

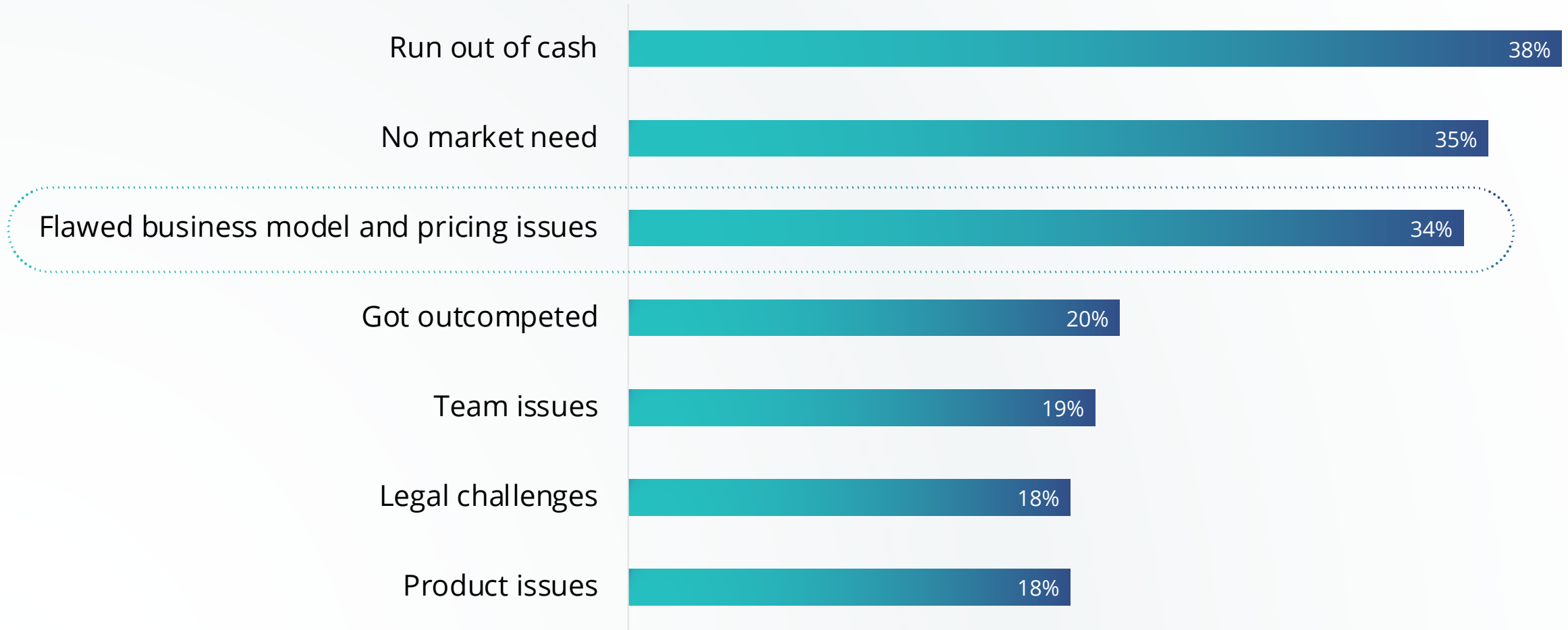


Business Models for GenAI

January 2024

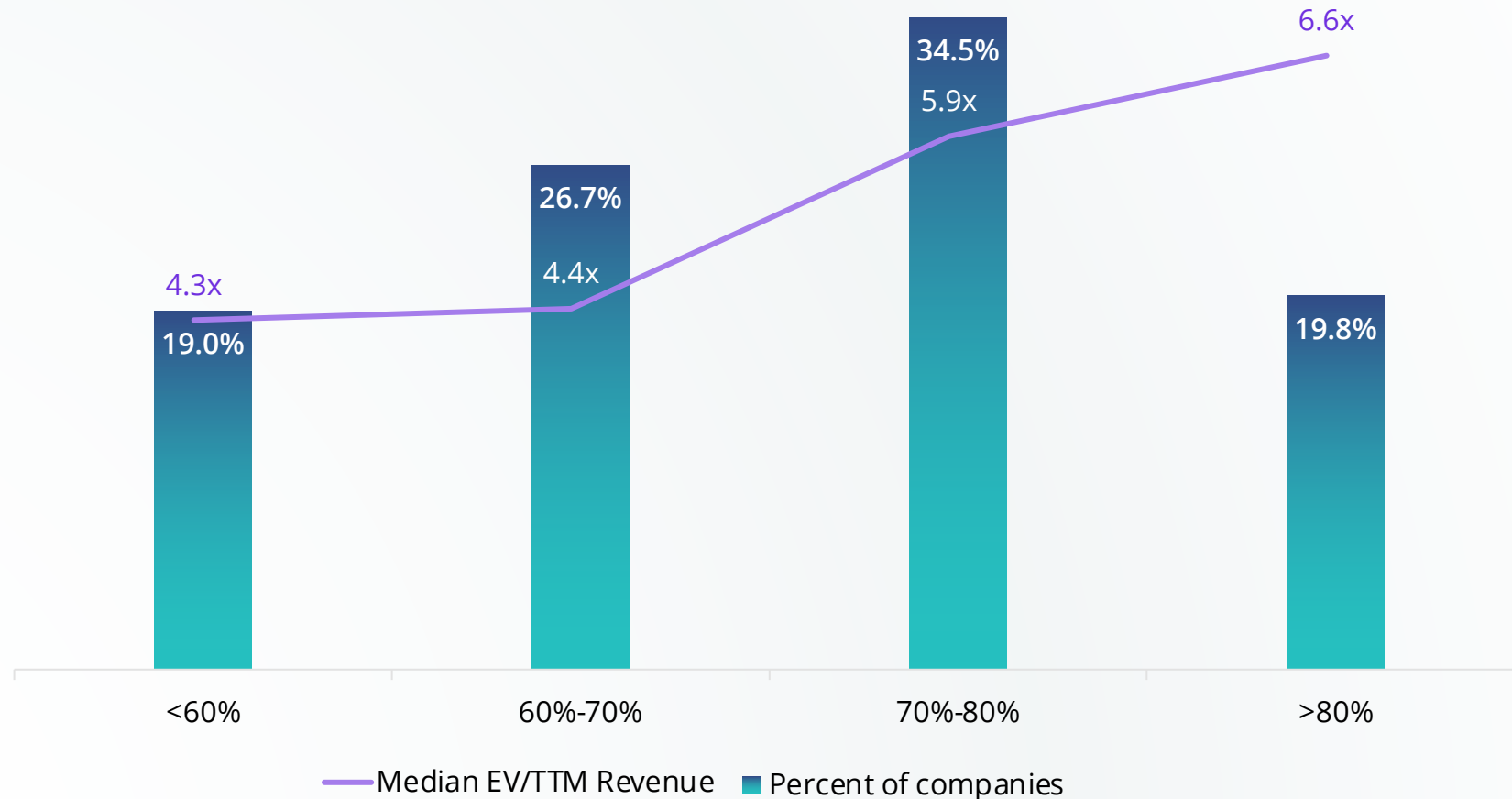


Business Model is One of the Main Reasons Why Startups Fail



Source: CB Insight. Failure can be caused by more than one factor

Higher Gross Margins Boost Company Valuation: A Case for Strategic Pricing





Revenue Models - Recap

Subscription-Based vs. Usage-Based Pricing



Subscription-based



Flat price

Per seat



Per task



Per event



Per transaction



Per compute resources



Usage-based / hybrid



GenAI: Rethinking Pricing Paradigms



Cost

▼

With potential skyrocketing costs, careful pricing is the safety net



Automation

▼

Ultra elevating automation, where seat pricing might rebound



Expansion

▼

Taking over vast business processes nudges towards outcome pricing



Verticals

▼

Disrupting verticals? Pricing may need a scalable revamp



GenAI Pricing - Today

Usage Often Factored in GenAI Pricing

Subscription



Usage-based



Hybrid



Pricing is tied to usage solely

19%



Tiers pricing based on several notable features, including a usage limit



Subscription + usage-based pricing for extra usage



Pricing is not tied to usage at all

29%



GenAI products by pricing model (%)

52%



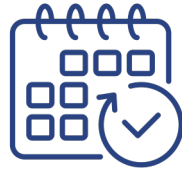
Tiers pricing, where usage is the most dominant variable

