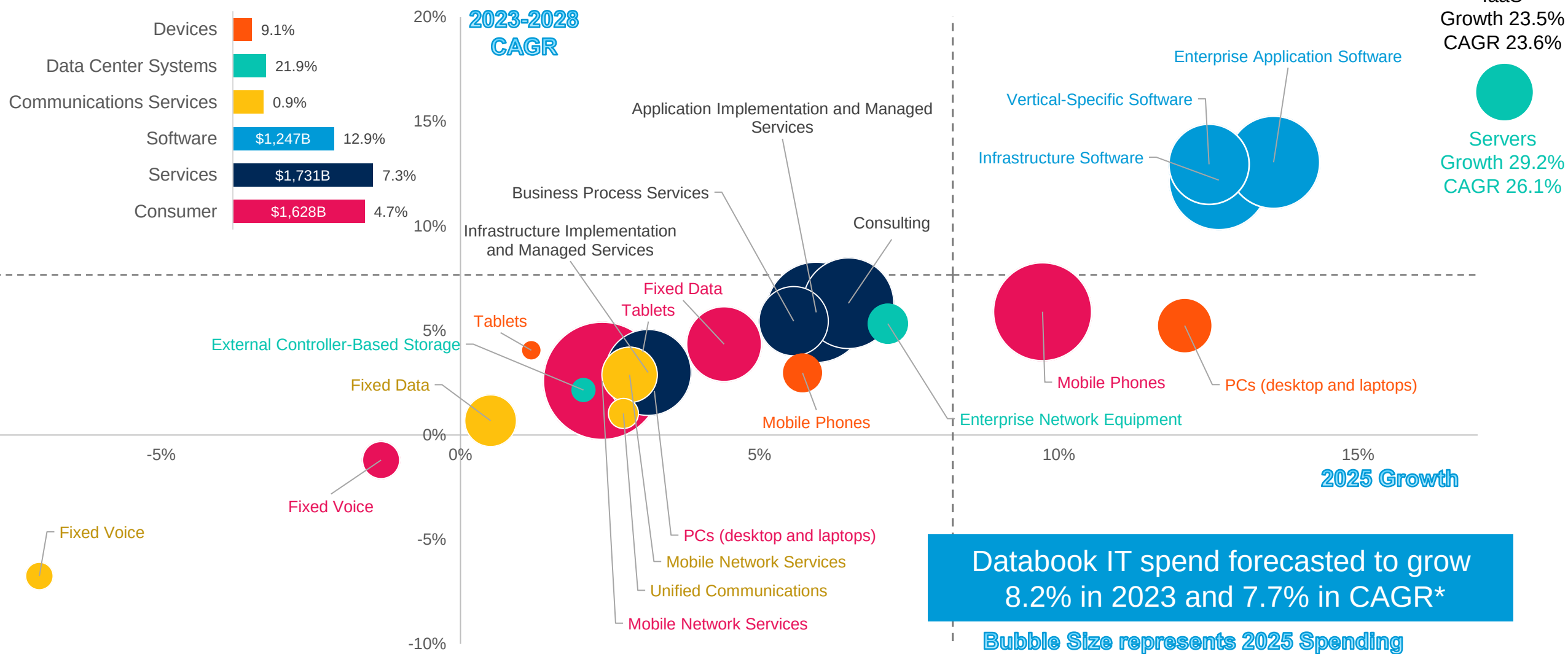


Global IT Spending & Growth for 2025



Source: "Gartner Market Databook, 4Q24 Update", December 2024

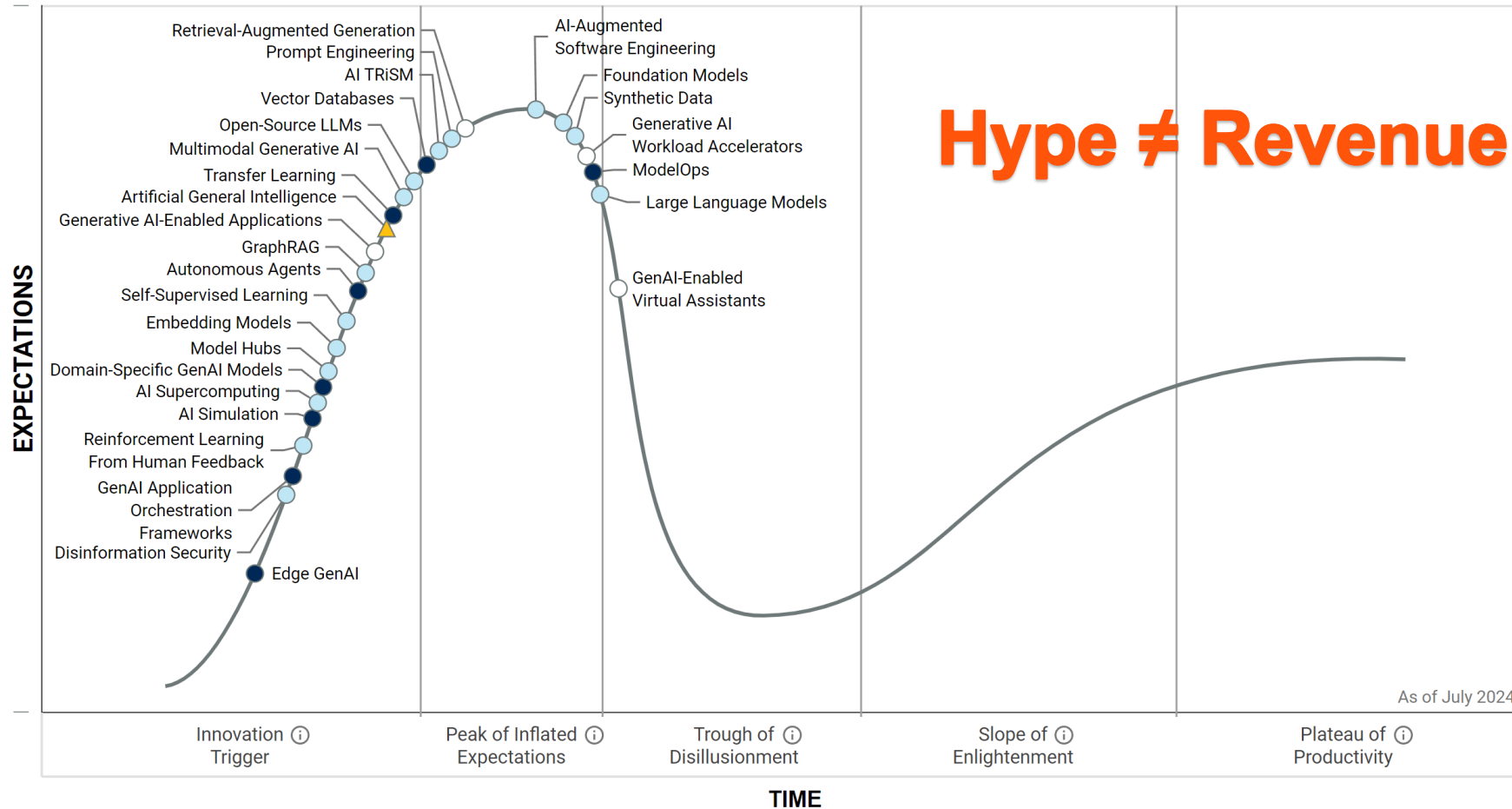
Global IT Spending - 2025



Source: "Gartner Market Databook, 4Q24 Update", December 2024

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Gartner's 2024 Generative AI Hype Cycle

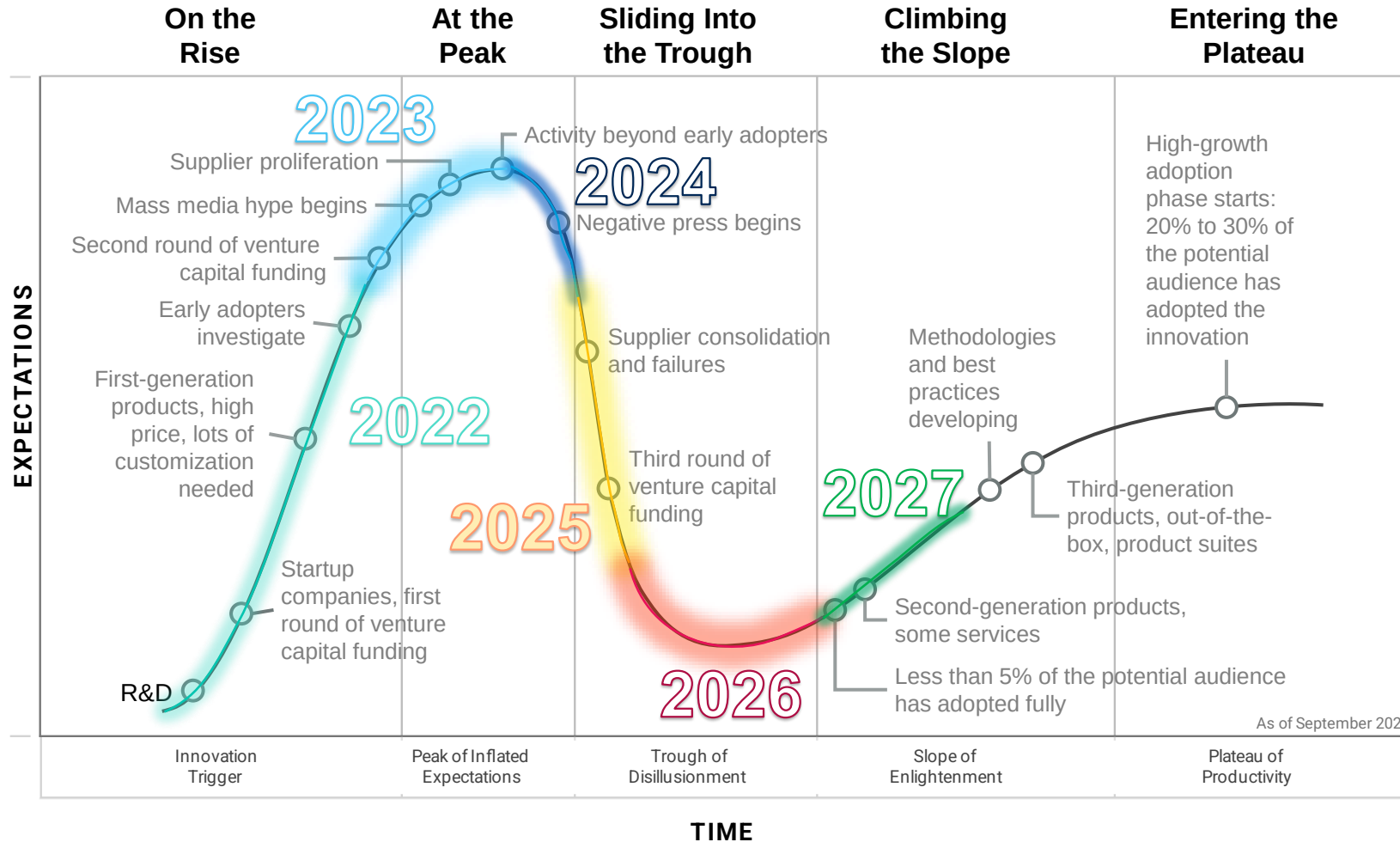


- GenAI drew investments from TSPs in 2024 → foundational spending to build AI Optimized Capacity & Products
- GenAI enable solutions will become more widely available in 2025
- Services contracts & pipeline: Good Number, Small Value.

