Forrester: Artificial Intelligence Software Growth Will Fall Below Current Investor Projections

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With vendors infusing AI into existing software products, overall market size will grow to $37 billion by 2025

CAMBRIDGE, Mass., Dec. 10, 2020 /PRNewswire/ -- According to Forrester (Nasdaq: FORR), the overall artificial intelligence software market — despite ballooning to $37 billion by 2025 — will fall below current investor projections of $150 to $200 billion for the same time period. Within the AI software market, AI application growth will be constrained by technology vendors embedding AI functionality into existing software products with greater frequency.

A new Forrester report, "The AI Software Market Will Grow To $37 Billion Globally By 2025," outlines key reasons for this updated AI software market outlook — which leaves out hardware and consulting services — including:

- **Post-2023, AI software revenues will be less than 3% of the overall application market.** AI in business apps will be the norm, prompting AI-centric and AI-infused applications to dip further within the overall application market.
- **Sixty percent of software buyers will expect AI functionality from existing vendors.** Sixty percent of software buyers, and likely more over time, expect to receive AI functionality from existing vendors, rather than custom-creating their own applications.
- **AI-infused applications will be unable to sustain premium-product status.** Currently, 10% of vendors are offering AI-infused apps at differentiated prices. As vendors add more AI functions, the ability to charge a premium for AI will be lost in competition.

The report further states that AI maker platforms used for creating highly customized solutions and AI facilitator platforms used for applications including computer vision and natural language virtual assistants have the strongest growth potential. Other AI market segments likely to grow include AI-centric applications for specialized medical tasks and AI-infused applications that create differentiated products through added AI functionality.

"While we're seeing high demand for AI technology, platforms, and applications, AI's ubiquity will ultimately make the technology commonplace in software development," said Andrew Bartels, VP and principal analyst at Forrester. "We believe investors are defining the AI market too hyperbolically. They are mistakenly including categories that are loosely influenced by or distantly adjacent to AI software. As business leaders rely more and more on AI as a tenet of their digital transformation strategy, they will likely expect their vendors to add AI functionality at no additional cost to them."

Resources:

- Access the Forrester report, "The AI Software Market Will Grow To $37 Billion Globally By 2025" (client login required).
- Read more about Forrester's AI market outlook in this blog post.
- Register to attend Forrester's upcoming webinar: "AI Software Market Sizing: Understand Forrester's Four Segments To Invest Wisely."
- Visit Forrester's Predictions 2021 hub to learn more about AI trends critical to 2021.

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