

# Redefining Software for an Outcome-Driven Future

MAY 7, 2026

The software sector is undergoing a large-scale structural transformation. As AI-native and agentic architectures emerge, the industry is shifting from selling products to delivering outcomes. This transition demands incumbent software leaders move beyond incremental updates toward a fundamental “refounding” to capture value in this new paradigm.

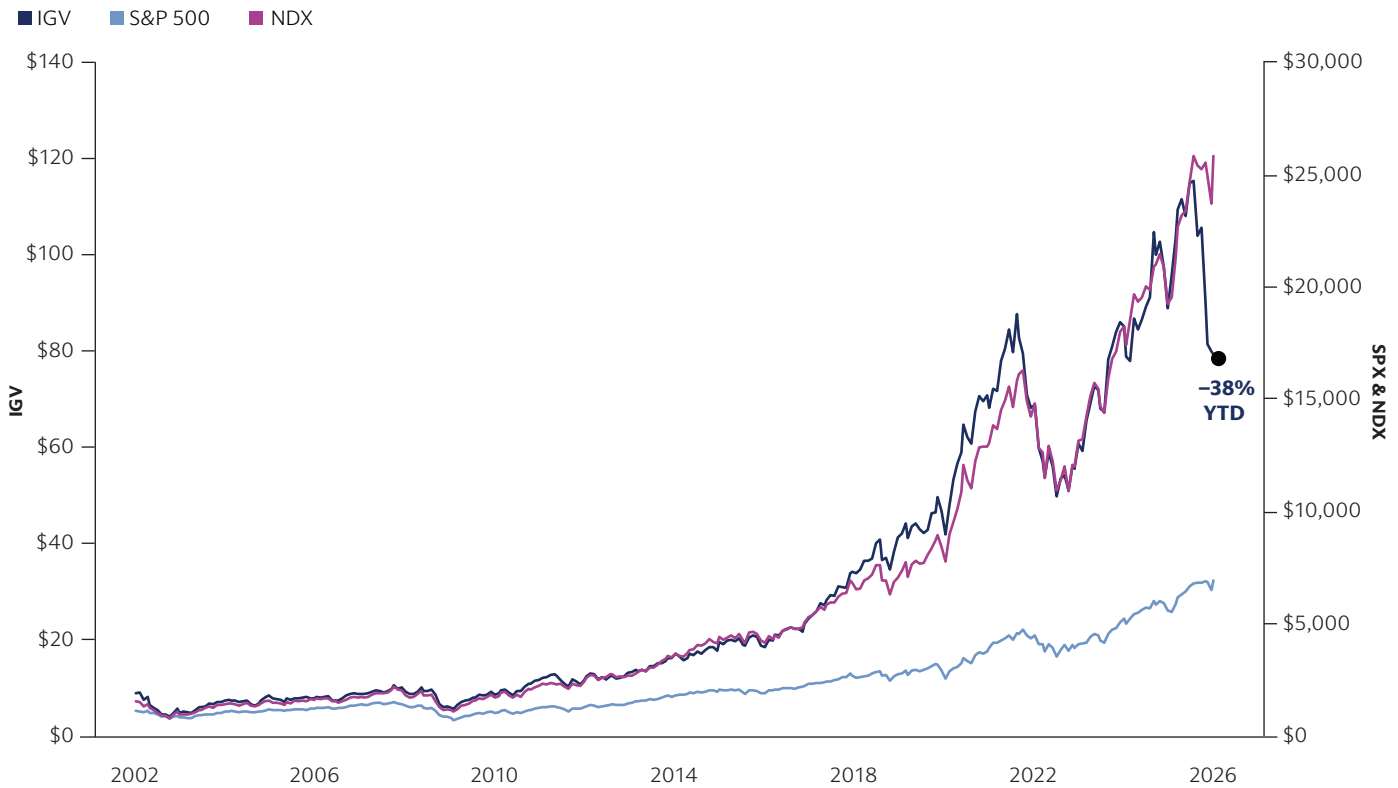
Brian Cayne and Joe Porter, global co-heads of Software Investment Banking, discuss the strategic decisions required to lead in this new era.

# 1 The software sector has reinvented itself and evolved before. This moment seems unprecedented, but the underlying pattern recurs every innovation cycle to some extent. How are software leaders navigating the current turbulence?

