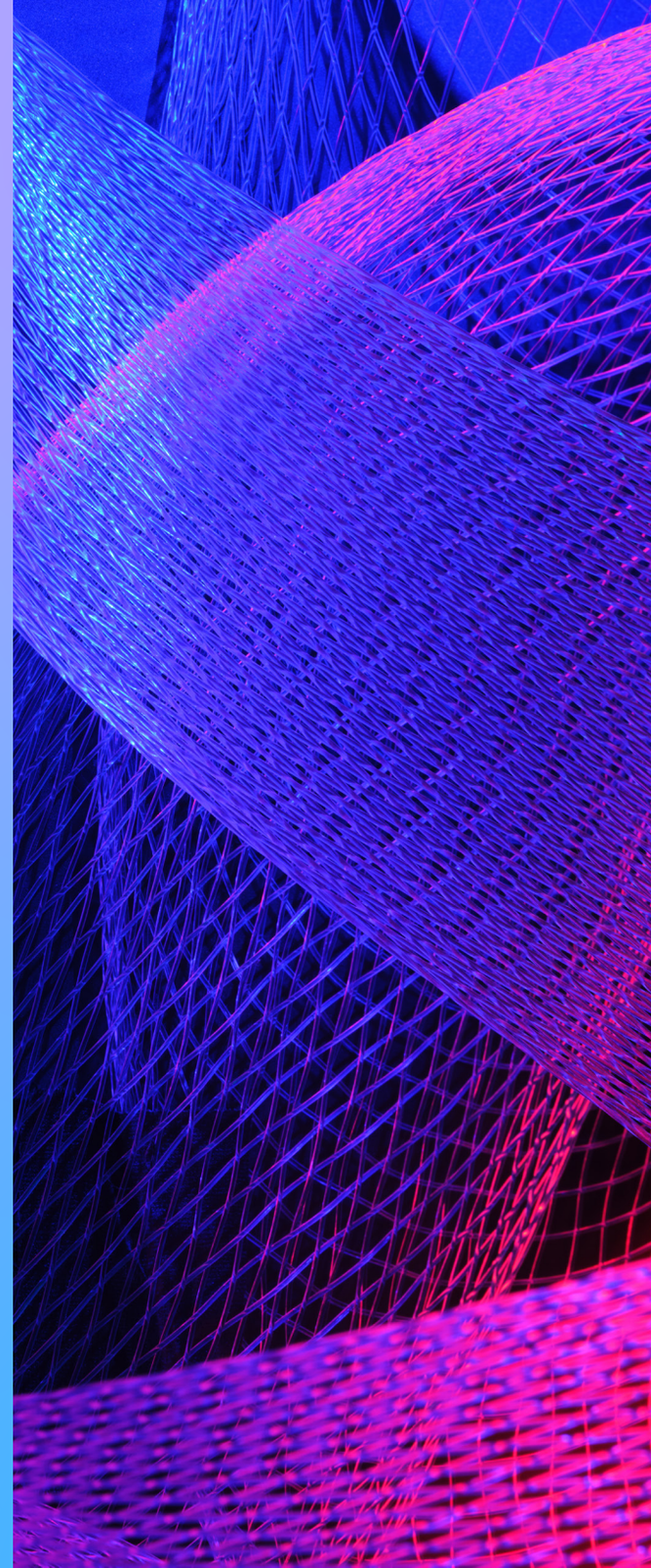
EBOOK

Monetize your generative AI investments

How software and technology companies are changing what they build, how they build, and how they generate revenue with generative AI



The dawn of a new era for software

The software industry has witnessed explosive growth over the past several years, driven in large part by the disruptive potential of generative AI. Many believe it marks the start of the next super cycle, with the CAGR for enterprise spend on generative AI expected to be 140% over the next three years, compared to the 7% CAGR the software market has seen over the last eight years.[i]

All this spending on AI is coming from both new and reallocated budgets–37% of companies say they are allocating net new budget for generative AI; 60% say it will be coming from decreasing or cancelling other things within their existing IT budget; while 27% say it will come from decreasing or cancelling other non-IT budget items.[i] This ebook explores how software and technology companies can capture this opportunity.

