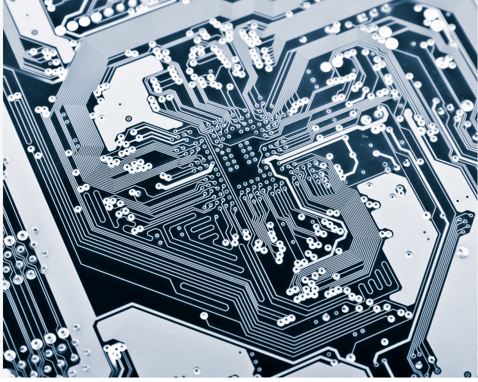
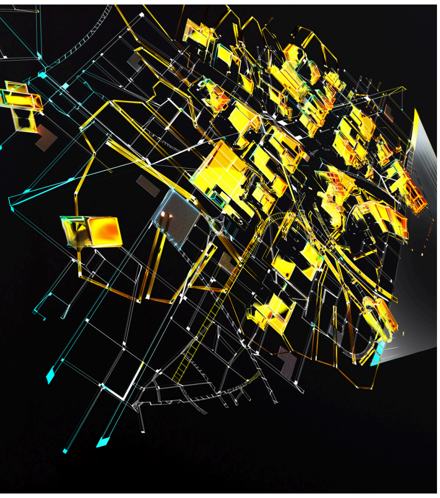
SaaS Microtrends – A Renewed Interest or New Directions?



Introduction

In the frequently advancing landscape of digital technology, **microtrends often serve as the harbingers of transformative changes,** offering glimpses into the future direction of industries and new markets. Within the vast expanse of SaaS technologies in Europe, emerging microtrends such as AI (artificial intelligence), ML (machine learning), personalisation and feedback loops, and, finally, multiple API (application programming interface) integrations are laying the groundwork for competitive SaaS offerings.

SaaS companies and start-ups were not immune to the immense fluctuations in capital deployment throughout 2022-2023 – with investment in tech start-ups falling by 39% across all sectors and declining nearly 60% for tech start-ups targeting business software specifically (Forbes, 2024). Today, however, the dry powder accumulated during these periods appears to be progressively re-invested in SaaS as aforementioned microtrends take hold. There is renewed interest in IoT (internet of things), AI, ML, and APIs, as well as wider software application and development. Additionally, there is new focus on 'how' these sub-categories can streamline SaaS delivery and structuring further. In brief overview, emerging micro-trends in the SaaS sector have made SaaS start-ups attractive ventures once again, and have re-labelled SaaS a "novelty".



Background

First of all, what is SaaS? SaaS stands in for 'software-as-a-service', referring to those tech companies who provide "centrally-hosted" software programmes for its users to download and operate freely (more often than not via a subscription model). Previously, **before SaaS was scalable and popular, each firm relied on its own IT development of software and cloud infrastructures,** for competitors would not share their company secrets and hard-earned advancements for unrealised monetisation – competitive advantage existed regardless of times or trends.

The first (successful) company to openly "sell" B2B SaaS was Salesforce, who offered CRM (customer relationship management) software **as early as 1999**. From then onwards SaaS continued to grow, and as outsourcing grew, so did its adoption across the board – now there is SaaS for every business need and want: from accounting to cold calls. **So, what exactly does SaaS as we know it today provide for businesses?**

In short, a great deal. While SaaS is traditionally oriented towards the B2B market (business-to-business) in order to **streamline time-consuming and often mundane operations for companies - more than 50% of companies reported being able to generate new revenue** within and beyond IT (McKinsey, 2023). B2C (business-to-consumer) SaaS has also grown with consistency – think of Spotify, Canva, Netflix, Asana, to name a few established players. B2C SaaS, in summary, is when the software is sold to and utilised directly by the customer, as opposed to being used by the company who is then providing products/services to the customer.