Source: "Gartner AI Hype Cycle"

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The Progress of GenAI



2022 – early GPT

2023 Release of ChatGPT capture the globes attention

2024 massive investment in H100 based servers and the creation of LLM

2025 TSP bring GenAI based products and services to market. Governments pass AI regulations

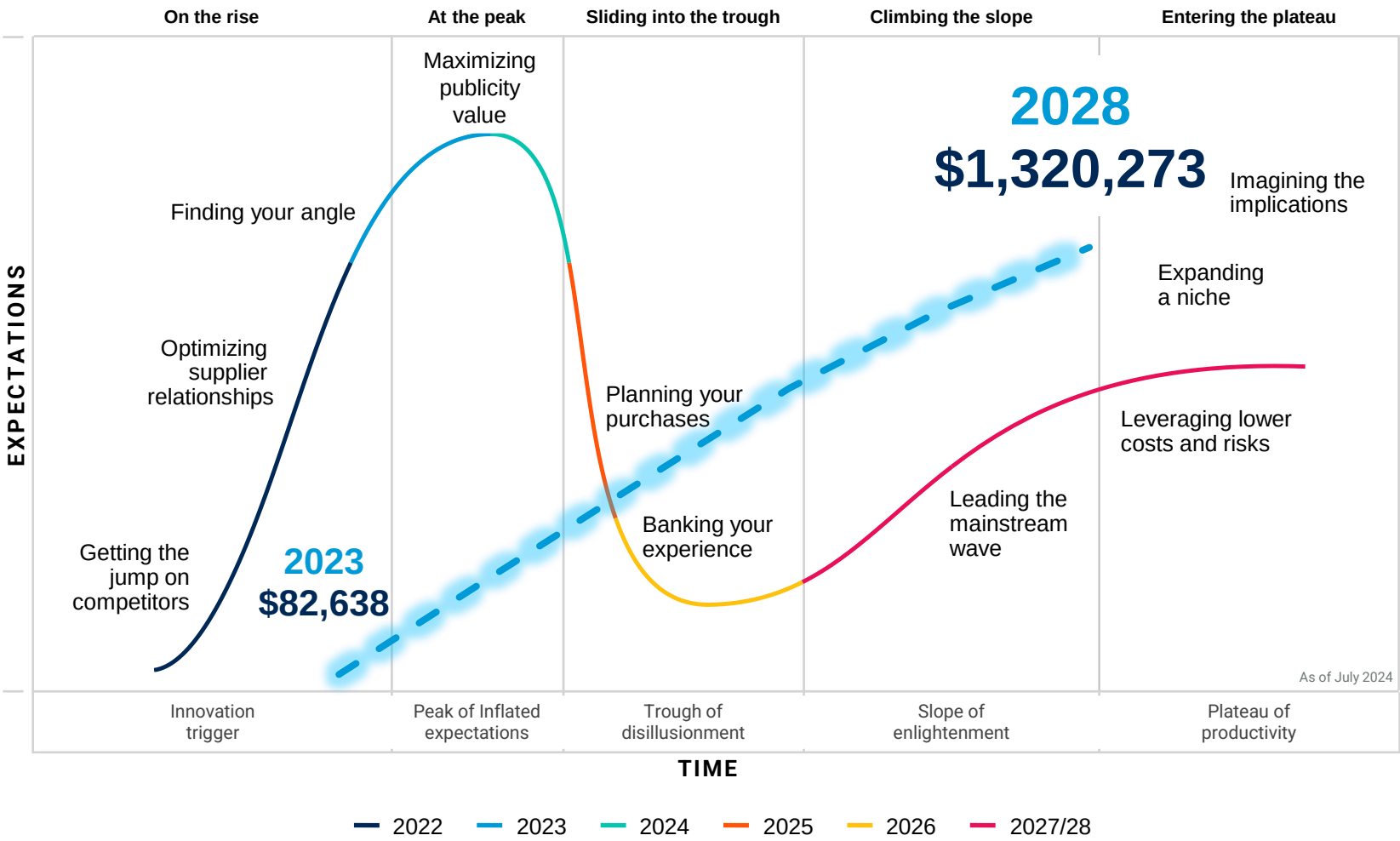
2026 CIO refocus on delivering value from GenAI while containing costs

2027/28 - transformational Use Cases emerge

Source: [Understanding Gartner's Hype Cycles](#)

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Expectations Down, Spending Up: \$1.3 Trillion USD



The GenAI Cycle will change the context of spending, and what will be purchased – but not the total spend

2025

- CIOs start year with full AI Budgets, and declining expectations
- COTS solutions now available from incumbent software providers.
- Staff & Skill limitation leads to pacing & prioritization for GenAI applications

2026

- CIO refocus on delivering value from GenAI existing products/services while containing costs
- Skepticism on new GenAI purchases – ROI & Value focused decisions

2027/28

- GenAI features become embedded and predictable of existing software products
- Transformational use cases emerge

Source: Gartner

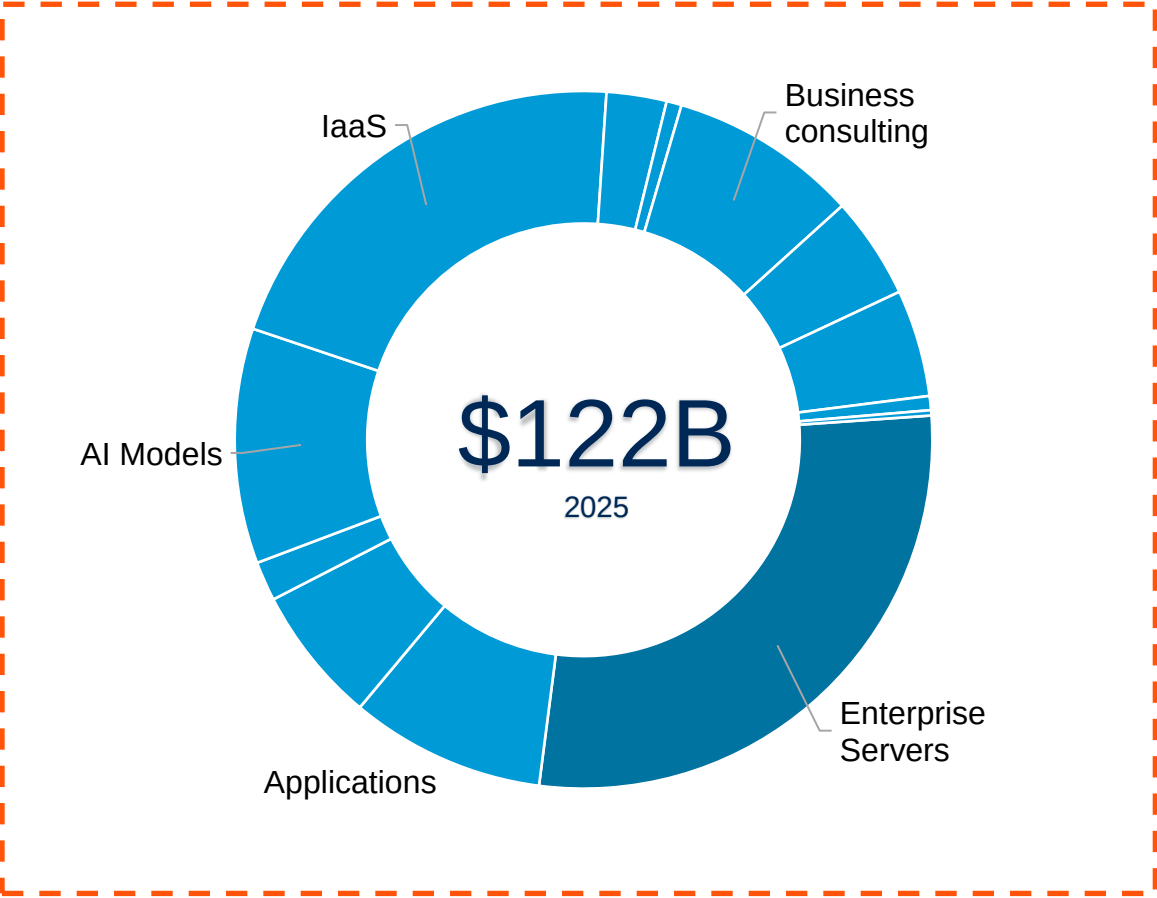
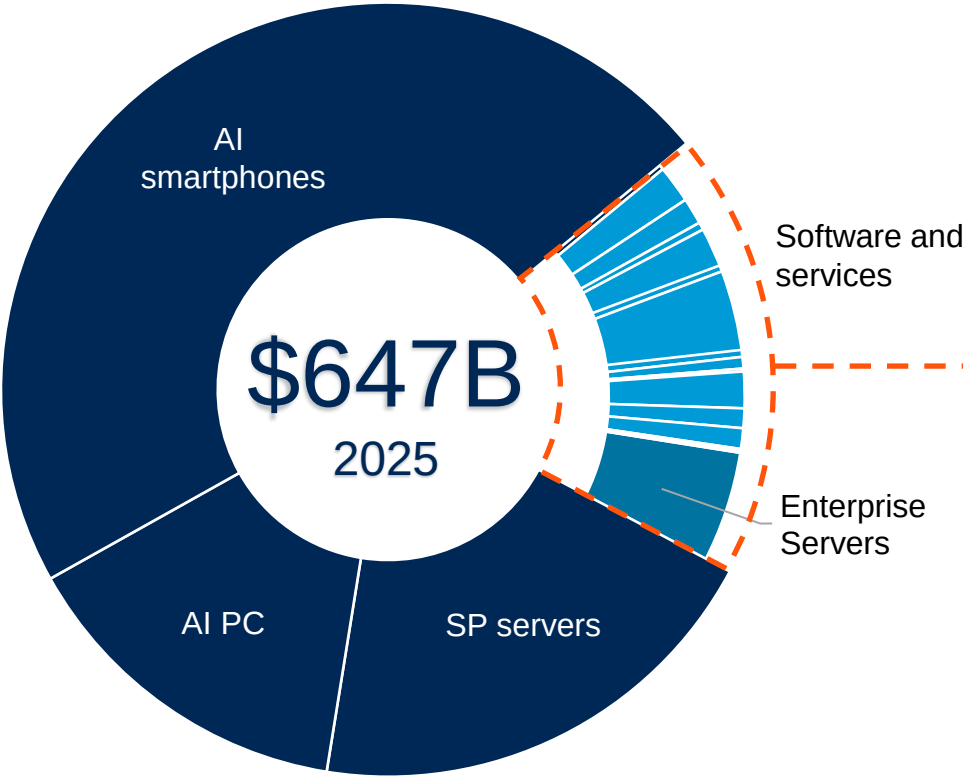