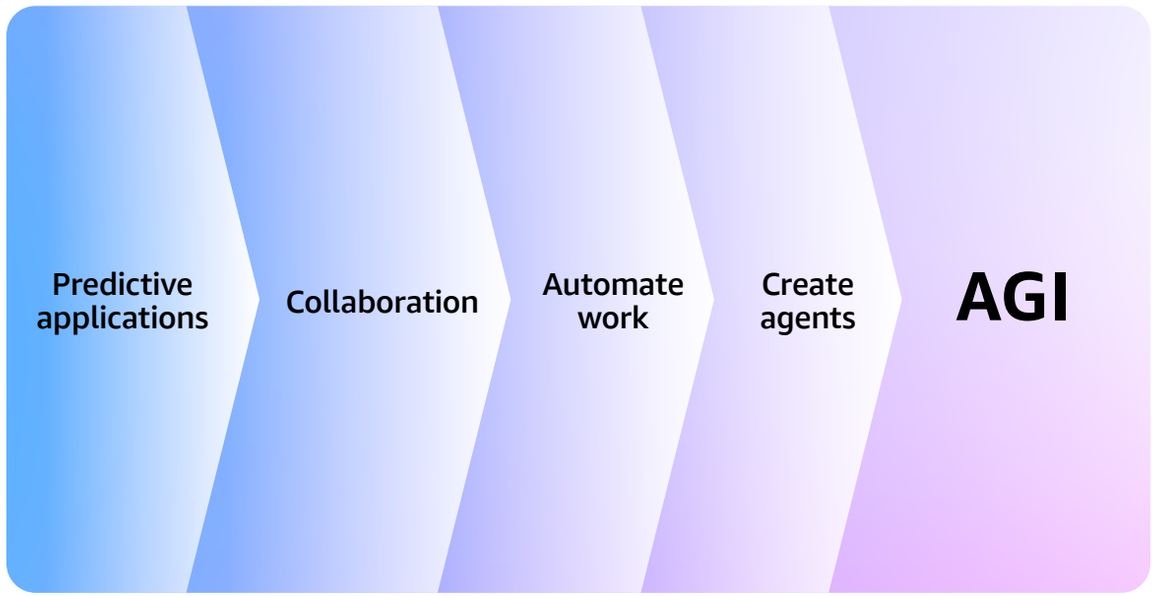
It looks at how generative AI is uniquely affecting the software industry and how successful software and technology companies are adapting their strategies to best take advantage and create value. Specifically, it covers how generative AI is changing:

- What companies are building
- How companies are building
- How companies are generating revenue

Globally, McKinsey & Company estimates that AI has the potential to deliver additional total economic activity of approximately **$13 trillion** by 2030.[ii]

What companies are building

Software and technology companies are looking to deliver solutions that meet their customers wherever they are on their generative AI journey. According to McKinsey[i], generative AI adoption occurs in waves with customers initially using predictive applications, then moving to improve collaboration, automate work, and create agents to perform specific tasks, before applying artificial general intelligence (AGI) more broadly. Today, the majority of companies are still in the first two phases, at 40% each, but there is a desire to move to automation (only 15% of companies are using it for that now) and agents (only 5% are using it for that) as soon as possible.[i] Software and technology companies need to be ready.