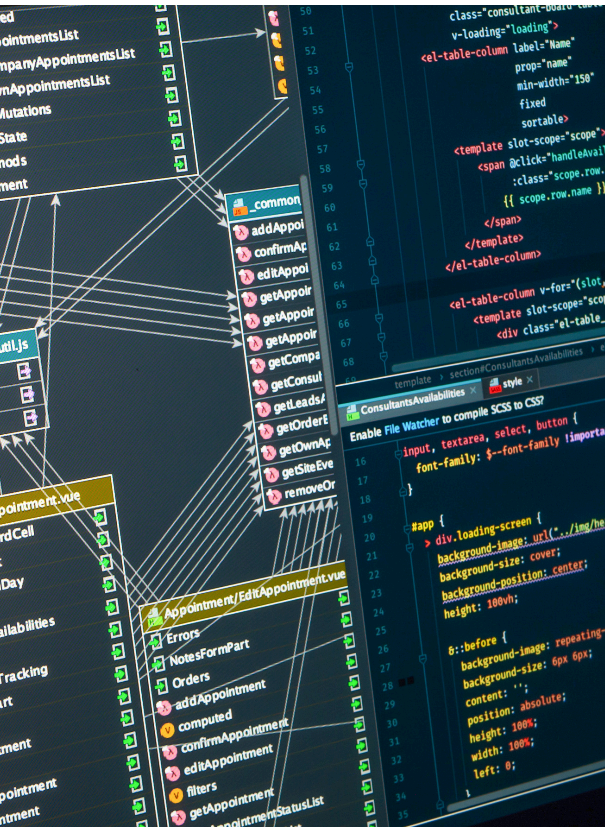
To Zoom, or not to Zoom?

Whilst our discussion will be centred on B2B, as cannon, it is crucial to give credit where credit is due; and Zoom is an interesting example for both B2B and B2C SaaS. Though founded more than a decade ago (in 2011, six years prior to Google Meet and other competitors), it only truly established itself as a **SaaS 'disruptor' and competitor amid the market upheaval brought on by COVID-19 – whereby software needed to move outside of offices and into homes, nearly overnight.** Zoom's sudden boom underscores an important aspect of SaaS market dynamics: while some disruptors may possess forward-thinking innovations, the innovations' benefits and uptake may only be fully realized when the market is primed (or forced) to embrace them. Zoom's ascent to **indispensability demonstrates how external forces can catalyse the widespread adoption of relatively nascent technologies, reshaping industries and accelerating digital transformation initiatives** – had lockdowns not occurred, would Zoom really be a market leader today?

As it is often thought, and often true, when your brand joins the users' frequent vocabulary as a verb (think of "to google" and "googling"), you have hit the mark. Well, "Zooming" and "to Zoom" have, proving that disruptors in SaaS can still make significant headway. **However, as we always say, no company is immune to changes** and Zoom is facing challenges from larger market competitors for a place under the sun when it comes to AI, APIs and further SaaS microtrends – has anyone truly interacted with Zoom Docs, Zoom Mail, Zoom Calendar or Zoom's AI companion? Why not?

Most Zoom users were already clients of Google and/or Microsoft, who offered them similar services but under singular accounts, through user-friendly platforms. The more one is forced to expand by the larger market status quo the lower its penetration abilities - established SaaS players have kept their segments protected and loyal, and they have had time to ensure their brand equity prevails for these particular integrations. Additionally, and conversely, both B2B and B2C SaaS products, **require continuous innovation and development, as corporate and consumer technology advances so must the SaaS offerings and their security,** *and* they are also equally low-maintenance and high reward or, as economically-termed "cash cows" - little upkeep and marketing, but wide and loyal audience making way for strong profit margins.

The danger of SaaS 'success' is that the service sold can migrate between being a cash cow and being outdated pretty quickly and unexpectedly; competition is at an all-time high and offerings are often not differentiated enough for consumers and/or corporations to jump into early adoption - why switch if the current SaaS provider may give a new update any minute or launch an additional API? The key is analysing competitor offerings within their SaaS and subsequent APIs, not overall the SaaS, their R&D, or the company itself - asking "what does a client get from one of your competitor's offerings that it doesn't from you?" is crucial.



If it is the integration with many other APIs or generative AI that customers prefer this is not good news, but not unsolvable. Of course, this is not a copy and paste ritual - this is an opportunity to investigate what you can offer above and beyond what they currently rely on - is iCloud confusing to navigate? Create an alternative that is more understandable to the average user. Are Google Workspaces too pre-set and allow for little personalisation? Enrich your SaaS with more customisation and personalisation features. **At the end of the day, you can only become a "leader" or a "challenger" in your market once you learn what your target audience needs and what it cannot acquire from what is already available.**

In simpler terms, **differentiation is not always "doing more" than competitors**, it is often "doing better", "doing cleverer", "doing easier" and/or "doing faster". **The widespread 'awe' and curiosity surrounding AI has also, inevitably, added "doing cooler" into the mix.**

The Revival

Andrew Jenkins, co-founder of Conviction VC, a global venture capital group, recently affirmed in an interview with EU-Startups magazine (February 2023), that SaaS is still an emerging market in Europe, having yet to reveal all of its potential and to be fully adopted: **"Many large enterprises are still using spreadsheets and emails to answer their pressing business questions, where SaaS can provide cost-effective solutions that remove the need for large companies to build their own technology - as they would have done in the past."** While these words and insights ring true, we cannot help but wonder whether SaaS is already established as a need rather than a "want" amongst those who wish to succeed in the "modern" tech-driven world...