We are witnessing a clear dislocation as leaders navigate a "guilty until proven innocent" market regime. The original ChatGPT moment in November 2022 was a *consumer* internet shock—existential for major search engines' economics but less immediately relevant to enterprise application vendors. Just weeks after the ChatGPT launch—reaching 100 million users in two months<sup>1</sup> and marking the fastest consumer adoption in history—search platforms executed a foundational pivot to AI-first product development across search, cloud, and workspace. Instead of an incremental shift toward AI, they went all in.

Enterprise application vendors may have initially evaded that moment in 2022, but 2026 is a different story. While the classic innovator's dilemma suggests incumbents fail by ignoring low-end entrants, this AI cycle appears different. Disruption is coming from above, as frontier labs and AI-native startups threaten to replicate the entire application layer logic at marginal cost. Incumbent software leaders are playing whack-a-mole with investors who fear the threat isn't just the cheaper alternative but the potential elimination of the application layer entirely in certain workflows. Of course, these fears have only been exacerbated by the drastically compressed innovation cycles—falling from years to months to weeks—as AI-native companies ship new products at an unprecedented pace. Market reaction has followed prior shifts, where investors indiscriminately reduced exposure to the sector—with the IGV software ETF falling 38% from its high on October 31, 2025.<sup>2</sup>

**The iShares Expanded Tech-Software Sector ETF (IGV), which tracks the performance of around 120 North American stocks in the software industry, has declined by ~23% since the beginning of the year and ~38% from its fall 2025 highs**



Source: FactSet as of April 14, 2026; Goldman Sachs GIR, "Will AI Eat Software?," March 9, 2026.

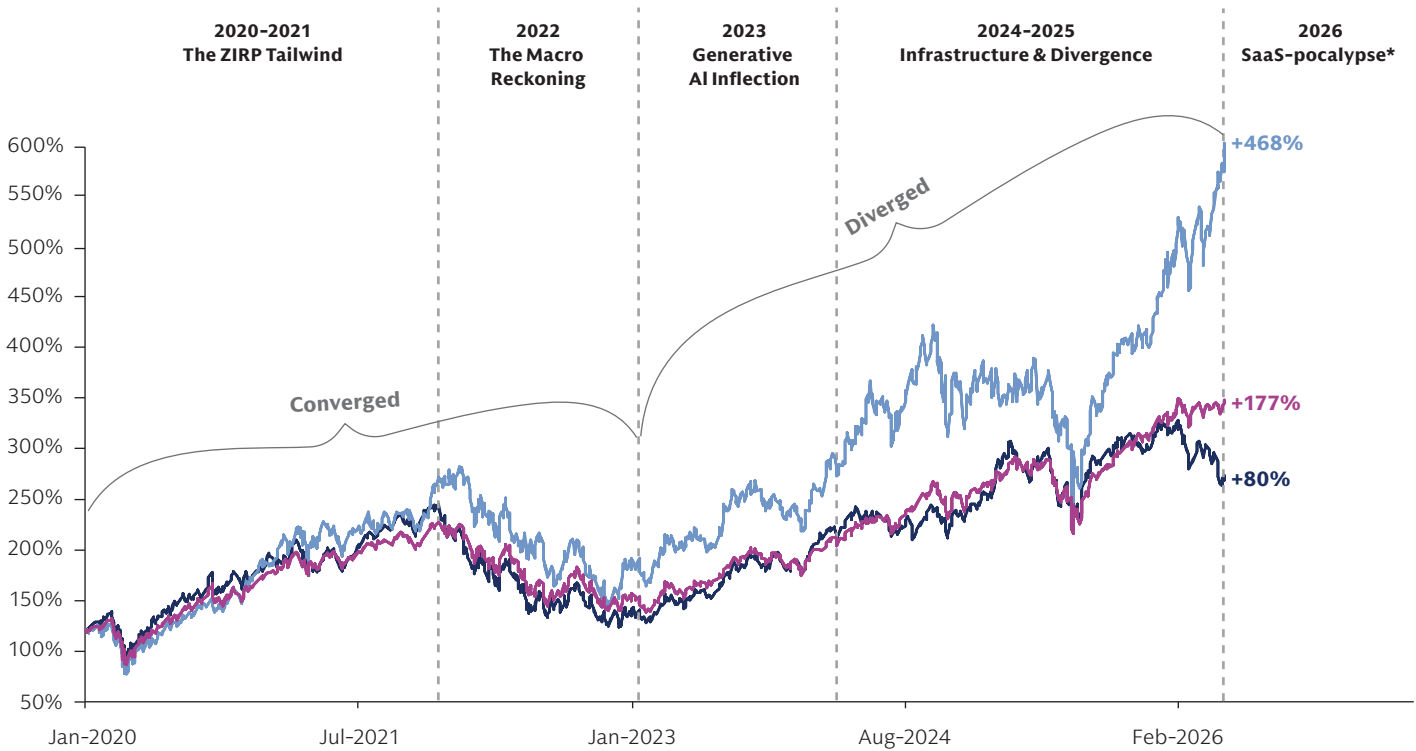
For software management teams, the lack of a definitive economic model for the AI paradigm poses an acute dilemma. During the cloud era, when companies like Adobe and Autodesk pivoted to SaaS models, peers such as Salesforce provided a template. Today, there is no template—there are virtually no public AI-native software companies. To be clear, every public company has a seat at the table—it's whether or not they're willing to navigate this path of disruption to remain relevant.

