

Don't Build the Wrong Kind of AI Business

Founders excited about breakthroughs in artificial intelligence would be wise to slow down and make sure one of the tech whales isn't likely to gobble up their idea.



By Ben Parr

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Art by Clark Miller.

At a catch-up coffee a few weeks ago, a founder friend asked me, “What AI thing should we build?”

It was the third time that week a founder had asked me the same question.

Generative artificial intelligence is 99% of the buzz in Silicon Valley right now. In just the last few weeks, **Open AI released GPT-4**, its most advanced language model to date; Google **announced AI for the Workspace** in its suite of apps, including Gmail, Docs, Sheets and Slides; Microsoft announced an AI copilot for Microsoft 365, including Docs, Excel and PowerPoint; and then Google released Bard, its ChatGPT competitor, and **Open AI released plug-ins** for ChatGPT nearly back to back.

THE TAKEAWAY

To avoid some of the biggest risks in AI, founders should be smart not only about what they're building, but also about who they're building for.

Unlike other buzzy technologies, generative AI has gone mainstream with the public (sorry, Web3). You would be hard pressed, for example, to find a school, college or student that hasn't had a conversation or two or 10 about ChatGPT for writing essays. By many accounts, ChatGPT is the **fastest-growing app of all time**.

Whenever a new technology shakes up Silicon Valley, founders and funders follow. Almost every founder I know is thinking about how to 1) start a new company that leverages generative AI, or 2) integrate generative AI into their existing products. For some founders, it represents a pivot in a difficult environment; for others, it's a way to stay on top of a new technology that will likely become ubiquitous.

Part of generative AI's rapid rise stems from how easy it has now become for developers to add AI to their products—without the need for developers to have any experience with large-language models or machine learning. Instead of having to build a complex large-language model and hire hundreds of AI engineers, a developer can literally send an instruction or prompt through the OpenAI application programming interface that returns an AI-generated result. It's even simpler to build a ChatGPT plugin—you just describe your API in plain English and ChatGPT figures the rest out, **according to OpenAI's president**.

This means developers can add AI to their products with just an API call instead of needing to build complex machine-learning algorithms—companies like OpenAI, Hugging Face and

Cohere have done that hard work already. Any developer can now launch an AI-assisted tool for almost any use case within a few hours. It used to take *years* to build AI like this into a product.

As a result, thousands of developers have now built **applications big and small** on top of OpenAI's two most popular technologies, GPT and Dall-E, and OpenAI is attempting to seize its moment by **investing \$100 million** in startups built on top of its APIs. This has put the fear of God into Silicon Valley incumbents, especially Google, **forcing them to play catch-up** and release AI products like Bard much earlier than planned. (Unfortunately for Google, the rush shows. Bard is **nowhere near as powerful** or accurate as ChatGPT.)

There's a Huge AI Opportunity for Startups. So What Should You Be Building?

All this activity in AI has led to a **new wave of AI startups** and will lead to many more. There are real opportunities to build unicorns—but carelessly slapping generative AI on top of your business model isn't one of them.

Many apps built right now will fail to attract customers, investors or both. Many venture capitalists I've spoken with are waiting to see which companies take off. Others are afraid of platform risk—what if OpenAI builds a competitor to your product and nips your idea before it's even had a chance to bud?

There are ways to gird against platform risk in generative AI, and they start with understanding the two categories of AI startups out there right now:

- **Category 1:** Startups building advanced, complex language or machine-learning models (AI infrastructure)
- **Category 2:** Startups building applications on top of these platforms (OpenAI's in particular)

This column is not for founders in the first category, which includes companies like OpenAI, Stability AI, Cohere, Hugging Face, Runway, Midjourney, Perplexity AI, Anthropic and Adept. This column is for the much larger group of founders in the second category, those hoping to build a breakout hit like Jasper or Descript.

First, let's be clear: Yes, you absolutely can build an enormous company on top of these AI platforms. Many multibillion-dollar businesses have been built in part on top of existing technologies: Klaviyo, Recharge and Yotpo (Shopify); Veeva Systems and nCino (Salesforce); even Uber, Tinder, Snapchat and TikTok (iOS), just to name a few.