To be successful companies are going to need to:

1. **Invest disproportionately to build for the future.** Incremental investments in generative AI will not generate the change or benefits companies are looking for. It's going to take big investments to position the company for long-term success. To accomplish, companies will need to clearly define their generative AI strategy and product roadmap to help their board and investors understand the plan and be patient for results. As with any big swing that can take a while to pay off, leadership will need to be okay with not seeing significant short-term gains.
2. **Position themselves to capture the AI spend.** Companies need to secure their right to play, in order to capture the budget dollars that are moving to AI. This requires explaining to customers what they are building and why it is AI-specific, so the AI spend can be justified.
3. **Push to deliver the entire workflow.** Point products that deliver only one or two AI capabilities aren't going to create the return on investment that software and technology companies require. Instead, companies need to develop solutions that are holistic in their approach and help customers in their AI journey, incorporating predictive, collaborative, automated, agent, and AGI capabilities to solve customer problems.

$1 trillion

in R&D is collectively invested each year by the top 2,500 or so international R&D spenders. Top R&D spenders cite AI as a central focus.[iii]

R&D World

How software companies are building

Generative AI is transforming how software is delivered. For starters, it makes it easier to ideate, increasing the breadth and quality of ideas that companies can quickly mature and test to produce better, higher value solutions. It also makes it easier to evaluate, combine, and incorporate a wide range of concepts, increasing the speed with which companies can respond to and act on customer input and feedback.

When it comes to the actual build, generative AI can take on many of a developer's routine, mundane tasks, freeing them to focus on higher priority, differentiated, and more complex work. Generative AI can be used to do:

- Simple coding
- Testing
- Data entry
- Troubleshooting of basic configuration issues
- Documentation

Ultimately, this allows companies to build faster and with more fidelity, due to accelerated feedback loops that can validate the integrity of the build. Generative AI can automatically gather real-time data and analyze it to proactively identify and then remediate issues to enable companies to speed time to market.

1-in-4

CX leaders said gathering and using customer feedback was the single most important area of investment for improving the customer experience.[iv]

Execs in the know

Research shows **developers code less than one hour per day** (approximately 4 hours and 21 minutes a workweek), due to manual, administrative tasks that take up most of their time.[v]

Software

Generative AI is transforming how software is delivered

Of course, all these benefits don't come overnight. Deploying the right generative AI tools and applications is just the start. Companies also need to change their operating models to fit with the speed of this new era – to date attention has been on developers and tools, but companies need to also redesign their teams and ways of working.

~$900B

is the potential productivity uplift expected across product development and corporate IT according to the McKinsey Global Institute.[vi]

To be successful companies are going to need to:

1. **Reduce generative AI tool fragmentation** and invest in focused and integrated tool sets that will help address development issues end-to-end.
2. **Motivate behavior changes** to encourage new ways of working. Effectively leveraging generative AI is really a change management problem, so companies need to articulate the value of doing things differently, both on a personal and business level. Developers need to understand how these tools are going to make their work easier and better – it needs to go beyond efficiency to provide benefits that drive greater job satisfaction.
3. **Rethink the traditional roles of product owners (PO), product managers (PM), and product marketing managers (PMM).** A huge benefit of generative AI is that a lot more people can be part of the process. Ideas and solutions can come from across organization, and companies need to be able to collect, harness, and activate them to everyone's benefit. It also requires evolving go-to-market (GTM) capabilities because every interaction is a sales interaction, and every person in the organization is a sales person.

94%

of workers said development opportunities would keep them in a role.[vii]

LinkedIn

40%

of companies are expected to invest in upskilling programs for their tech workforce.[vii]

LinkedIn

How software companies are generating revenue

To monetize investments in generative AI, software and technology companies are looking to revamp their pricing structures to more consumption-based models. These models better address changing expectations from customers, who are hesitant to deploy solutions until they can see the value and prefer the flexibility of pay as you go options. They also address the increasing costs of compute resources – every generative AI query costs the business, making it unsustainable for software and technologies companies to offer unlimited access. This is a big reason consumption is on track to become the new industry norm – growing at a 20% CAGR over the next four years.[i]

There is no one size fits all, so it's important to get the consumption meter right. Companies have a couple avenues to explore–pricing based on pure consumption and pricing based on outcomes/value created.[i]