## 2 Every new transformative technology introduces new entrants and challenges incumbents—but the “deflation of software” narrative driving market volatility and media headlines feels more disruptive than evolutionary. Is that accurate?

The “deflation of software” narrative simplifies what is really a repricing of uncertainty. For more than a decade, the software playbook was highly predictable, but now the fear is that this visibility has largely disappeared. We’re seeing indiscriminate sell-offs across the sector. While certain incumbents face real pressure, we expect the longer-term outcome is extremely unlikely to be a contraction in overall spending.

Given that software companies operate at the intersection of labor, workflow, and data, AI’s impact on productivity, pricing, and margin structure is appearing here first. In that sense, software is the canary in the coal mine for AI economics, previewing what’s on the horizon for other sectors. As AI moves from augmenting knowledge work to reshaping it, the lessons learned in software around business models, talent, governance, and value capture may preview how AI affects financial services, healthcare, manufacturing, and other sectors. Now, software leaders are working to bridge the perception gap by quantifying impact—demonstrating how AI features drive specific productivity gains—rather than just listing features.

### AI has reshaped capital flows across the technology stack



\* Bloomberg, FactSet, iShares, Nasdaq. Returns approximate as of 4/30/26.

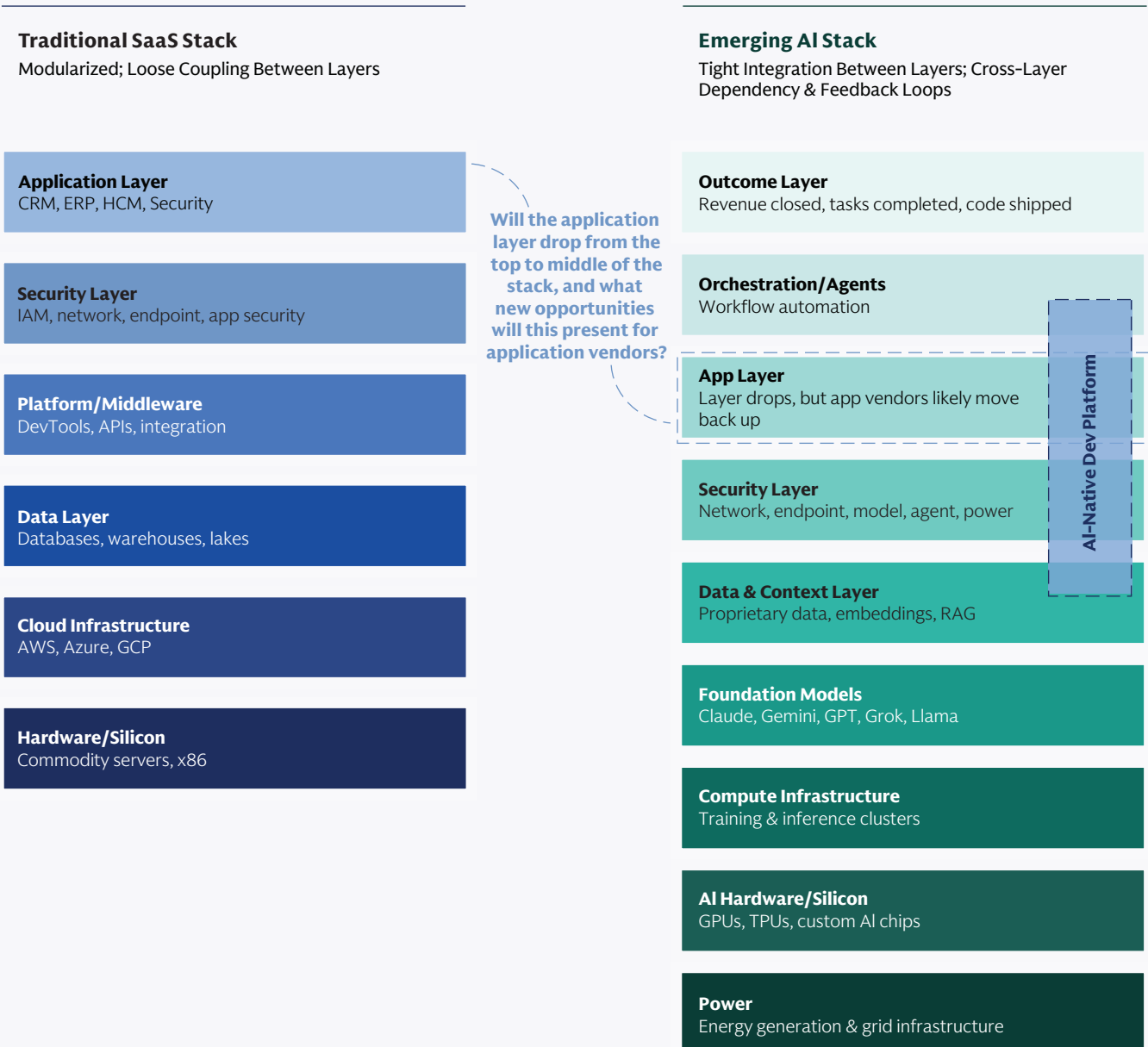
It is also worth remembering that market narratives are rarely as simple as they seem. Despite the deeply impressive speed at which AI-native startups are executing and shipping new products, there is still a reality that enterprise software requires a level of reliability, security, and compliance that incumbents already possess. From SOC 2 and FedRAMP to HIPAA compliance, there are years of investment in security and regulatory infrastructure that will not be waived for AI-native newcomers. It is also unclear whether the unit economics of these startups are sustainable in the long run. Even some of the early “obvious” predictions for how AI would disrupt industries have proven more nuanced. For example, as the output of AI-generated code is scaling exponentially, demand for software engineers is actually rising in parallel.

