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Quick Answer: Which of the 6 GenAI Pricing Models Should Tech GMs Use?

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Initiatives: Create New Revenue Potential

While there is clear interest in enhancing existing products with generative AI, the revenue model for technology general managers is unclear. Tech GMs should choose a GenAI pricing model that balances how it helps the vendor capture the value that GenAI provides and the costs it incurs for them.

Quick Answer

Which of the 6 GenAI pricing models should technology GMs use?

- Select a GenAI pricing model that balances how accurately the model helps the vendor capture both the value GenAI provides and the costs it incurs for you, as well as the predictability that customers like. The following are six GenAI pricing models:
 - Across-the-board price increase
 - Custom
 - Fixed subscription upcharge
 - Technology fee
 - Usage-based (pay as you go)
 - Usage-based (tiered) (the most common model so far)

- Consider direct monetization options before defaulting to treating it as a new, free capability that improves existing products.
- Vendors that opt instead for indirect revenue from competitive wins and reduced churn may encounter decreased margins since they are not covering the direct costs of enhancing an offering to include GenAI. However, in some markets, competitive concerns will impose limits on value-based pricing.
- Use one of the six models to test the tolerance for monetization in your market. GenAI is a collection of new technologies, and its ability to generate revenue (outside of developer tools) is untested. In addition, monetization opportunities and buyer elasticity vary greatly between software markets. Pilots can help assess the appetite for GenAI and whether its perceived value justifies a direct charge.

More Detail

Technology general managers (hereafter referred to as software GMs) are always challenged to determine a price buyers will bear that offsets the cost of providing a service. Ideally, customers recognize sufficient value from the service that they are willing to pay a price well above the cost of service. Achieving an optimal pricing model necessitates a compromise between the buyer and the provider, striking a delicate balance that satisfies both parties' desires.

The introduction of GenAI adds an extra layer of complexity to this delicate equilibrium. Software vendors introducing GenAI-enhanced products are faced with discrete costs associated with large language model (LLM) development and/or operation, while grappling with uncertain initial customer value.

While significant revenue streams may be created by GenAI, it is not at all certain that application vendors will benefit. The revenue generated by GenAI may primarily flow toward the creators of developer tools, rather than the application vendors that build products utilizing them.

Software GMs should look at GenAI as a revenue opportunity, not just a competitive necessity. The high costs of LLM development, for example, and testing or usage fees to providers compel vendors to explore monetization options. By identifying the right pricing model, vendors can align their pricing strategy with their competitive strategy.

“We joked that we had human employees and we had AI employees, and we spent about as much on each of them.”

— Latitude, provider of a ChatGPT-powered game, quoted on CNBC

The long-term potential to charge for GenAI cannot be known at this time. Pricing models and levels will likely change over the next few years, as recognition of the value of GenAI is proven, and costs to train and operate, or license, GenAI declines. And competitive pressures unique to each market will affect the path of value-based pricing schemes. By 2028, charging discretely for GenAI may not be possible for many application vendors. But a vendor can still capture early adopter revenue now and, if needed, appear magnanimous in the future by announcing GenAI capabilities are now included in the base product.

GenAI Pricing Model Dimensions

For the purposes of GenAI, we evaluated prospective pricing models according to two dimensions.

- **Vendor's capture:** This dimension represents the vendor's desire to capture revenue that adheres as closely as possible to the value customers receive and the costs the vendor incurs from customer usage.
- **Value received by the customer:** Vendors and customers are concerned with different ends of the value pricing spectrum. If a product is providing superior value, its vendor would like to capture as much of the value-add as possible, leaving just enough to make the product worthwhile to the customer. If a product is providing low value — perhaps due to lack of usage — a customer would like to pay a low or negligible amount commensurate with the return they received from the application. See [Enable Growth With a Tiered Value-Based Pricing Model](#) for more information on how to price by value. Sample value measures that could be used when setting pricing include:
 - Hours saved (productivity) when producing reports or writing emails
 - Increased sales conversion due to better or more personalized communications
 - Better decisions by summarizing large amounts of content or analyzing a large dataset
- **Cost to the vendor:** Costs to a vendor of supplying GenAI are high, both in the initial cost of setting up the GenAI and the ongoing costs of running it. A vendor using a fixed-price model for enterprisewide access could find users frivolously invoking large transactions, incurring large costs for the vendor but little value for the buyer. Ideally, a pricing model would capture costs as usage causes them to increase, and possibly discourage expensive usage that yields little value.
- **Customer's predictability:** This dimension represents the customer's desire to predict regular charges and avoid budget-busting surprises. A fixed fee is the best example of a highly predictable model. The increase in product-led growth (PLG) has demonstrated the desire for simple, predictable pricing models (see [Top Tech Provider Trend for 2023: Product-Led Growth](#)).

