Is AI Really Eating SaaS...

Or

Reinventing It?

ALLIED ADVISERS

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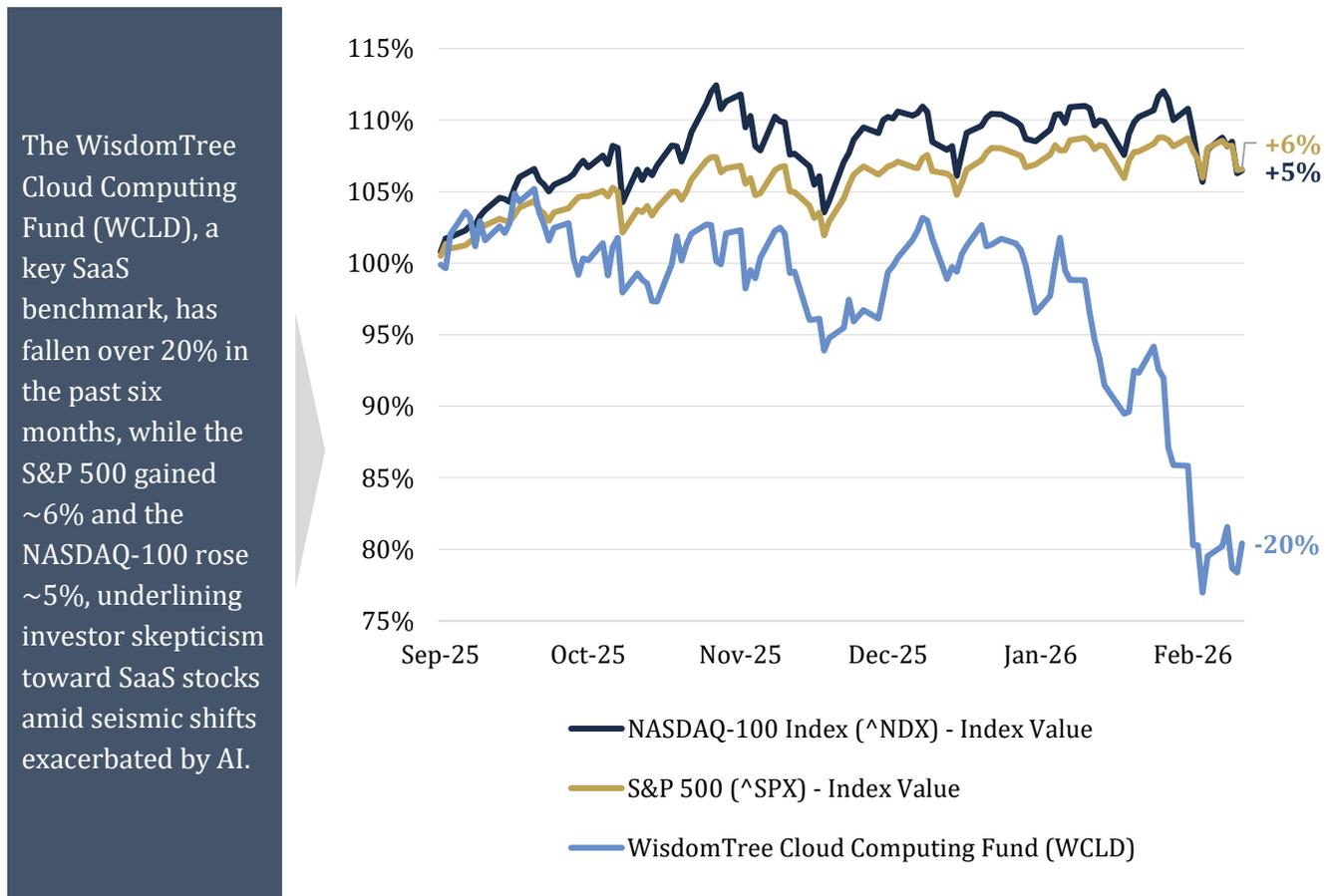and Investors**

Is AI Really Eating SaaS...Or Reinventing It?