### 3 How is AI specifically disrupting the current software stack? Where will value accrue going forward?

Technology is inherently deflationary, and AI significantly lowers the marginal cost of code. The real debate is the shift in the value hierarchy. In the traditional stack, the application layer sat at the top. In the emerging AI-native stack, investors fear this layer will be compressed and this value will migrate into the orchestration and agent tiers. Value is rapidly accruing in the new “outcome layer”—where the product is no longer the software itself but the specific output completed.

While foundation models may face rapid commoditization similar to cloud infrastructure, durable economic moats are indeed forming as model reasoning moves into autonomous workflows. As the industry shifts from a deterministic to probabilistic computing paradigm, those who own proprietary data and context—and have true enterprise guardrails—will have more opportunities to navigate the transition.

#### Where does value accrue when AI rewrites the software hierarchy?



## 4 The AI era is exposing gaps in resilience and adaptability across software companies. What competitive advantages will determine who succeeds? How might M&A serve as a tool for those at risk?

Competitive advantages are being redefined, and M&A strategies are shifting accordingly. We expect to see many "DNA deals"—where software incumbents aren't just buying code or revenue but fundamentally embedding AI into core operations—motivated by elite product, model, systems, and safety for teams that think in probabilistic vs. deterministic terms. M&A is expected to be a critical bridge for SaaS incumbents, much as traditional software giants spent billions of dollars a decade ago to bridge the cloud transition.

The strategy now focuses on three battlegrounds: 1) establishing new pricing models, 2) redefining the value of code as its marginal cost approaches zero, and 3) capturing TAM expansion in real-world industries. Success belongs to those who integrate these capabilities into their core architecture without fragmenting the platform.