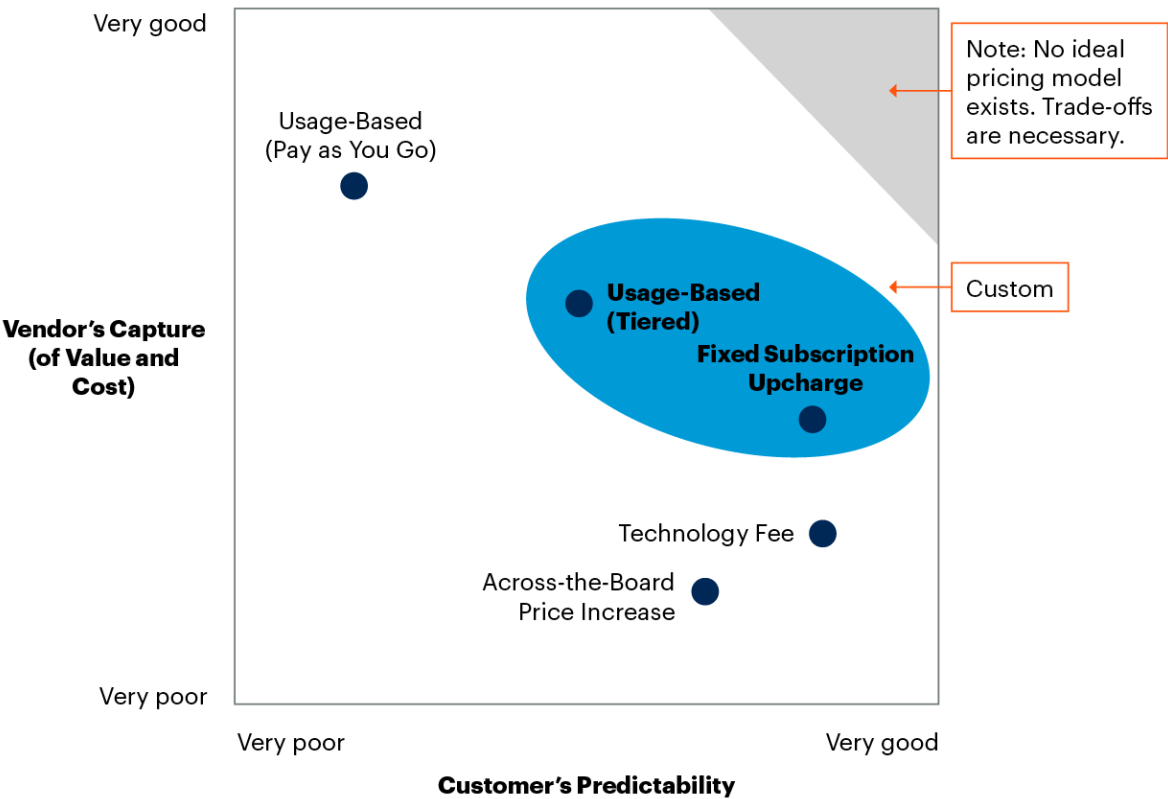
It should be noted that there is no “perfect” pricing model. When value and usage costs are unknown and vary each month — as is usually the case — no pricing scheme can deliver accurate value and cost capture, as well as predictability. Competition can also have an impact on pricing models and levels — particularly if they decide to offer GenAI as a loss leader to capture market share.

GenAI Pricing Model Options

Gartner has evaluated six options for GenAI pricing models, as shown in Figure 1, detailed in Table 1, and described below.

Figure 1. Monetization Options for Applications Adding Generative AI

Monetization Options for Applications Adding Generative AI



Source: Gartner
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Table 1: Detailed Analysis of Monetization Options for Applications Adding Generative AI
(Enlarged table in Appendix)

| Model | Description | Customer's Predictability (5 = Very Good, Predictable) | Vendor's Capture (Customer Value and Provider Cost; 5 = Very Good) |
|---------------------------------|--|---|--|
| Across-the-board price increase | Increase pricing or subscription cost based on "increased value" | 4 | 1 |
| Usage-based (tiered) | Higher tiers increase usage limits and provide additional features | 3 | 3.5 |
| Usage-based (pay as you go) | Variable charge to recover processing expense based on usage | 1 | 4.5 |
| Custom | Services fees to prepare, train and test the walled LLM models | Variable | Variable |
| Fixed subscription upcharge | Regular fee for GenAI as tier or add-on | 5 | 2.5 |
| Technology fee | Itemized version of across-the-board increase | 5 | 1.5 |