Marc Adreessen famously said in 2011 "software is eating the world", noting that software was revolutionizing every industry and business. Fifteen years later, industry pundits are claiming that AI is disrupting software/SaaS with powerful innovation, seemingly consuming it. Is AI really going to eat SaaS or enhance it?

We believe that the "SaaSpocalypse" reports, while great for headlines, is highly overstated and there is a world in which both SaaS and AI thrive creating value for vendors, customers and investors.

The Great SaaS Repricing

In Q1 2026, the SaaS market endured its sharpest repricing in a decade. Over $285 billion in global software and software-adjacent sector market value evaporated in early February, software debt markets froze, and the "SaaSpocalypse" narrative gained significant traction.
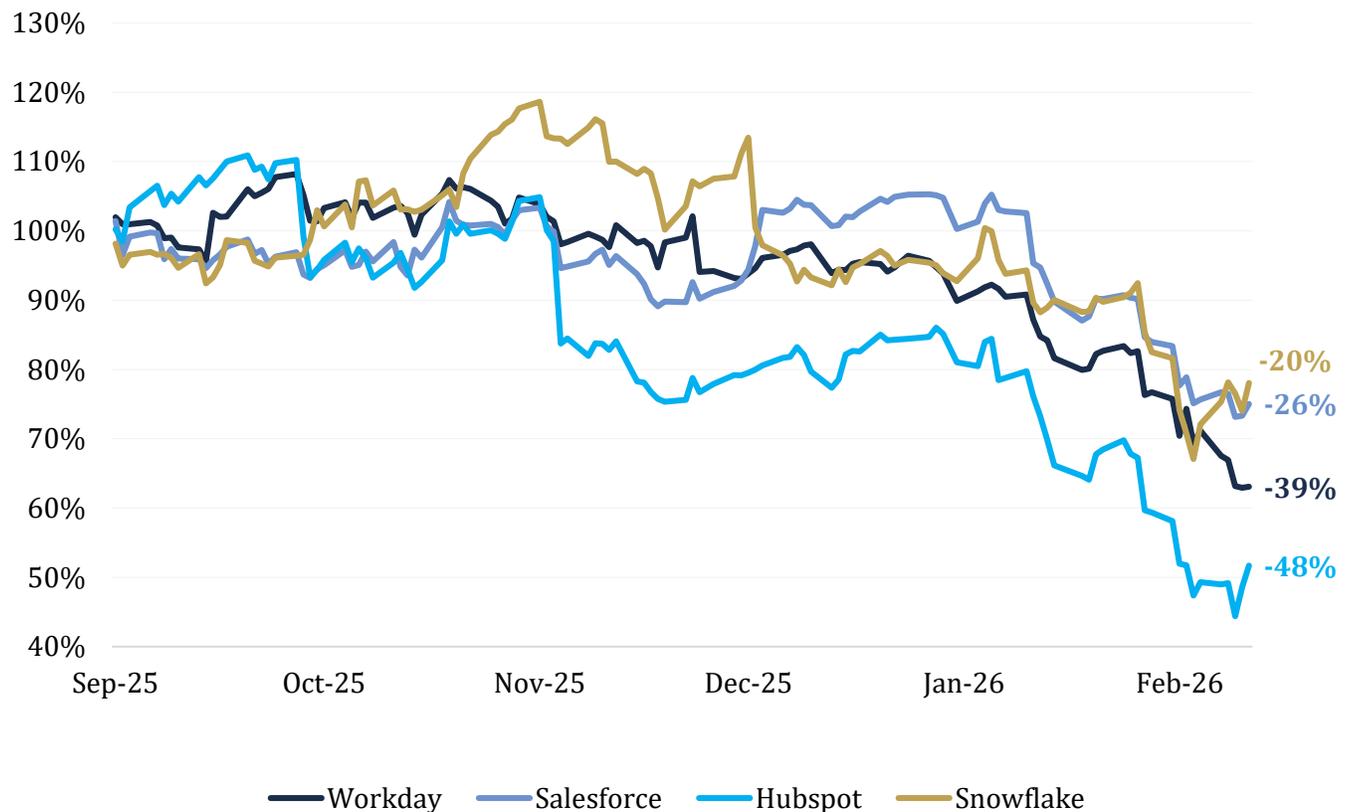
Public markets have beaten down software and SaaS stocks since September 2025[1], with declines far outpacing broader indices.