While companies use capability-driven acquisitions to secure scarce talent, traditional incumbents are also pursuing defensive consolidation to maintain relevance. M&A will also prioritize control of the interface—the primary entry point for the user—and those who can secure the energy and infrastructure required for massive compute.

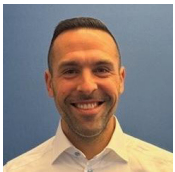
## 5 The current market discourse is fixated on the “SaaS-pocalypse” and the reorganization of the software stack. Does this focus overlook a more significant structural shift and opportunity?

While market discourse is hyper-fixated on the "SaaS-pocalypse," we believe this is an extremely narrow lens. The bigger structural shift lies in the impact AI will have on the remaining majority of the global economy.

We are already witnessing how the convergence of multimodal foundation models, advanced vision systems, edge computing, and digital twins is ushering in a new era for physical AI—from autonomous vehicles and humanoid robotics to industrial machinery. This evolution transforms industrial software into the control plane for physical innovation, bridging the gap between digital intelligence and deterministic outcomes in sectors like healthcare and manufacturing. After seeing how LLMs changed the world in the ChatGPT moment, one can only imagine the transformative effects of deploying increasingly greater levels of intelligence into the physical world.

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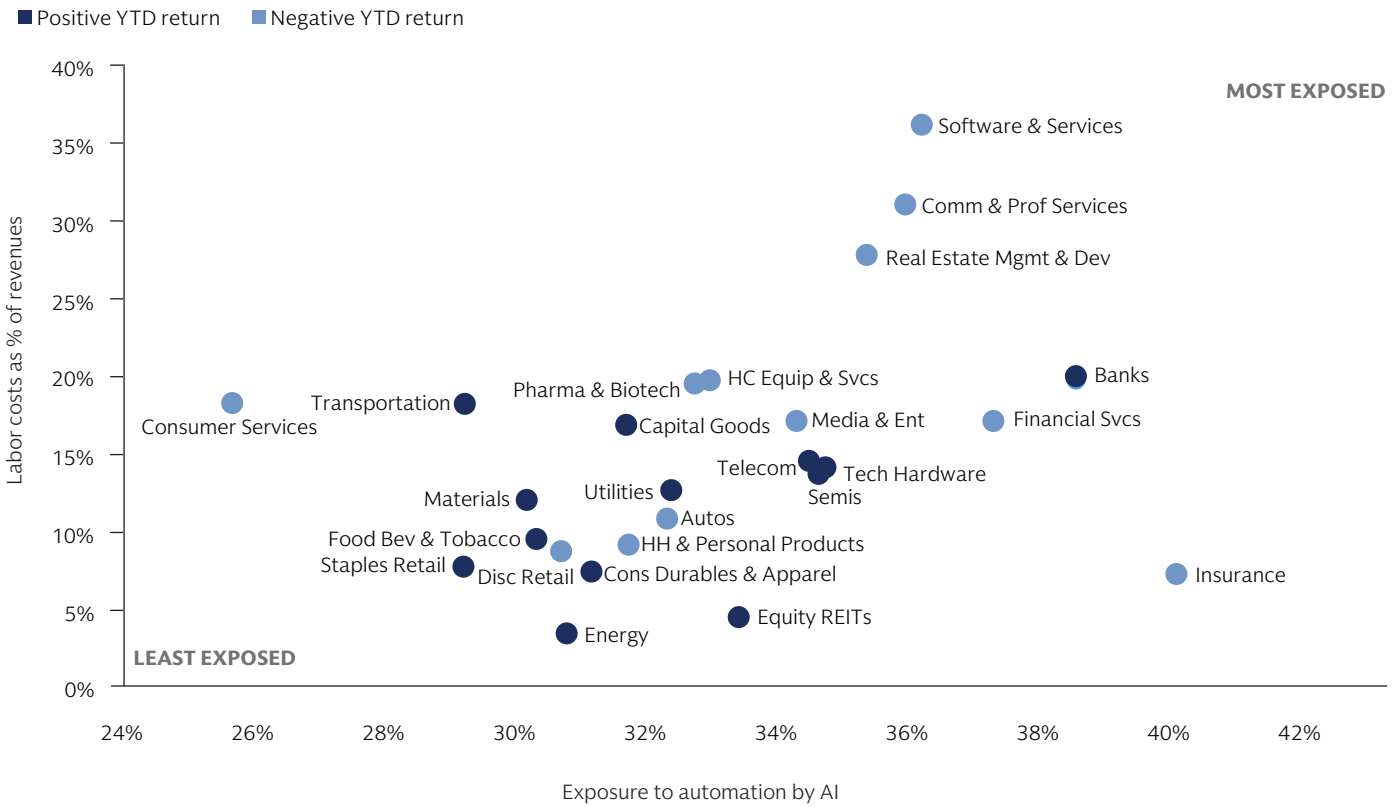
“As AI moves from augmenting knowledge work to reshaping it, the lessons learned in software around business models, talent, governance, and value capture may preview how AI affects financial services, healthcare, manufacturing, and other sectors.”