80%

of startup capital raised can be consumed by compute resources[viii]

200%

was the CAGR of global AI data center spend, 2023-2024[viii]

92%

of SaaS companies are trying to develop generative AI solutions and expect to make an average of 20% more revenue this way.[xi]

Simon Kucher & Partners

Pricing on consumption is easier to operationalize with companies charging for capacity ($ per GB of storage or $ per compute hour), activities ($ per API call of an agent or $ per query), or work units ($ per chat managed, $ per lead sourced). Straight capacity is the simplest to figure out, but the hardest to extract additional value from because it is what it is. Activities and work units, however, offer greater value potential, as companies can charge and receive more revenue for more volume, regardless of outcomes.

2x

growth year over year was seen by companies that anchor on consumption models versus SaaS subscription models[viii]

12%

higher net revenue retention (NRR) was seen by consumption-based companies[viii]

Pricing based on outcomes, either KPIs ($ per autonomously resolved chat or $ per lead converted to opportunity) or dollar value created (% of revenue generated or % of cost reductions realized), offer the biggest potential upside for companies, but also the biggest operational challenges. Which is why it is likely these models will be more common in the future. For example, if a company is selling a sales agent and asking customers to pay for the impact of that agent's activity (% of every transaction it closes), it can be very difficult to implement, monitor, and make predictable. There is a lot of complexity to figure out–companies need to determine who is in charge of what and put mechanisms in place to ensure everyone gets what they are due.

The key to getting the meter right is to find what adds the most amount of value for the customer in a way that is profitable for the company, and frankly easiest to sell.

Not one size fits all: getting the consumption meter right

Archetype	Meter type	Operational complexity	Upside potential
Output/Value based	Dollar value created	HIGH ↑	HIGH ↑
Output/Value based	KPI/outputs based		
Consumption based	Work units		
Consumption based	Activities		
Consumption based	Capacity	↓ LOW	↓ LOW

AWS helps you harness the potential of generative AI

With enterprise-grade security and privacy, access to leading FMs, and a broad array of services, tools and applications, AWS makes it easy to adopt, build, and scale generative AI to meet the needs of your use cases and customers. Please reach out for more information on how we can support you in your generative AI journey and create differential value.

Visit our website →
for more resources dedicated to software and technology businesses

Get in touch →
with our experts to help you begin or accelerate your generative AI journey

i. Source: Presented by Jonathan Shulman, Senior Partner, McKinsey and Company, in the keynote "Market Trends in the Software Industry," at the AWS for Software Companies Executive Forum at re:Invent, in Las Vegas, November 2024.

ii. Source: https://www.mckinsey.com/industries/metals-and-mining/our-insights/ai-the-next-frontier-of-performance-in-industrial-processing-plants

iii. Source: R&D World https://www.rdworldonline.com/top-15-rd-spenders-of-2024/#:~:text=Top%2015%20R&D%20spenders%20of%202024&text=Each%20year%2C%20the%20top%202%2C500,can%20rapidly%20reshape%20competitive%20standings.

iv. Source: Execs in the Know https://www.telusdigital.com/insights/customer-experience/resource/2024-cx-leaders-trends

v. Source: Software https://www.software.com/reports/code-time-report

vi. Source: Presented by Jonathan Shulman, Senior Partner, McKinsey and Company, in the keynote "Market Trends in the Software Industry," at the AWS for Software Companies Executive Forum at re:Invent, in Las Vegas, November 2024.

vii. Source: LinkedIn https://www.linkedin.com/pulse/98-software-development-statistics-facts-2025-softura-deg3c/

viii. Source: McKinsey B2B Pricing Decision maker Survey, OpenView Partners, Sequoia, Andreessen Horowitz

ix. Source: Simon Kucher & Partners https://www.simon-kucher.com/en/insights/master-genai-monetization

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