2025 GenAI Spending Is All About the Hardware

Only 20% of overall IT Spend is on Hardware

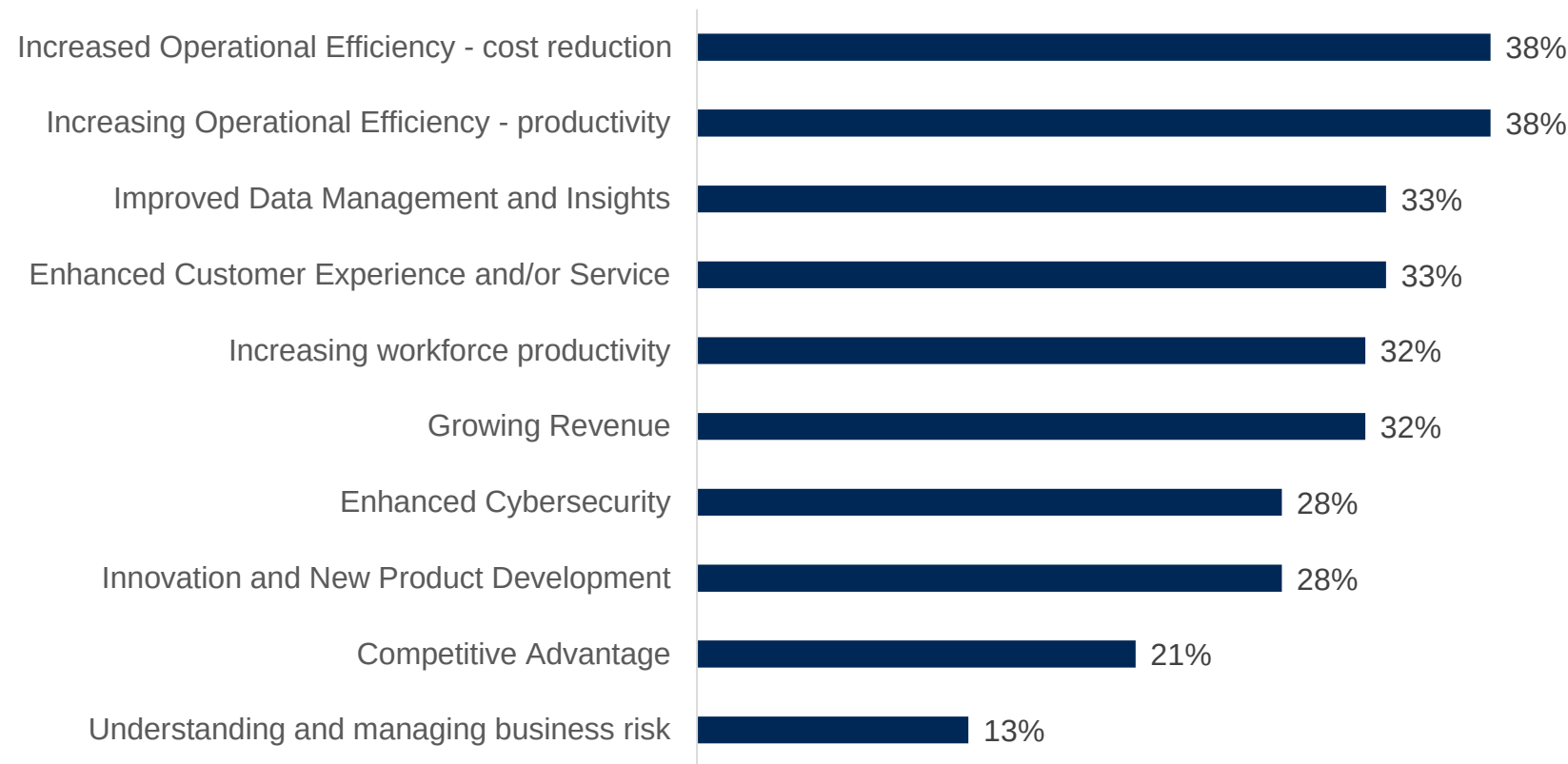
80% of GenAI Spending Goes Toward Hardware

Enterprise Spending Breakdown



CIOs have no clear outcome for GenAI

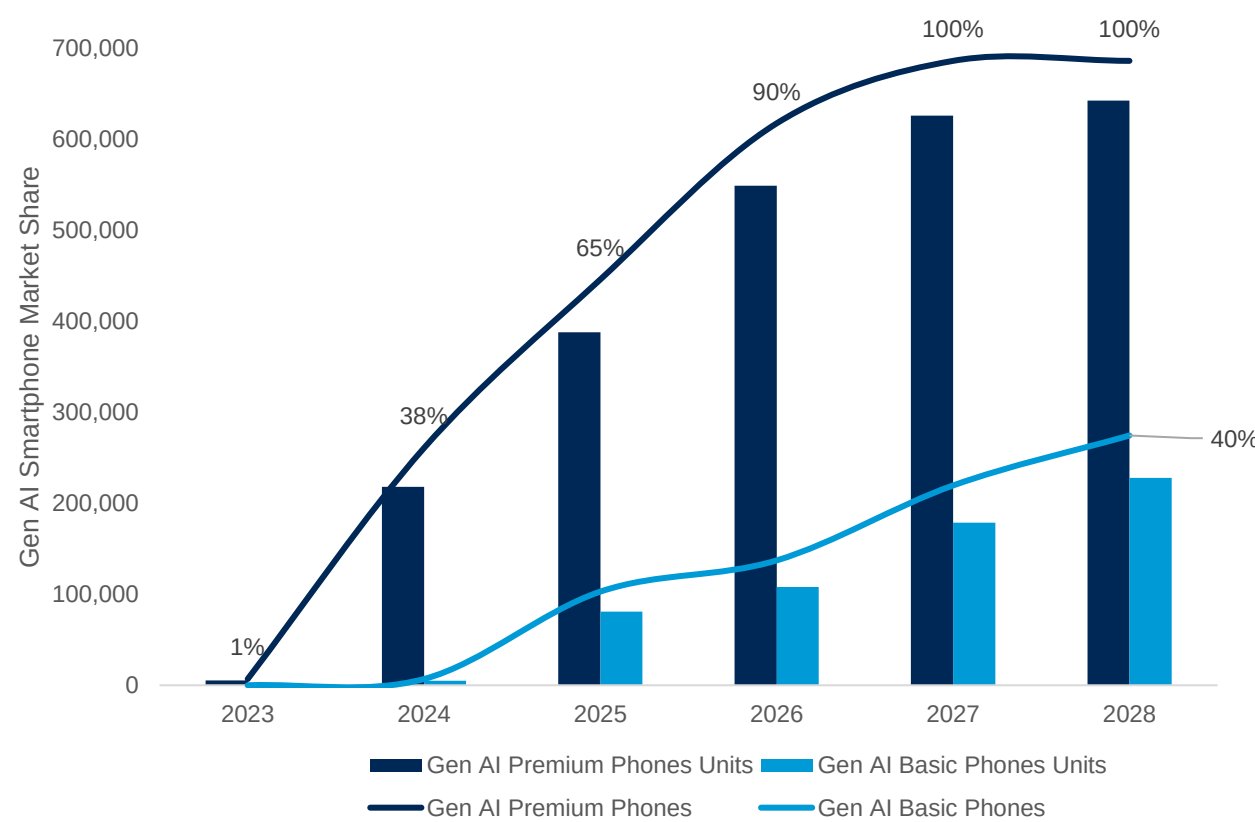
What are the top three business outcomes your organizations hopes to achieve from your AI Spending in 2025?