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Looking at the penetration of SaaS today, we see a slightly different picture, one which is both promising and not-so-promising. SaaS, in our eyes, is certainly not a new-born - last year alone those who purchased cloud-services reported themselves as being "very dependent" on them, moreover being dependent on purchasing very "sophisticated" (not your run of the mill basic and/or intermediate or 'trial') software (Eurostat, 2023). **Additionally, European SaaS revenue is expected to have a CAGR of more than 9% (until 2028), leading to a**n expectant market volume of more than 19 Billion USD by 2028, which is, to keep things in context, just four years away (Statista, 2023).

With 92% of companies viewing financial SaaS as an enabler for the adoption of new technologies back in 2020 (Oracle, 2020) it is evident that the sheer penetration of SaaS places it beyond a microtrend and into the macrotrend category – it has penetrated even the most (arguably) institutional and regulated organisation and become a "steady" player (EU-Startups, 2023). Two things are abundantly clear: SaaS is here to stay, and those who are laggards in implementing it are missing out on a multitude of benefits and cost-savings. **However, the renewed interest in SaaS is not a renewed interest in the 'mature' SaaS perse, rather it is a whole new interest created by the undercurrent of its microtrends.**

SaaS' New Look

Emerging micro-trends derived from AI-integrations, ML and API systems are changing the course of more traditional SaaS through a variety of streams, arguably returning SaaS into the spotlight as a "headline-grabbing technology" (EU-Startups, 2023). So, which microtrends are most favourable in the European market? Perhaps unsurprisingly, the leading microtrend within SaaS is AI. For context, **AI software revenue is estimated to reach $118.6 Billion by 2025 globally, showcasing its fast-paced growth from $9.5 Billion just six years ago, in 2018 (SaaS Academy, 2024).**

More specific to SaaS and cloud-services, **it is further expected that AI will be integrated into nearly every new software product and service by 2025** which is unsurprising since, on average, **it already increases business productivity by 40% (TechJury, 2023).** Integrating AI chat-bots and/or virtual assistants through introducing NLPs (natural language processing) into current SaaS offerings is becoming increasingly popular – it adds a personalised touch to the otherwise banal and dehumanised SaaS ecosystems.

One example which continues to grow in popularity is Microsoft's Cortana who is able to set meetings, send emails and provide reminders. Another, which had caused quite a storm during its unveiling is Google's AI Assistant which is able to make over-the-phone bookings with a rather human-sounding voice and responds in real time to challenges/problems by using Bard's generative and reasoning capabilities. Feedback-loops are also increasingly enhanced using NLPs, collecting consistent customer data and making sense of it is automated, removing room for human error and bias. **Of course, AI is still relatively new, and the full extent of its usability and integrations remains, for now, optimistic guesswork.**

When it comes to SaaS and machine learning, the microtrend is perhaps more established and slightly less exciting. Machine learning algorithms enable SaaS companies to accurately predict customer behaviour, or to make (inform) decisions on the basis of big-data crunching. **Predictive analytics in the realm of SaaS are particularly valuable, as both B2B and B2C businesses aim to increase sales, profits, and maximise growth and reach.**

Remember Salesforce? Well, their Einstein AI uses an ML integration to facilitate its sales reps in identifying and targeting leads. ML integration into SaaS enables the latter to be scalable, and to “exponentially” (again, a positive assumption) grow by targeting and handling huge amounts of data as well as increasingly complex workflow structures (SaaS Academy, 2024). Other examples of ML use are Dropbox and DocuSign, who have both recently integrated AI into their services in order to optimise document handling. Although this does not seem ground-breaking, when one considers the sheer volume of documents handled, sorted, verified, signed and uploaded daily or even hourly, **the value of such AI adoptions becomes much clearer.**

Conclusions

The European SaaS market presents a dynamic landscape characterized by innovation, disruption, and evolving consumer (as well as investor) demands. With the resurgence of SaaS’s popularity, its market disruptors, whether through revolutionary services or good timing, play a pivotal role in reshaping industries and challenging established norms. Nonetheless, this rapid evolution is not without its challenges, as ethical, legal, and economic considerations loom large. After all, where there is AI ‘speak’ security is always the first point of concern. **Looking at the bigger picture, the convergence of technological advancement and regulatory scrutiny will shape the future trajectory of the wider SaaS category, driving both growth and resilience in the years to come as gen AI and machine learning become increasingly adopted. SaaS is headed in a new direction, that is one certainty the market cannot ignore.**

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