The WisdomTree Cloud Computing Fund (WCLD), a key SaaS benchmark, has fallen over 20% in the past six months, while the S&P 500 gained ~6% and the NASDAQ-100 rose ~5%, underlining investor skepticism toward SaaS stocks amid seismic shifts exacerbated by AI.

NASDAQ-100 Index (^NDX) - Index Value

S&P 500 (^SPX) - Index Value

WisdomTree Cloud Computing Fund (WCLD)

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1. Allied Advisers' various databases

SaaS Titans Are Also Not Spared in the Carnage

Major SaaS Company Stock Performance[1]

Legend: Workday, Salesforce, Hubspot, Snowflake

Final values shown on chart: -20% (Snowflake), -26% (Salesforce), -39% (Workday), -48% (Hubspot)

No one is immune. Market leaders have also been severely impacted with HubSpot and Workday falling roughly 48% and 39%, respectively, over the past two quarters. These sharp declines signal escalating concerns about the role of traditional SaaS in the age of AI.

What Accelerated the Decline in Q1 2026?

1. The Launch of Claude Cowork: Viewed as a Game-Changer

The January 30 launch of Claude Cowork's plugin acted like a shockwave through the SaaS sector.

Claude Cowork isn't just another tool; it's an inflection point that shakes the status quo of the SaaS landscape. By enabling non-coders to tackle complex tasks like legal work, financial analysis, and app development, it encroaches on the stable workflow layer of SaaS platforms — pressuring the core value traditionally delivered through feature-based functionality. Investors are becoming increasingly concerned that such type of solutions will drive customers to build in-house solutions rather than purchase expensive third-party software licenses.

2. SaaS Platform Overload and Tool Redundancy

Enterprises are increasingly concerned about SaaS bloat, as crowded markets and overlapping tools make purchasing decisions hinge on minor feature or pricing differences.

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1. Allied Advisers' various databases

Market Saturation	Buyer Fatigue	Expectation Reset
The SaaS market is flooded with undifferentiated tools such as CRMs, dashboards, project management apps etc.	Enterprises are burdened by bloated software stacks with low adoption and overlapping functionalities	AI didn't just enhance workflows — it redefined the baseline. Automation is now a basic expectation, not a premium feature

3. SaaS Value Paradigm Changing: Benchmarking to AI

Questions around SaaS economics and value to customers has been building for a while — AI just poured gasoline on it and accelerated thinking around software spend vs. ROI.:

Renegotiating of contracts	Seat-based pricing in crisis	Rationalization of software portfolios
Amid budget constraints and economic uncertainty, companies are pushing for more flexible and scalable contract terms as renewals approach	AI agents are putting pressure on traditional per-seat models, with per-seat model adoption dropping from **21% to 15%**[1] between 2024 and 2025	**82%**[1] of companies are reducing the number of software suppliers, with CFOs cutting SaaS tools that fall below higher ROI thresholds

Buyers Are Expecting and Demanding More: The New Benchmark is AI

Buyers' scrutiny has been enhanced in the new paradigm: "*What do I actually get for this subscription*?" with AI becoming the new benchmark. *AI-driven performance provides a potentially superior alternative.*

Buyers Are Shifting from Seat Based Access to Outcome-Based Pricing

AI is changing buyer needs. While pay-for-access models still exist, buyers are increasingly demanding pay-for-performance models where pricing is directly tied to measurable outcomes, not just access. The value shift is emerging, with buyers leading the way toward more outcome-based pricing.

Overall, the Great SaaS Repricing isn't just about falling valuations. It is renewed thinking of what enterprise software is worth, how it should be monetized, and whether it even deserves a place in next year's budget.