2025 IT Spending Survey
N=596

Everyone Will Own an AI Enable Smartphone

AI Enable Smartphone will be Sold not Bought

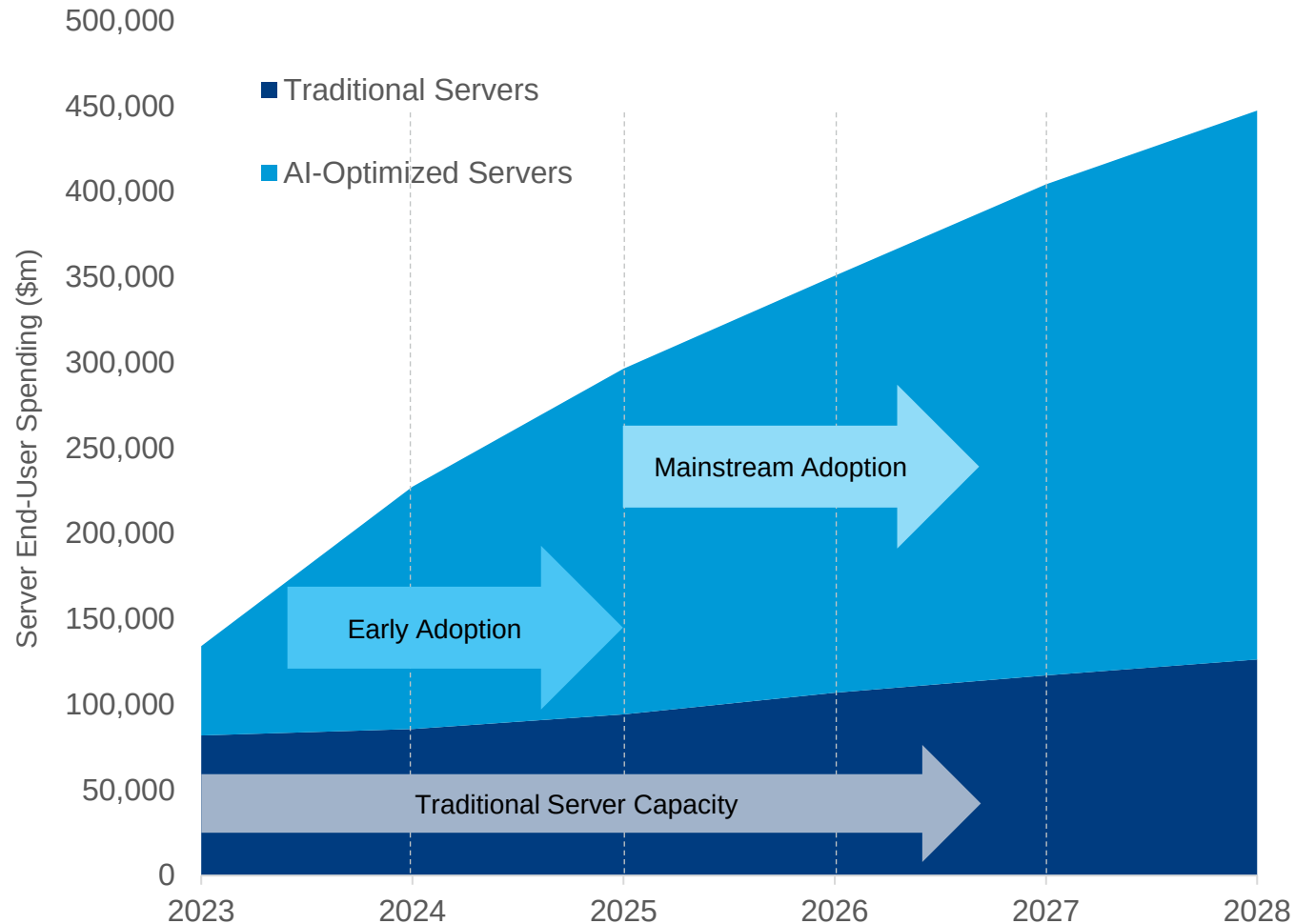


- Consumers and CIOs are not demanding GenAI features and will not pay extra for them.
- Without groundbreaking applications, businesses and consumers are unlikely to pay a premium for GenAI smartphones.
- Smartphone producers are marketing GenAI enablement in an attempt to build demand
- Buying a Smartphone without GenAI capabilities will be difficult in 2025 and impossible outside of the price sensitive basic phone market by 2027.
- The integration of Gen AI capabilities will be crucial in ensuring the current lifecycle of 4.1 years does not extend.

Source: Gartner



How long will the AI Optimized Server wave last?



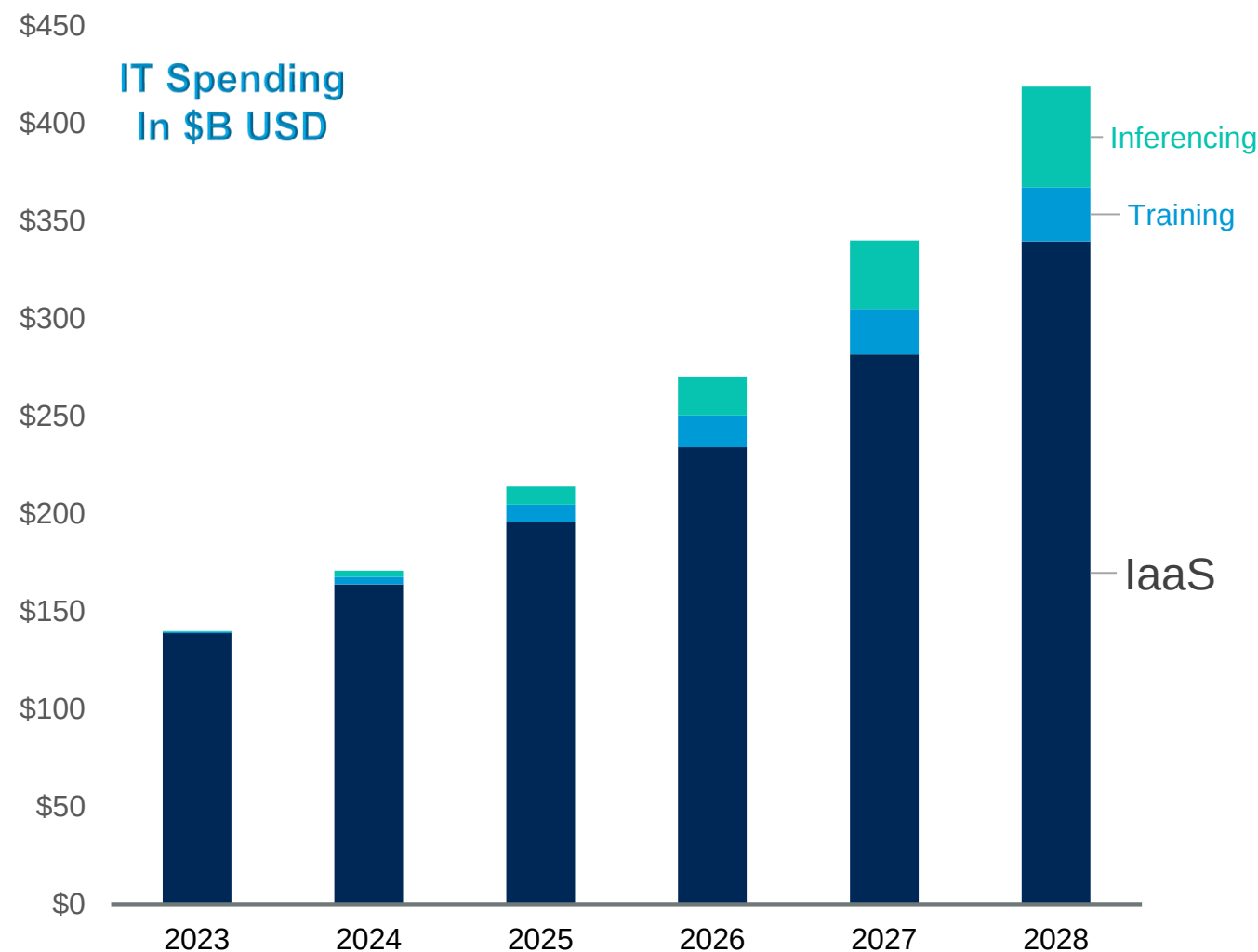
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- Server Spending triples from 2022 to 2028 due to demand for AI Optimized Servers
- AI Optimized servers reach \$321B in 2028, compared to traditional servers \$126B
- Early Adoption of AI Optimized Servers is over in 2025
- By 2028, Services providers will operate \$1T worth of AI Optimized Servers