* Viola proprietary data. Based on analysis of >150 GenAI products



Pricing Considerations

Pricing Considerations



Subscription

- ✓ Budget planning
- ✓ Simplicity

Usage

- ✓ Aligning value with pricing
- ✓ Aligning cost with pricing
- ✓ Scalability
- ✓ Flexibility



Bridging Theory and Practice
Real World Use Cases

GPU Cost-Focused Pricing Model



	Basic	Standard	Pro	Mega
	\$10/mo	\$30/mo	\$60/mo	\$120/mo
Fast GPU time ▶	3.3 hr/mo	15 hr/mo	30 hr/mo	60 hr/mo
Maximum Concurrent Jobs ▶	3 Jobs 10 in queue	3 Jobs 10 in queue	12 fast jobs 3 relaxed jobs 10 in queue	12 fast jobs 3 relaxed jobs 10 in queue
Additional GPU Time ▶	\$4/hr	\$4/hr	\$4/hr	\$4/hr



Aligning cost with pricing

Fast GPUs - significant cost component



Aligning value with pricing

GPU time metric overlooks value factors like image quality



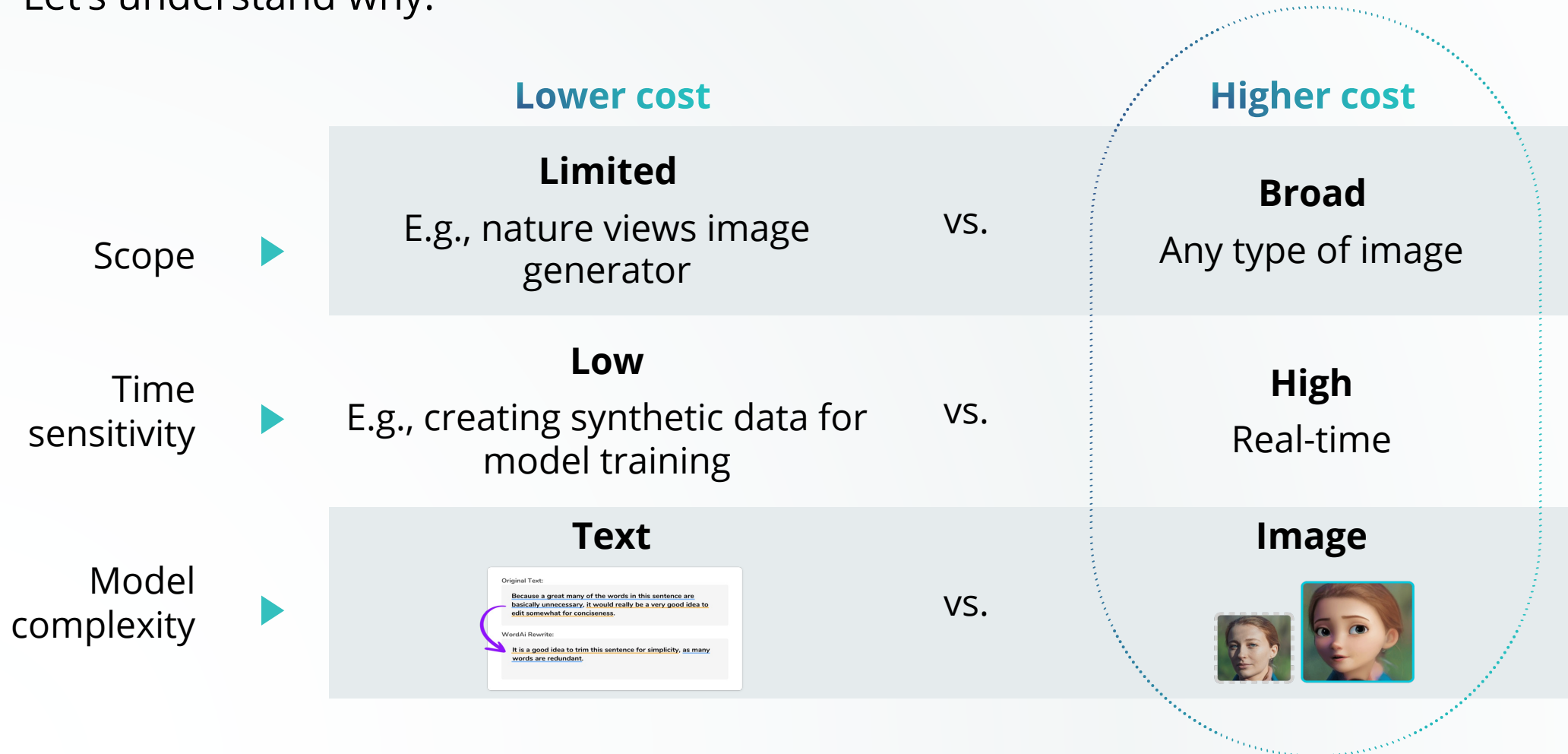
Simplicity

Pricing not intuitive, requires complex considerations

Aligning Cost with Pricing

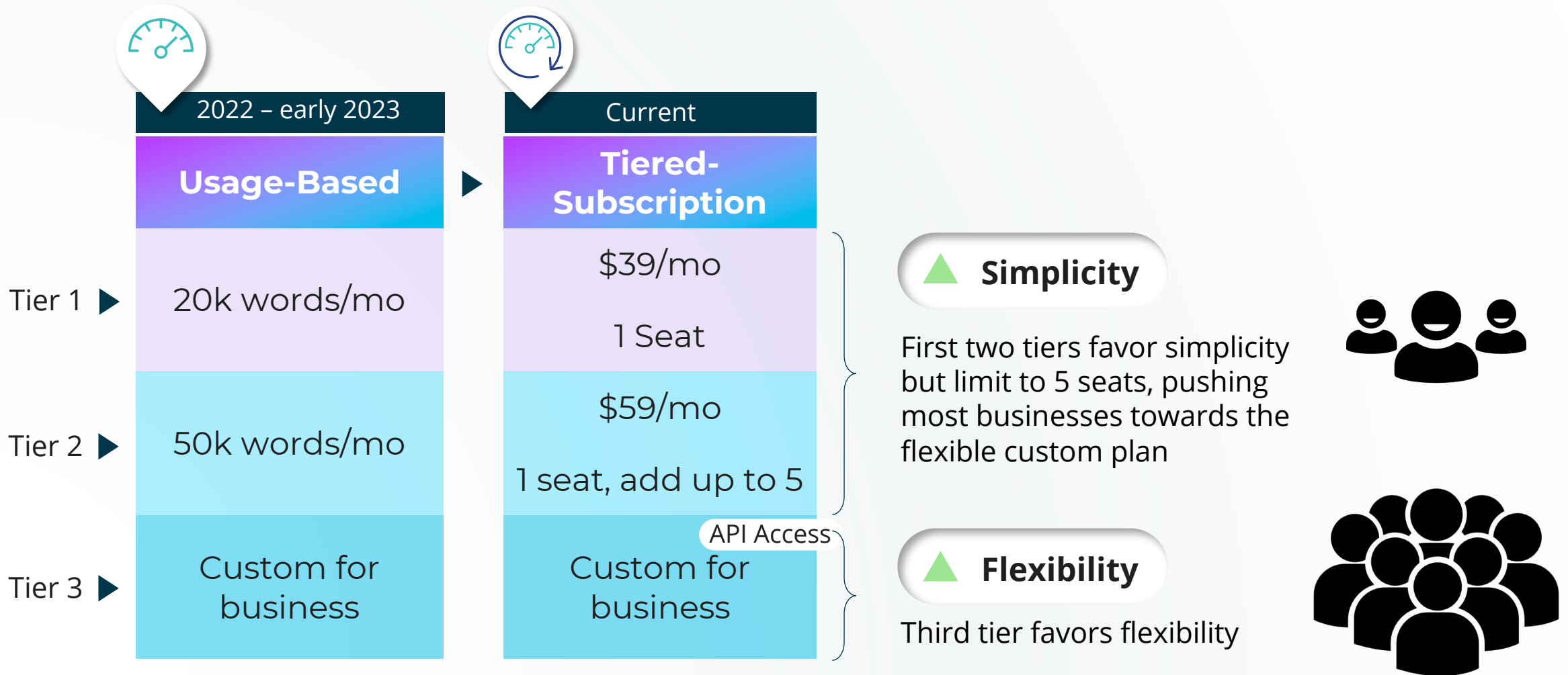


Midjourney's pricing is cost-focused, reflecting the company's cost sensitivity. Let's understand why:



Market Segmentation

Transitioning from UBP to Subscription



API vs. Direct Access Distinction



▲ Simplicity

ChatGPT launches with minimal features

Free for public use

Nov 2022

▲ Aligning cost with pricing

OpenAI launches **ChatGPT plus:** Premium features

\$20/mo subscription

Feb 2023

▲ Scalability

Debut of **ChatGPT Enterprise**

Custom plan

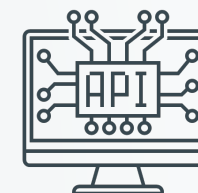
Aug 2023



Subscription-based



Usage-based



Direct vs. API Access



API access introduces unique complexities and usage patterns, warranting distinct pricing considerations

Usage predictability

API usage is driven by user-specific integrations and goals, making it harder to predict

Control

Direct access allows for defined UI/UX, making it easier to control user behavior

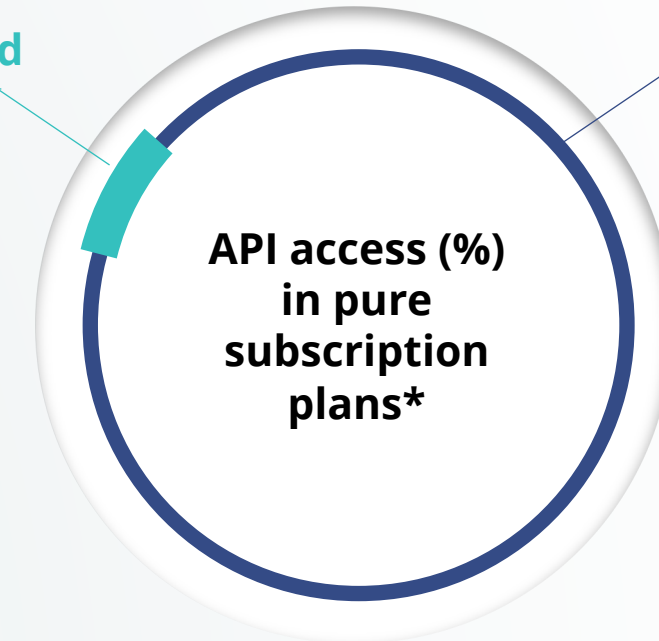
Buyer

API caters sophisticated buyers, familiar with complex pricing

API access is usually excluded in subscription plans

8% API Included

92% API Excluded



* Viola proprietary data

Rethinking Usage Metrics



Usage metric:

Published video minutes and not minutes **generated**

Free Trial	Lite	Business	Enterprise
Free	From \$25/mo	From \$95/mo	Tailored
3 min/month	120 min/year	240 min/year	Unlimited
1 seat	3 seats	5 seats	Custom



Aligning value with pricing

Charging based on published minutes aligns value with actual usage



Aligning cost with pricing

It comes with the cost risk of unused generated videos

GitHub Copilot Addon Use Case

Pricing of Addons



Base product pricing model

Free	Team	Enterprise
Basics	\$4 per user/mo	\$21 per user/mo



Copilot addon pricing model

Individuals	Business	Enterprise (Available Feb 24)
\$10 per use/mo	\$19 per user/mo	\$39 per user/mo

While **GenAI addons** may have different pricing considerations (e.g. higher cost), their **pricing model usually sticks with the primary one.**

However, significant value on the one side or cost on the other may warrant a deviation from base pricing.



Additional Pricing Considerations

Three More Questions You Should Ask Yourself



Are you replacing human labor?

Seat-based pricing clashes with workforce-reducing products



Is model reinforcement significant for you?

UBP hinders engagement and hence model enhancement



Is your GenAI product mature enough?

Value-usage alignment is tricky when your product has questionable quality and often requires multiple shots

Looking into the Future



As tech and metrics mature, expect to see **more UBP**



Direct and API access
will keep diverging



Capturing full processes leans towards **success-based pricing**



Royalties-style model