That said, platform risk is a real concern. Five years ago, my company, Octane AI, was built on top of the Facebook Messenger chatbot platform. But when the Cambridge Analytica scandal broke, Facebook decided to shut off the ability for any developer to create new chatbots on Messenger—just a week before we were scheduled to launch on Shopify. We couldn't add new clients and only had a few months of runway left. We found a way to survive, but the lesson stuck.

Platform risk shouldn't stop you from building on top of an AI platform. For one thing, unless you never build a mobile app and never use cloud computing, it's impossible to avoid entirely. For another, platforms like Shopify, the iOS App Store or OpenAI can accelerate a product's growth. And finally, the technology OpenAI and others have developed is so powerful that it's almost a crime *not* to utilize it. Even if you won't use it, your competitors will.

If you do choose to build on top of someone else's AI platform, I advise you to follow my golden rule of platforms: **Build a product the platform you're built on is unlikely to build for itself.** Users tend to choose products built directly by the brands they trust instead of dealing with the headache of yet another login. If the gamble goes wrong, the platform will eat your customer base.

Take Jasper AI. The founders of the copywriting startup built on top of GPT were riding high after announcing their **\$125 million funding round** in October at a \$1.5 billion valuation—that is, until December, when OpenAI released ChatGPT.

ChatGPT offered many of the same benefits as Jasper, but with a more intuitive interface (chat), and it was 100% free to use. Jasper wasn't different enough from OpenAI's offering to protect its traffic. Since ChatGPT's release, the earlier competitor's organic U.S.-based web traffic has dropped by more than half, while paid acquisition has raced ahead in an attempt to compensate, according to data provider SEMRush.



This led to an **all hands on deck situation** at Jasper. Luckily, the startup has plenty of capital and lots of name recognition, and therefore has the time to develop and sell its own proprietary technologies. For now, it's incorporating other AI models like GPT-J to decrease its reliance on GPT.

Other startups that were also too similar to ChatGPT weren't so lucky. For example, ContentBot.ai, a content automation tool built on top of OpenAI's technology, lost customers and revenue after the introduction of ChatGPT, and its founder has publicly declared that it would have to pivot its product.

Founders can avoid this outcome by building something Google or OpenAI are unlikely to build. What are those things? They are:

- 1. Applications requiring a proprietary, niche data set.** AI models can train on all sorts of data to customize their outputs, which makes it possible to differentiate your results from ChatGPT's. If you make a chatbot and train it with a database ChatGPT can't access (such as medical data, millions of emails and so on), the result will be a specialized chatbot OpenAI can never duplicate.

2. A product focused on a specific vertical or use case. AI tools built to serve people in fields like health, parenting, law and government require specialized data, interfaces, compliance capabilities, integrations and marketing, which large public-facing AI platforms are simply never going to provide.

Let's look at medicine, for example. ChatGPT can provide a rudimentary diagnosis, but it isn't integrated into a hospital's many systems, nor does it have access to the millions (or billions) of clinical data points required to meaningfully improve its recommendations. On top of all that, any medical technology has to be able to meet a host of privacy and other requirements before doctors, hospitals or clinics will purchase it. OpenAI is never going to build all the integrations, data points and regulatory features a hospital might demand. This creates an opportunity for a medical-focused startup. GitHub's Copilot product is another great example of a generative AI product focused on a specific use case (developer tools) that's gained traction.

There are promising AI companies that subscribe to one or more tenets of the golden rule of platforms, including Bionic Health (an AI health clinic), Descript (transcription and video editing), Harvey (legal assistance), Milo (an AI assistant for parents) and Kick (accounting). Some of these companies have received funding from OpenAI, in part because the market leader has no desire to build for these complex use cases, which require specific domain expertise.

My parting advice to the founders thinking about building on top of a technology like GPT or LaMDA is this: Don't try to build a generative AI tool for everyone. Build one for a vertical that has specialized needs. If you do that, you can build a powerful, defensible, long-lasting business and not fade away into the deadpool.

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This idea of "specialized AI for specific verticals" is why I think Apple might have an edge on mobile. Imagine downloading/streaming optimized CoreML models (the way you would a Netflix episode) for, say, nutrition planning at time of use. The models would be on the device itself and be usable offline, and not be bogged down by OpenAI's slow response time.

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