IaaS Global Spending

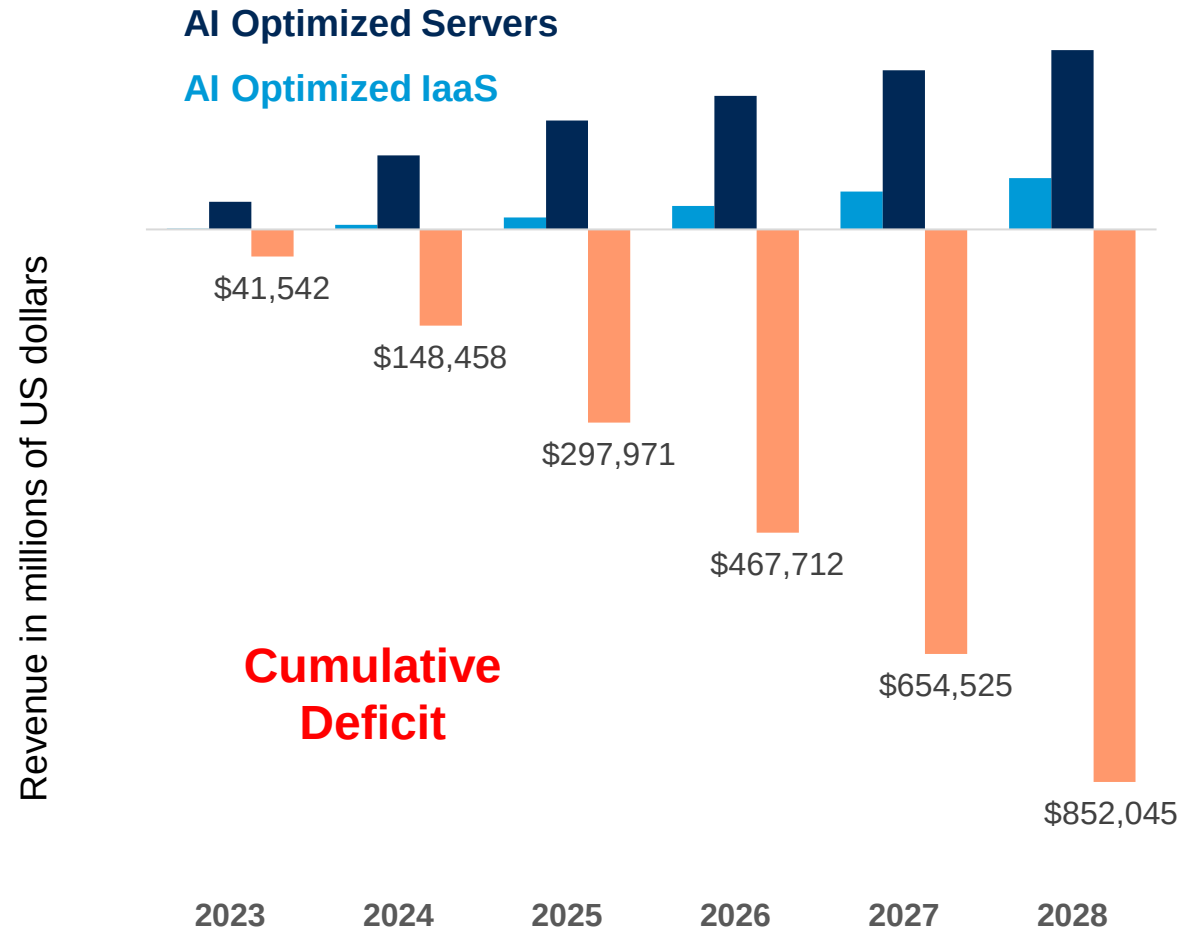


- IaaS grows at 23.5% in 2025 and 23.6% CAGR
- AI Optimized IaaS grows from 1% of IaaS market to 19% by 2028
- Spending on IaaS for Inferencing surpasses Training in 2026

Source: Gartner

AI Optimized Servers Fail Simple ROI

The AI Optimized Server Capacity of Service Providers will be primarily focused internally



- Service Providers will spend over \$750B on AI Optimized Servers between 2023 and 2028
- Spending on AI Optimized IaaS has a 140% CAGR reaching \$79B by 2028
- The combined deficit between revenue from and spending on AI Optimized Servers will be

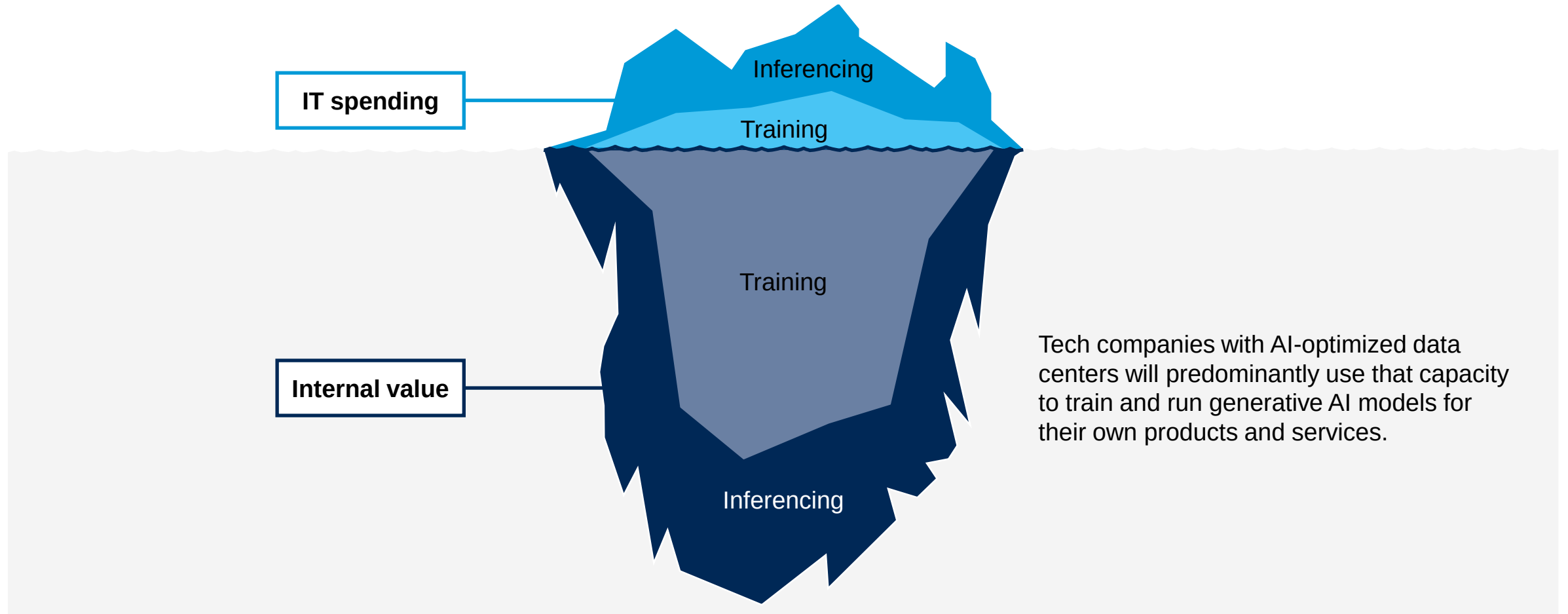
\$852B by 2028

Source: Gartner GenAI Forecast

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AI Optimized Servers Won't Generate Revenue

The \$700 Billion spend by Service Providers will generate a cumulative \$300 Billion in Revenue



Source: Gartner

[Full data can be found here](#)

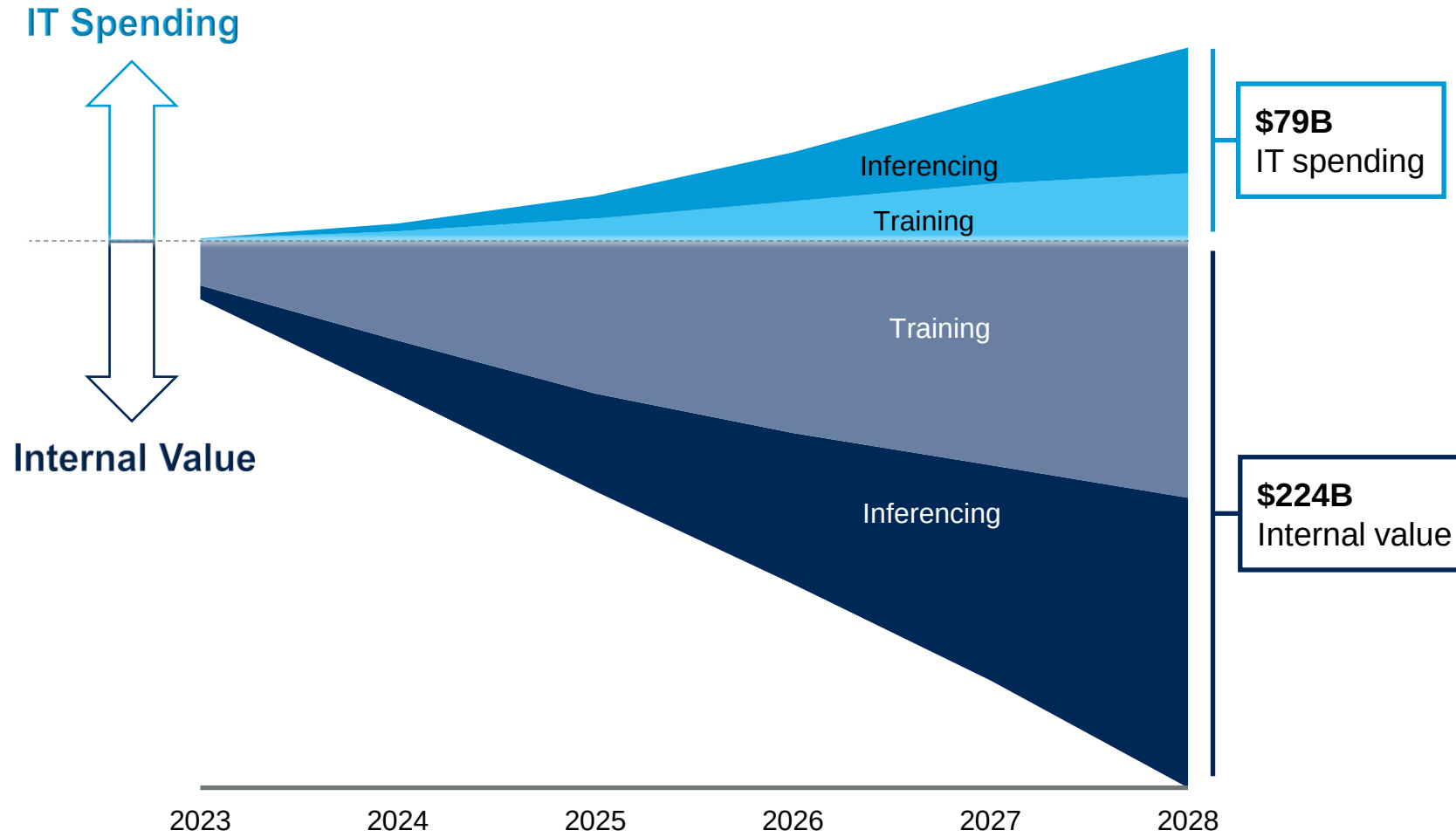
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AI Optimized IaaS Revenue and Value

The \$700 Billion spend by Service Providers will generate \$200 Billion in Revenue