Source: Gartner (September 2023)

- **Across-the-board price increase:** At the next regular interval for price increases — an unspecified amount of which comes from GenAI — increase the price to cover the additional value your newly enhanced products provide. This is essentially a “not so hidden” GenAI tax. Those clients that are not interested in GenAI will pay a little more for features not desired, but, this also helps subsidize those users that do desire and use the GenAI features. *Examples:*
 - **Salesforce:** In August, Salesforce increased list prices an average of 9% across Sales Cloud, Service Cloud, Marketing Cloud, Industries and Tableau. While the company stated “Salesforce’s last list price increase was seven years ago, and since then the company has delivered 22 new releases, thousands of new features,” GenAI is the only new feature that is detailed.

- **Custom:** Custom pricing, individually negotiated. Use of this model is indicated by a “contact us for pricing” tag. While any format is theoretically possible, custom pricing is generally a fixed price based on negotiated scope and limits, sometimes with a usage-based component. Outcome-based pricing is expected to be rare. While this model can provide the best match of pricing and value, it can also instill suspicions of overcharging. This model requires significant time for sellers and buyers, making it difficult to scale.

Examples:

- **Forethought:** A “deflection tool” for customer service. The website provides typical wording for a custom pricing model: “For information on our various product offerings, please contact us here. Our pricing varies based on the volume of tickets and agents who would leverage Forethought’s AI.”
- **Fixed subscription upcharge:** A regular fee for the GenAI add-on or tier. This is simple from a billing point of view. Adding a fair use policy is recommended to limit expenses downside for vendors. With PLG, the freemium product (“manual”) could be supplemented by a paid GenAI (“assisted”) tier.

Examples:

- **Microsoft Copilot:** Fixed subscription upcharge. Microsoft 365 Copilot will be priced at \$30 per user, per month for Microsoft 365 E3, E5, Business Standard, and Business Premium customers. This is the largest test case for an established vendor’s ability to charge for GenAI.
- **Notion AI:** An optional add-on to paid or freemium use of Notion. Priced as a fixed subscription upcharge with per user per month (PUPM) (\$8 or \$10 depending on current plan).
- **Technology fee:** This is similar to an across-the-board price increase, but with the fee explicitly itemized to encourage usage. It acts essentially like a tax. The Economist quotes Stephen Wu of Silicon Valley Law Group as saying that vendors may charge “a technology fee,” so that “clients don’t expect to get generative AI for nothing.”

- **Usage-based (pay as you go):** Charges based on tokens, transactions or content. Buyers tend to dislike variable costs, where users may incur high costs that the purchasing department only finds about after they have been incurred. However, this model assures buyers that if the organization doesn't find value, they don't have to pay.

Examples:

- **CoCounsel:** A GPT-4-based application to handle time-consuming legal tasks. Available with usage-based pricing (pick from a list of "skills" for \$50 to \$100 per use) or two tiers of yearly usage.
- **Usage-based (tiered):** Usage tiers provide a certain number of transactions or tokens, usually for use within a certain time period such as monthly. The first tier may be freemium. The last tier may be unlimited or custom (see "Custom" bullet above). Additional features or quality levels are added at each tier as well. The buyer faces some risk of overpurchasing or underpurchasing.

Examples:

- **Rephrase.ai:** Text-to-video that generates a video of a narrator speaking your text. The entry tier has limits (such as the number of credits), with custom pricing for more features and transactions.
- **Grammarly:** AI-powered communication assistance. There is a free and paid tier for professionals, as well as paid tiers for businesses. Higher tiers allow for more prompts and richer features like tone suggestions, company style guides, and knowledge sharing.
- **TextCortex:** Chat and content authoring and assistance. TextCortex offers a free tier and a "lite" tier with five price points that set limits to the number of creations per month, plus an unlimited tier.
- **Digitalfirst.ai:** Assists with creating and executing marketing plans. Four tiers (including unlimited) that set limits, such as the number of credits and collaborators.

Recommended by the Authors

How to Package and Price Your Generative AI-Enhanced Product

Evidence

ChatGPT and Generative AI Are Booming, but the Costs Can Be Extraordinary, CNBC.

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