**Brian Cayne**

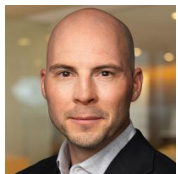
Global Co-Head of Software Investment Banking

**Exposure to automation by AI vs. labor costs as % of revenues**  
(Russell 1000 industry median)

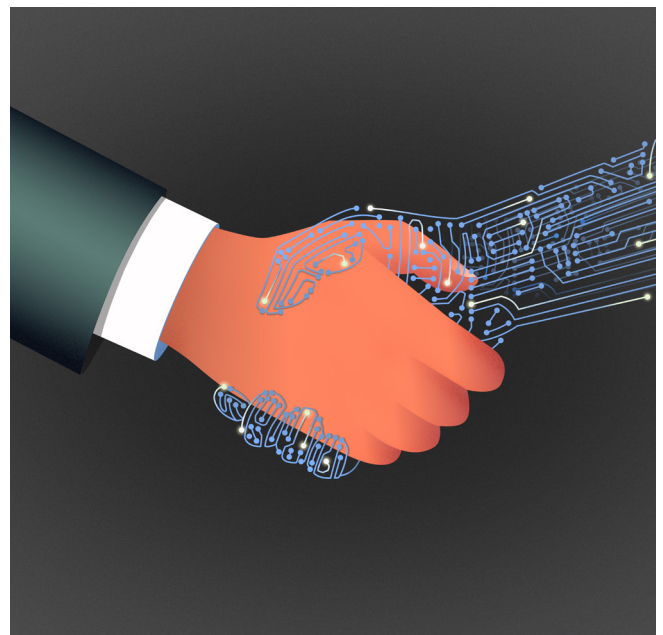


Source: Revelio; company filings; Goldman Sachs GIR, "Will AI Eat Software?," March 9, 2026.

“As the industry shifts from deterministic to probabilistic, the winners will be those who own proprietary context and the security governance required to execute at scale.”



**Joe Porter**  
Global Co-Head of Software Investment Banking



## 6 What strategic postures are companies adopting to ensure they remain competitive?

The current pace of disruption demands unprecedented speed to keep up. The most effective teams are shifting from defensive postures to offensive disruption by leveraging existing moats: deep customer relationships, proprietary datasets, and embedded workflows. Perhaps equally critical, companies must treat this as a true “refounding” moment that accelerates product velocity on AI integration. Simply adding a bolted-on AI chatbot to existing products is not enough—this paradigm shift will require shipping native AI capabilities. Management teams are increasingly asking: What proprietary datasets, workflows, and enterprise moats do we have that can be transformed with AI? What can we uniquely offer our customers?

Strategic positioning requires a shift from a defensive posture to one of decisive action—which includes a willingness to disrupt legacy products and potentially cannibalize existing revenue streams to secure long-term market leadership. Operationally, we’ll see relevance maintained by building an AI-first workforce—moving toward leaner team structures that reflect AI-driven productivity gains. Capital allocation must also be surgical and forward-looking. M&A should prioritize elite AI talent and research culture as much as scale. The acquisition of small, high-output teams can, in this moment, potentially be more transformative than traditional large-scale transactions.

### Endnotes

<sup>1</sup> Reuters, UBS as of February 2, 2023

<sup>2</sup> FactSet as of April 14, 2026; Goldman Sachs GIR, “Will AI Eat Software?,” March 9, 2026.

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