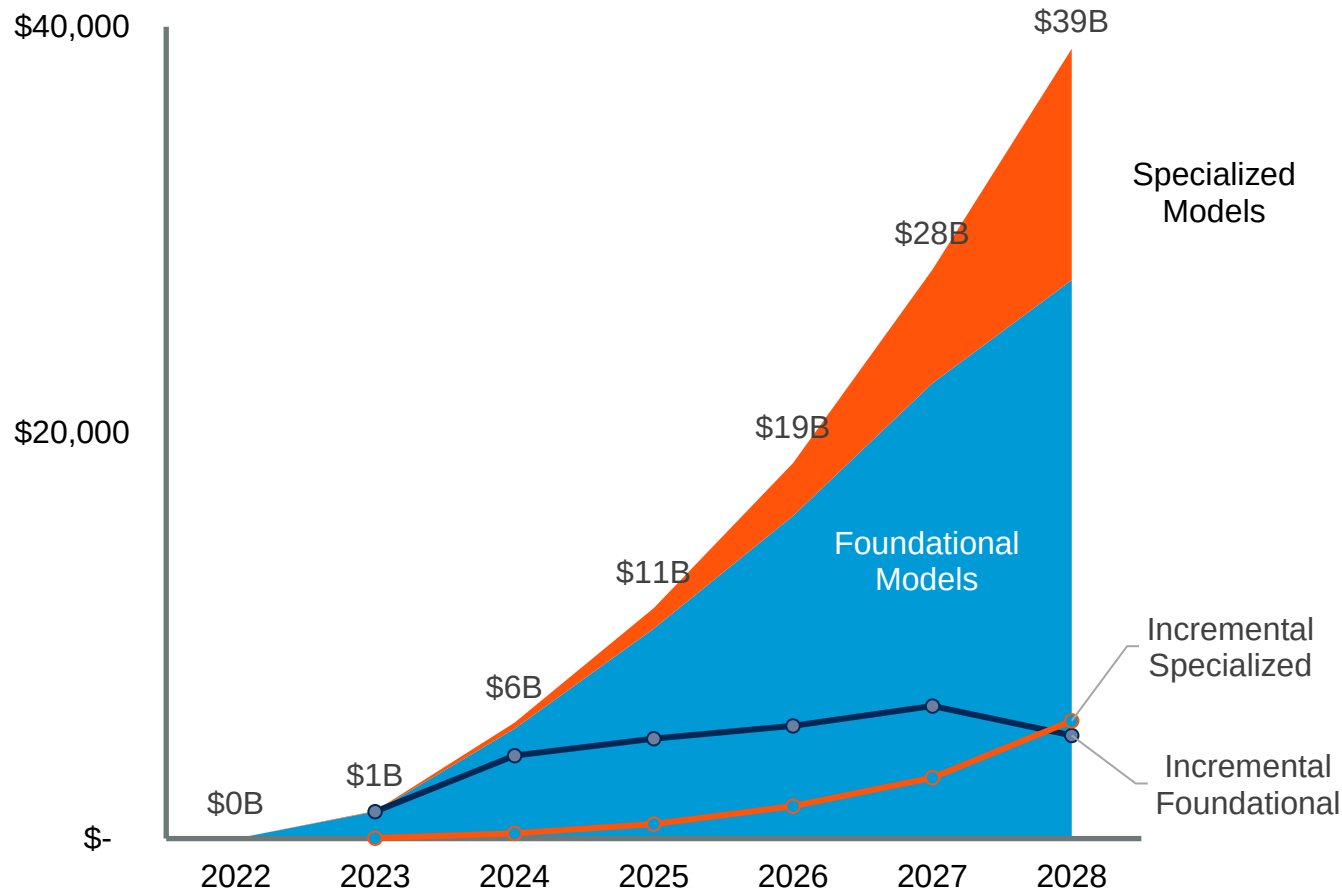
- By 2027, Service Providers will have spent more on AI Optimized servers than all other servers ever purchased.
- Until 2026, Training will take more workloads than inferencing
- Revenue producing will be secondary to internal use of AI Optimized Server based IaaS workloads
- By 2028, AI Optimized IaaS will represent 19% of the total \$419B IaaS Market

Source: Gartner

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Global Spending on GenAI Models \$38.9B in 2028

In 2028, Foundation Model Growth Stalls and Specialize Models Takeover as the Growth Driver



- The Market for Foundation GenAI Models will be an Oligopoly before 2028.
- Specialized models will demand a price premium over Foundation GenAI Models
- In 2028, Specialized Models take over as the Driver of Growth from Foundational Models
- Consumer based products and services will rely on Foundational Models.

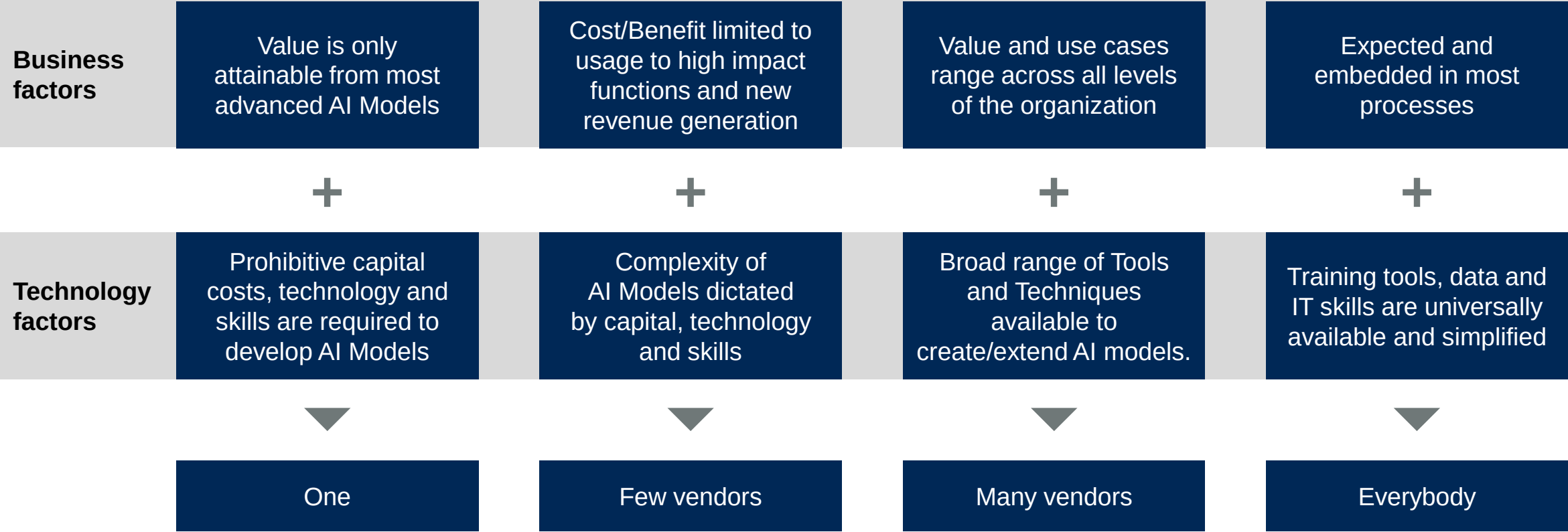
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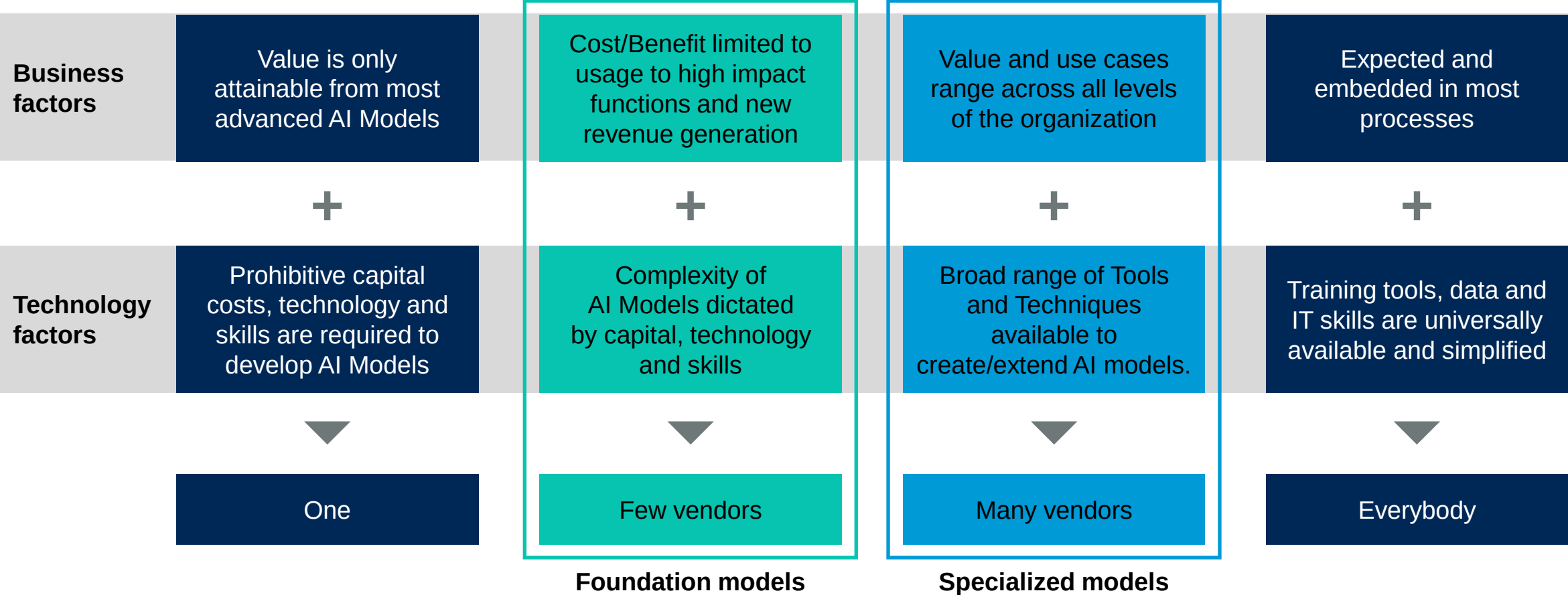
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Factors Driving GenAI Competitive Environment