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1. [Forbes: SaaSpocalypse Now? AI Is Disrupting SaaS — But Not All Software Is Doomed](#)

How AI is Disrupting Software

"The Great SaaS Meltdown has started and there's no going back… A new AI-oriented workflow is coming."
- Chamath Palihapitiya, Venture Capitalist and Entrepreneur[1]

We are seeing the following key disruptions:

1. **From Tools to Outcomes:** Classic SaaS gives you tools. AI promises outcomes. Instead of "*Here's a dashboard, analyze it*", AI says "*Here's what happened, why it happened, and what to do next*"

2. **Lower Barriers to Software Development:** AI is slashing the cost of building software. Small teams now ship full-scale products leveraging AI coders, unleashing a tidal wave of competition that pressures software incumbents to speed up innovation

3. **The "Good Enough" Problem:** AI doesn't need to be perfect for all use cases – it just needs to be good enough. For example, Agentic AI can coordinate across email, CRM, support, and billing to resolve tickets or automate workflows with adequate accuracy, instead of multiple best-of-breed SaaS apps providing equivalent features at much higher marginal cost

4. **AI as a Feature, Not a Product:** AI is no longer a standalone tool — it's embedded in CRMs and ERPs as features. Standalone AI tools are easily replaceable and vulnerable to churn as incumbents integrate AI, leaving traditional models defenseless

5. **Platform Power Shifts:** Large AI model providers sit underneath many new software products, Differentiation is evaporating as value leaks downwards from SaaS to the infrastructure layer, weakening the moats

Why the Panic is Overblown – SaaS's Defensibility

NVIDIA CEO Jensen Huang and JPMorgan's Mark Murphy[2] both dismissed the idea that AI would replace software as "***the most illogical thing in the world***" Their point is simple: AI doesn't eliminate the need for software – it increases it. AI agents use software tools. More agents mean more demand for data & infrastructure, not less.

"AI changes what we build and who builds it, but not how much needs to be built."

— Steven Sinofsky, President of Windows Division, Microsoft[3]

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1. [Forbes: $300 Billion Evaporated. The SaaS -Pocalypse Has Begun](#)
2. [Techstock: Salesforce (CRM) stock steadies after AI selloff jitters — what traders are watching next](#)
3. [LinkedIn: Henning Steier's Post](#)

1. **Core Enterprise Software:** Core SaaS is mission-critical, deeply integrated, and locked behind strong moats. Replacing these systems is costly, disruptive, and risky. Companies will layer AI on top, not rip them out. This is the reason why enterprise systems of record software will continue to have very high retention

2. **SaaS as Infrastructure – The Structural Moat:** SaaS is more than code, it's load-bearing infra*structure* built on:

Data pipelines	Permissions and roles	Compliance and audit trails	System integrations	Reliability, uptime, and support

   Beyond features, SaaS is a web of customer feedback, workflows, partner networks, and brand trust. AI can enhance, but it can't recreate this system. Most real-world workflows still require guardrails, approvals, and accountability. Software provides the scaffolding that makes AI usable at scale. The true software moat is the whole ecosystem, not just the code

3. **Vertical SaaS is Especially Defensible:** In regulated or complex domains like healthcare, finance, legal, logistics, deep domain knowledge matters more than raw intelligence. AI can enhance these systems, but replacing them outright is far harder than Twitter threads suggest.

4. **Recurring Revenue is Still the Gold Standard:** Despite AI's disruption, recurring revenue remains SaaS's core strength and remains one of the best business models ever created. The stability of predictable revenues and expenses works well for vendors and customers.

5. **Building Complex AI is Expensive:** Displacing enterprise-scale SaaS with AI isn't easy. It demands massive investment and inference costs remain unpredictable. The economics of replacing enterprise SaaS with AI haven't been proven out definitively yet. According to MIT's 2025[1] report, *only 5% of enterprise AI projects deliver measurable ROI*

6. **Off-the-Shelf AI Tools Have High Churn:** AI tools experience significant churn due to low switching costs, as they are easy to adopt and just as easy to abandon. Users frequently change providers based on price, accuracy, and output quality. In contrast, SaaS solutions are deeply integrated into workflows and are not easily replaced

7. **Enterprise Buyers Value Trust – AI Can't Own It:** Buying software is about trust. Legacy SaaS platforms offer reliability, accountability, and proven stability that AI tools cannot match. In a crowded market, buyers gravitate toward the brands they trust. It's also a career-securing strategy – nobody got fired for buying Salesforce!

