



The SaaS conundrum – the death or rebirth of software?

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“Cloud-based software has been a growth engine for the technology industry for decades, but more recently, this thesis has been tested and we are observing a reversal of the trade back to infrastructure.”

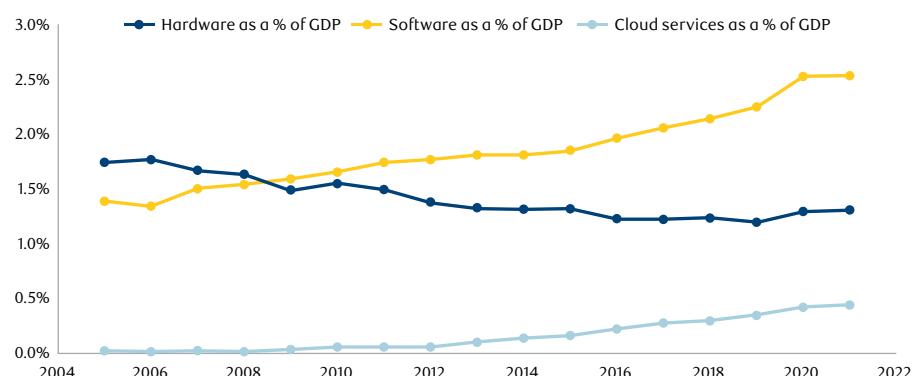
It was once said that ‘software is eating the world.’ However, more recently it seems that AI is rewiring this story.

Key takeaways:

- Cloud-based software has been a growth engine for the technology industry for decades, but more recently, this thesis has been tested and we are observing a reversal of the trade back to infrastructure.
- Companies can now build agents in-house and don't need to rely on software as a service (SaaS) vendors. The possibility that SaaS software will be replaced in the long term by new AI-based solutions has entered the narrative.
- However, some believe AI will integrate into SaaS platforms rather than replace them. This will create smarter workflows and richer user experiences. In addition, software companies will benefit from lower development costs.

When Mark Andreessen, one of Silicon Valley's most influential venture capitalist, gave his famous quote – ‘software is eating the world’ – back in 2011, his observation was broadly correct. Technology had entered the cloud era while hardware was perceived as a standardised product. Corporations across the world appreciated the shift towards SaaS and saw great value in it, as it allowed them to move large portions of their workloads to cloud providers who even provided servers and storage, and hence turned capital expenditure into operational expenditure.

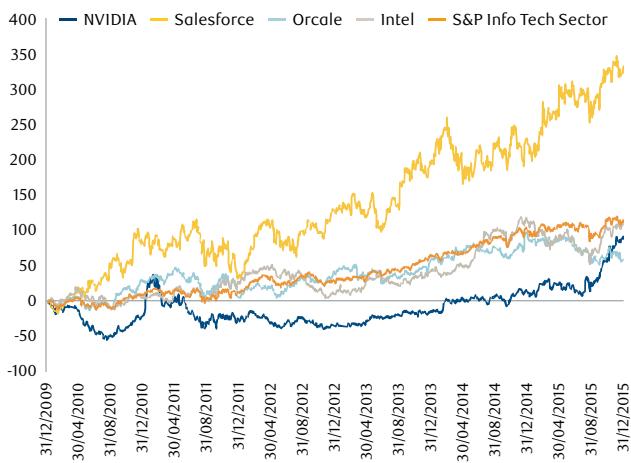
Chart 1: US – digital economy selected stats



Source: Bureau of Economic Analysis – US Department of Commerce, as at 2025.

During this time, hardware companies like Intel, Oracle, and even Nvidia, were ‘eaten’ by software companies such as Salesforce or Amazon’s AWS, which experienced significant expansion. From 2010 to the end of 2015, the three hardware companies mentioned above underperformed the overall technology sector, while software names surged to new valuation highs. Cloud-based software has been a growth engine for the technology industry for decades, but more recently, this thesis has been tested and we are observing a reversal of the trade back to infrastructure.

Chart 2: Technology stock performance 2010-2015



Source: Bloomberg, from 31 December 2009 to 31 December 2015.

While Nvidia reached a new all-time high during September, once-admired companies like Adobe and Salesforce both contracted over -25% in 2025, while Workday lost -10% of its value. 15 years after Andreessen’s remarks, it seems that the tides are turning and ‘AI is eating software’.

A new era

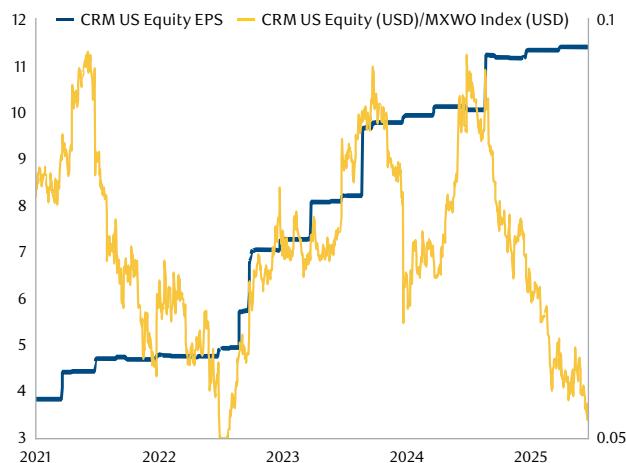
With leading coding capabilities, AI can fully design, build and run complex, agent-powered software at near-zero marginal cost, radically compressing the time from idea to deployment and eroding traditional SaaS moats. Companies can now build agents in-house and don’t need to rely on SaaS vendors such as Salesforce. The possibility that SaaS software will be replaced in the long term by new AI-based solutions has entered the narrative.

Agentic systems can autonomously obtain, organise, and use information to set up communications, track effectiveness, and iterate. Going forward, each department of a company could have teams of AI agents to carry out complex tasks. As this happens, it will change the way companies interact with today’s application software and the traditional seat-based model might be under threat.

Satya Nadella, CEO of Microsoft, has claimed that the age of SaaS is over and that integrated platforms, with AI as the leading force, are the future: *‘I think, the notion that [SaaS] business applications exist, that’s probably where they’ll all collapse, right in the agent era.’*

Looking at the recent share price performance of Salesforce, one can see that the market is clearly worried about the non-disprovable negative thesis, despite demonstrating strong earnings momentum.

Chart 3: Recent share price performance of Salesforce



Source: Bloomberg, as at 2025.

The traditional competitive advantage of a great software company is built on proprietary code and vast data volumes. However, the time and technical complexity required to build a functional software application, historically a significant barrier to entry, is dissolving rapidly due to advances in agentic coding systems. In addition, foundation models are trained on vast data sets.

Summary

However, some believe AI will integrate into SaaS platforms rather than replace them. This will create smarter workflows and richer user experiences, not fewer platforms. In addition, software companies will benefit from lower development costs.

While the software landscape is being severely disrupted, it will not vanish suddenly, but its economics will evolve. The traditional SaaS model, which focuses on a user interacting with a single application, will be replaced by “AI agents” that can automate and orchestrate workflows across multiple applications and systems.

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