Source: Gartner

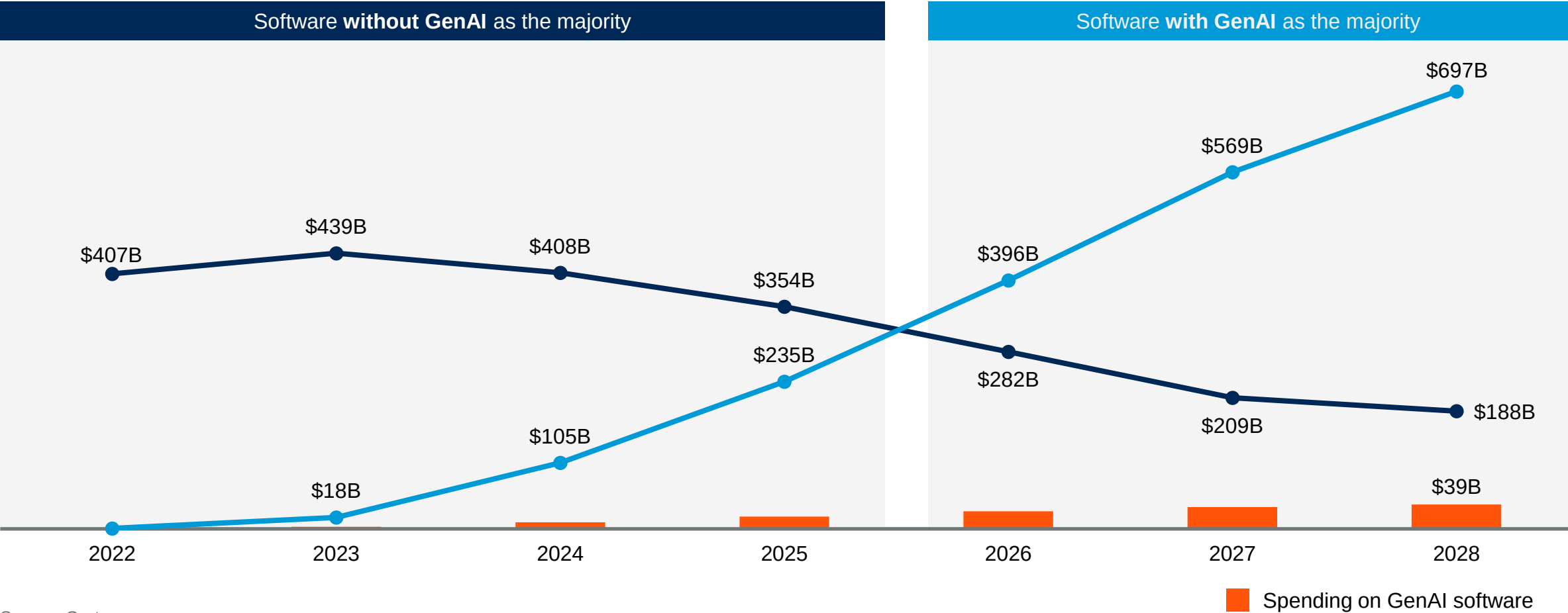
Factors Driving GenAI Competitive Environment



Source: Gartner

Global Spending on Software 2022-2028

By 2026, spending on Software with GenAI will surpass spending on Software without GenAI