8. **Software Startups Aren't Dead – Insight Still Wins:** The next wave of SaaS companies won't just out-code their competition, they will out-think it. Startups will thrive by solving complex problems that incumbents can't easily address, without innovating

9. **Even AI Companies Run on SaaS:** While headlines declare "SaaS is dead," the world's leading AI companies such as OpenAI, Anthropic, and Perplexity, still rely heavily on traditional SaaS tools to run their operations and LLM-based products.

   Per Henry Schuck, CEO of ZoomInfo, for example[2], Anthropic listed "Hiring a Salesforce Administrator" in a job posting, while OpenAI requires skills like "Incident Management, Jira" and "Proficiency in Figma."

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1. Fortune: MIT report: 95% of generative AI pilots at companies are failing
2. LinkedIn: Henry Schuck's Post- "SaaS is So Dead"

AI isn't destroying SaaS, it's elevating it. The panic around AI replacing software is overblown. SaaS incumbents will evolve alongside AI with scale and trust, not be replaced. The old software model isn't dying, it's being transformed.

The New Playbook: SaaS Evolves with AI

The future of software isn't a battle between AI and SaaS — it's a powerful alliance. AI and SaaS are destined to evolve together, each complementing and enhancing the other.

- **AI Becomes an Essential Standard in SaaS:** In a few years, "AI-powered" will be the baseline, not a differentiator like cloud or mobile today. AI integration will be non-negotiable in SaaS

  Gartner predicts that 40% of enterprise applications will feature task-specific AI agents by the end of 2026, up from less than 5% in 2025[1]

  For example, **SAP[2]** demonstrated this in Q4 2025, with two-thirds of cloud orders and 90% of top 50 enterprise deals including Business AI, solidifying AI as a core requirement

- **Fewer, Smarter Tools:** Expect consolidation. Buyers want fewer systems that do more. AI makes it easier for platforms to expand horizontally and absorb adjacent workflows.

- **Pricing Model Evolves:** Seat-based pricing makes less sense in the AI era. Expect usage, outcome, and value-based pricing models. This will be painful for some vendors but healthier for SaaS in the long run

- **New AI-Driven Categories Will Emerge:** AI isn't just disrupting; it's creating new categories like agents, copilots, and orchestration layers which fill gaps, enhancing existing SaaS rather than replacing it

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> **As Bain & Company's Technology Report 2025 put it[3]:**
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> *"With the right playbook, deep AI integration, strong data moats, and leadership on standards, incumbents can shape, not just survive, the next wave of SaaS."*

The Winners Will Look Different. The strongest companies will combine: domain expertise, high-quality proprietary data, strong distribution and thoughtful AI integration. SaaS companies embedding AI into their core will thrive.

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1. [Gartner: Enterprise Apps Will Feature Task-Specific AI Agents](#)
2. [CX Today: SAP Says Two-Thirds of Deals Now Include Business AI](#)
3. [Bain & Company: Will Agentic AI Disrupt SaaS?](#)

Final Thoughts: Not a SaaSpocalypse, but a Reinvention

"SaaSpocalypse" makes for a catchy headline, but is overhyped. What's really happening is far more important: software is evolving to a new generation alongside AI.

For years, SaaS enjoyed unchecked expansion. Now, AI is forcing a rethinking – stripping away weak value propositions and rewarding products that deliver real outcomes.

Some companies will struggle, some categories will shrink, and pricing dynamics will evolve. *But software isn't disappearing, it's becoming more essential in ways it never was before*: more central, smarter, more outcome-focused, and more accountable than ever. This feels like a necessary market reset, encouraging the industry to adapt and evolve.

> **"**
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> **As Chris Ackerson, SVP of Product at AlphaSense2, put it so clearly:**
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> *"The future belongs to providers that combine advanced AI with trusted content, explainability, and deep domain context."*

SaaS is here to stay and its evolution with AI is inevitable. The winners will be the ones who add real value to their customers, embed into workflows, work with complex data and prove measurable value. In this next era, AI will keep industry participants honest and core to the mission of providing customer value. That's not cause for distress; it's the nature of technological progress.

The fear is overstated. The opportunity is massive. The future of SaaS is not cratering; it is being rewritten.

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1. [CNBC: AI fears pummel software stocks: Is it 'illogical' panic or a SaaS apocalypse?](#)

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