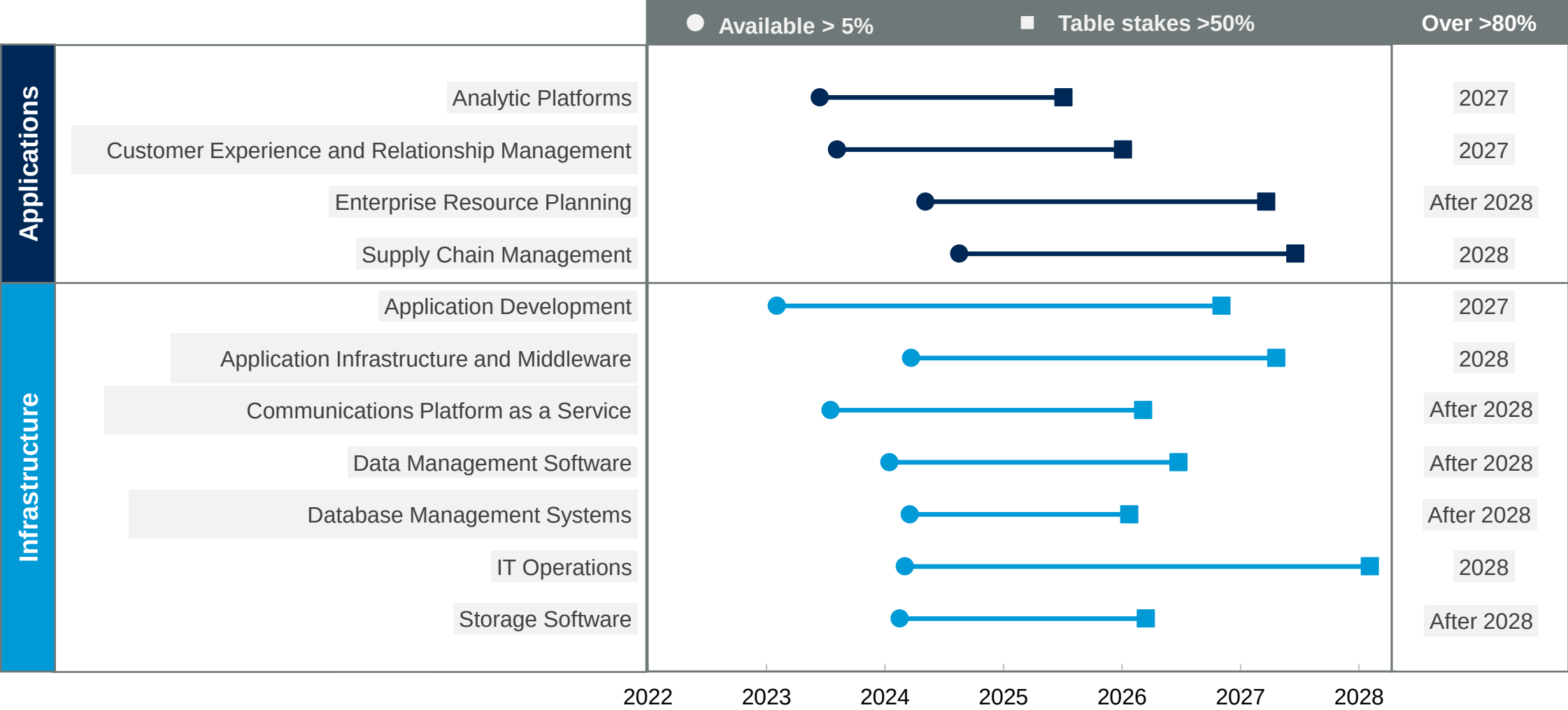


Source: Gartner



First Mover Advantage Has Already Been Claimed

The ability to easily monetize GenAI in Software has already past



Source: Gartner

Key Takeaways

1

Expectations for GenAI will fall, but, spending on GenAI will rise

2

All GenAI Products & Services will compete for CIO time and attention

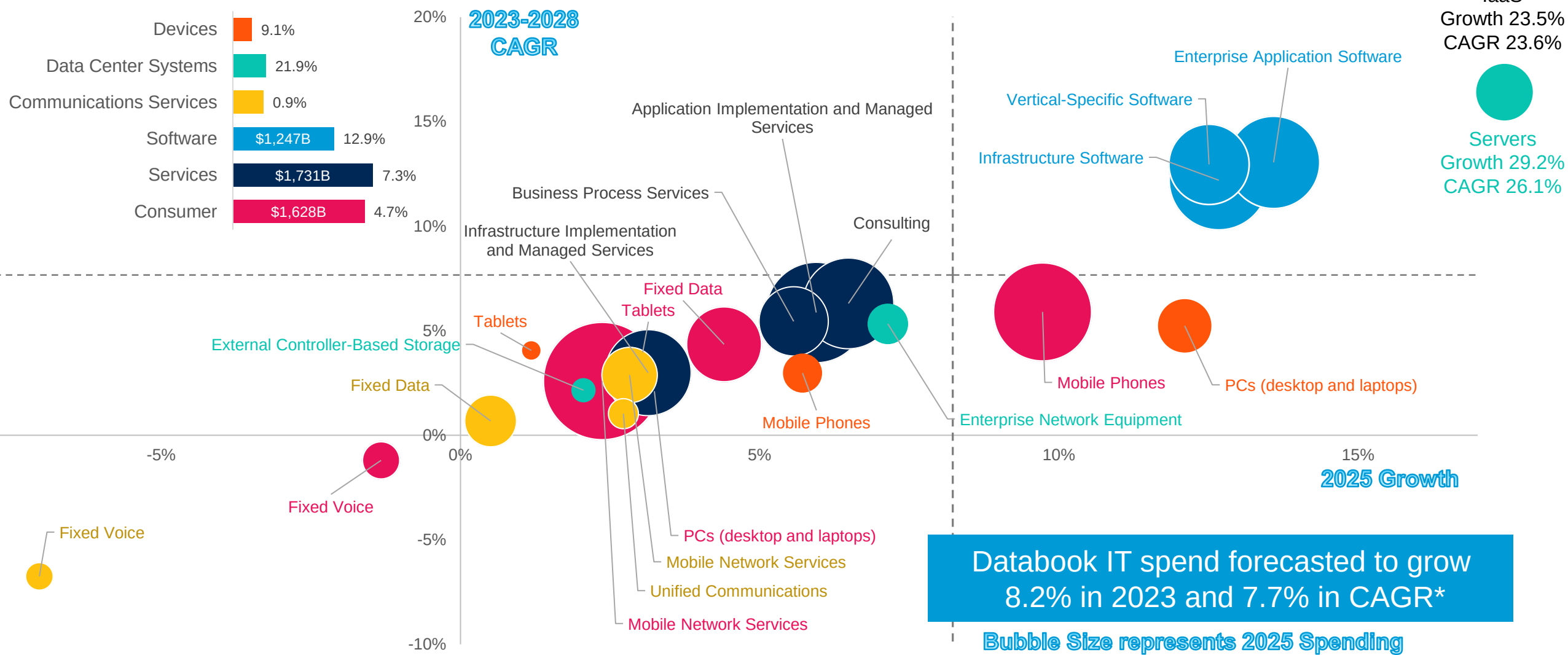
3

GenAI will be Sold not Bought

4

Foundation GenAI Models will become an Oligopoly Market

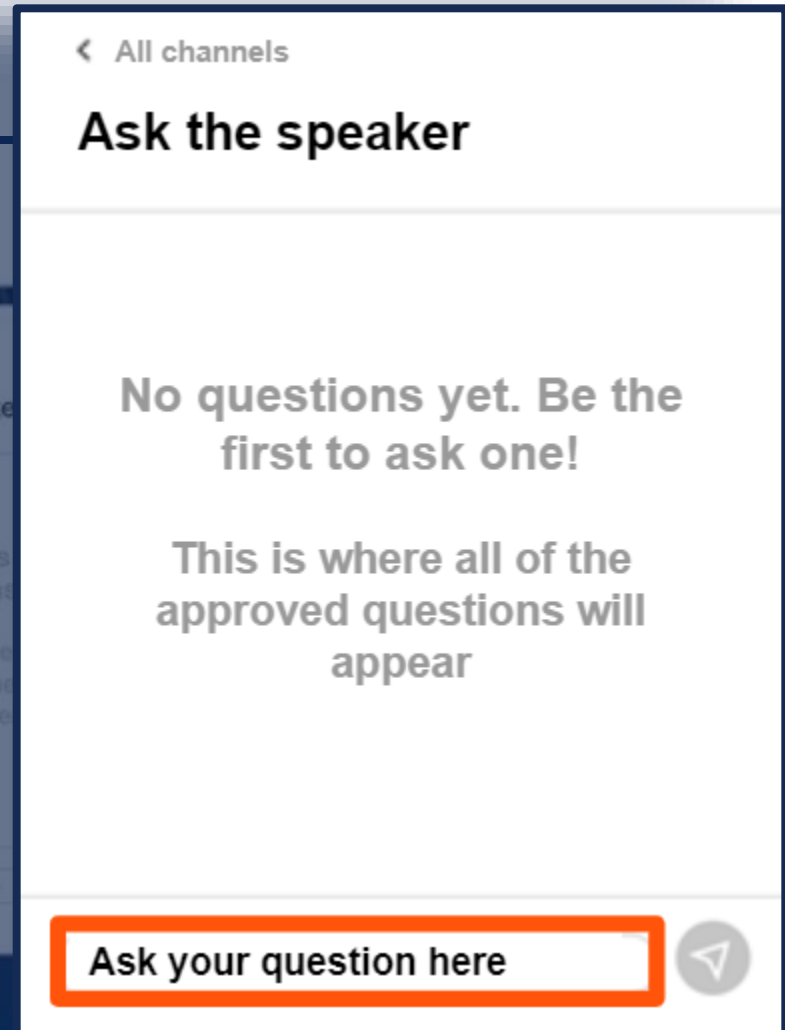
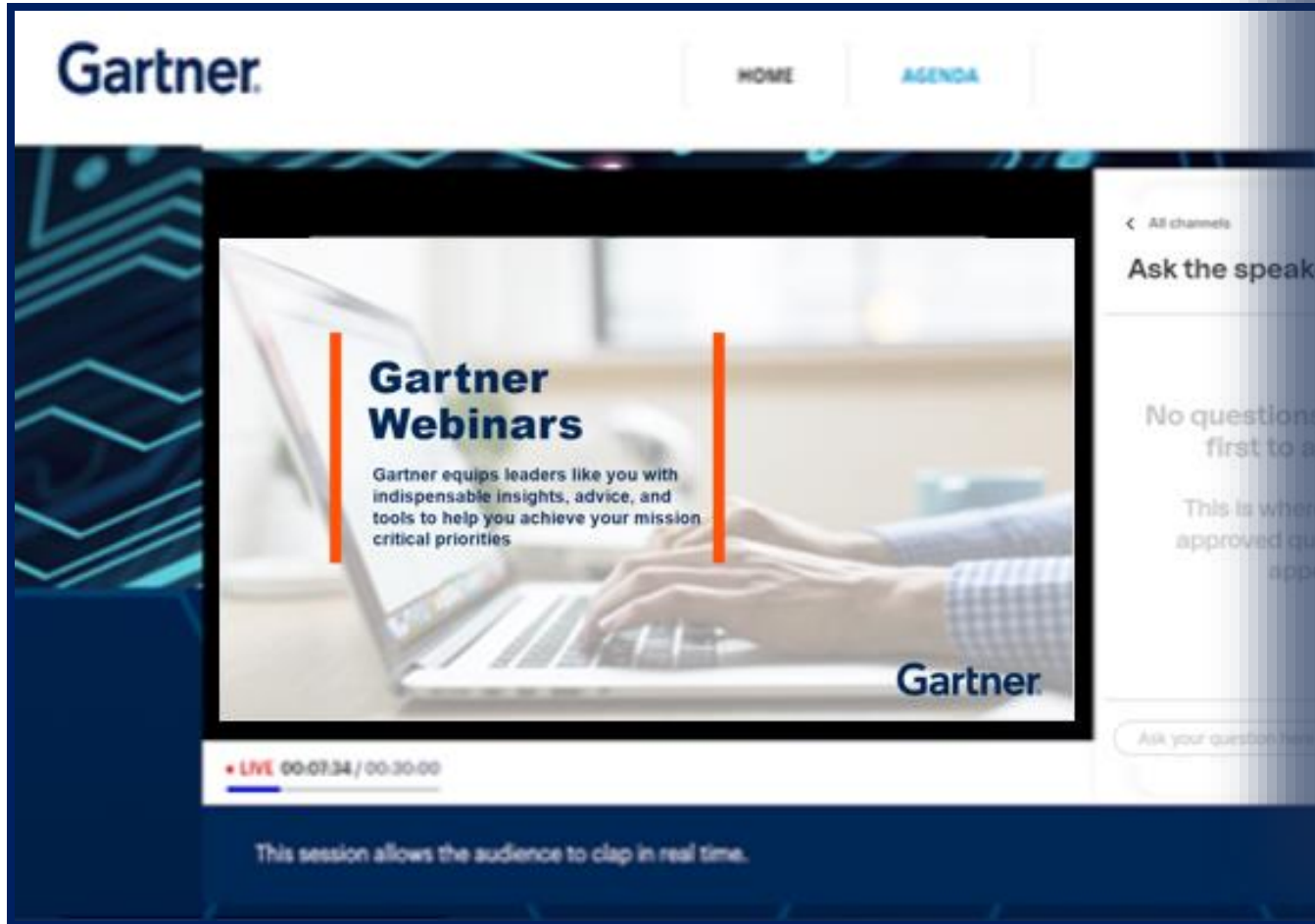
Global IT Spending - 2025



Source: "Gartner Market Databook, 4Q24 Update", December 2024

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Determine **where and when to place your GenAI** and key emerging tech bets for products and services, and which GenAI use cases are best suited to your products and target markets.

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Your detailed guide to the Gartner Top 10 Strategic Technology Trends for 2025

Uncover this year's 10 top strategic technology trends, organized across three key themes:

- AI imperatives and risks
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- Human-machine synergy

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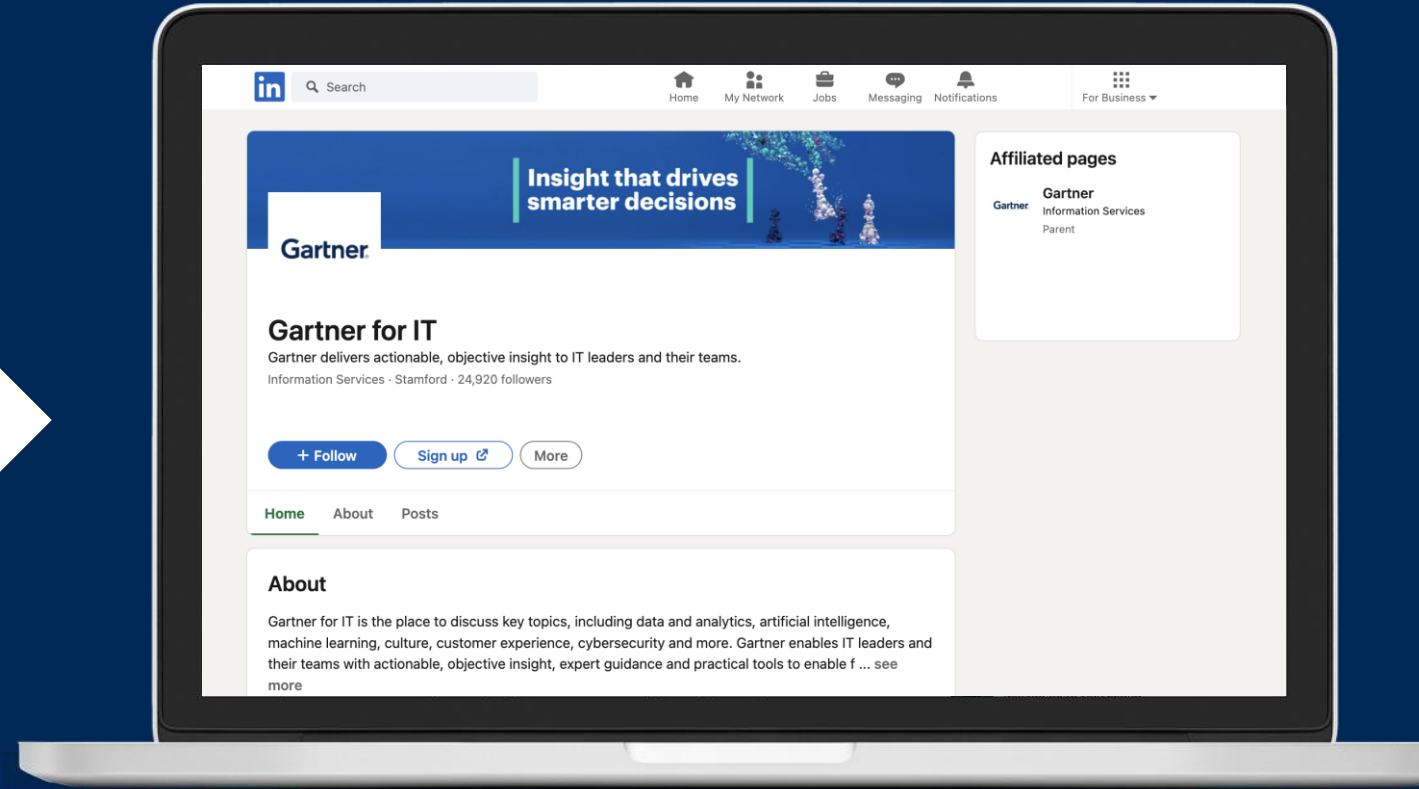
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