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How to Work With AI Vendors

- Embed Optionality to Win With Generative AI Vendor Relationships
- 4 Steps to Take Control of Your AI Spending

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How to Work With AI Vendors

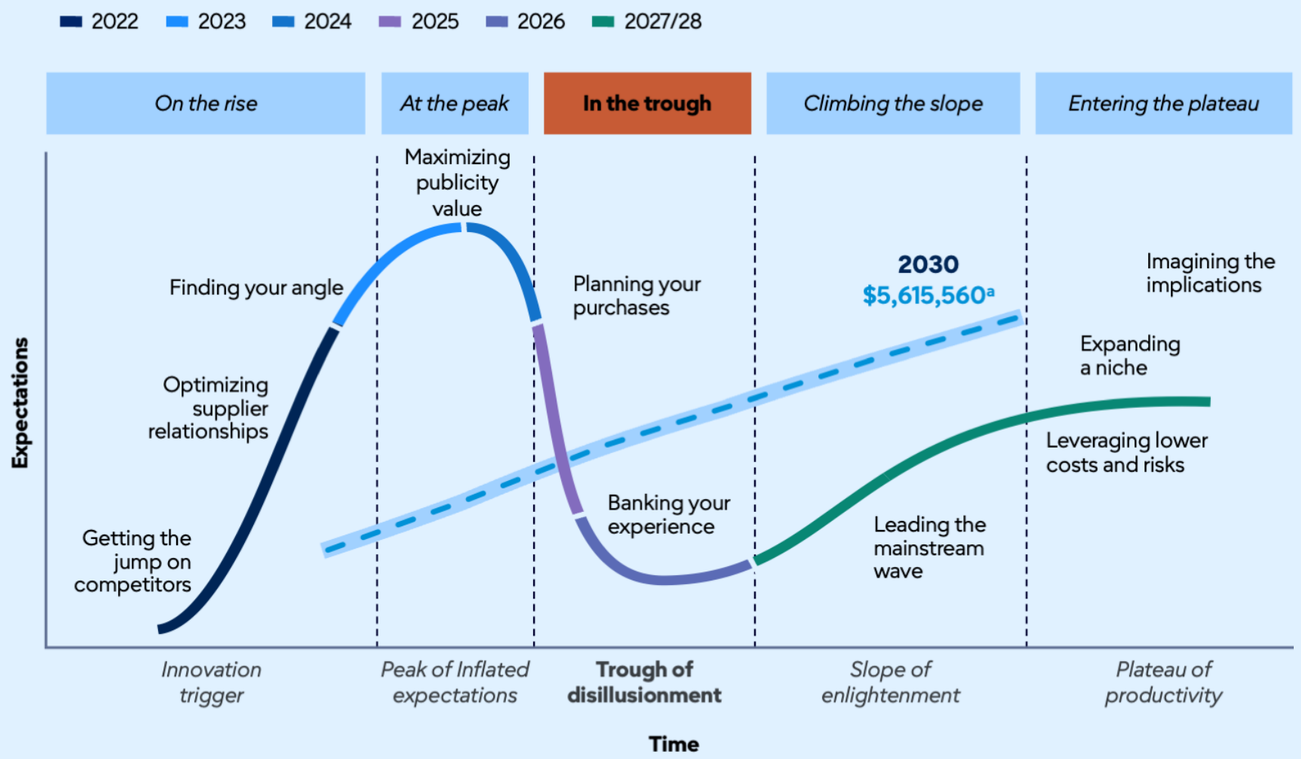
Gartner forecasts that global IT spending will soar to $6.3 trillion in 2026, a 13.5% increase over the previous year — the fastest growth we have ever seen.

This surge is not simply an extension of past trends; it is being driven by new sources of demand, new sources of spending, and an explosion of new products and services, with generative AI (GenAI) at the center of this maelstrom.

The line between IT and AI spending is disappearing, as organizations invest in capabilities that fundamentally reshape business models, operations, and customer experiences. By 2030, enterprises will not be spending any money on information technology, it will all be on intelligence technology.

Yet, 2026 also marks a critical turning point: GenAI has entered the Trough of Disillusionment (see Figure 1).

Figure 1: GenAI Expectations Down, Spending Up: $5.6 Trillion by 2030



Source: Forecast: AI Spending, Worldwide, 2025-2030, 1Q26
[a] **In millions of USD$**

Expectations for GenAI are at their lowest, which presents new challenges for AI vendors. Vendor startups face mounting pressure — some will fail or be acquired as the market consolidates. Existing AI partnerships are being reworked or consolidated as buyers of AI seek stability and scale. Contracts are becoming increasingly complex to address costs and risks, while assuaging fears and concerns. At the same time, hyperscalers are accelerating their investments, building out massive infrastructure to capture the next wave of AI-driven growth.

These market dynamics mean C-level executives must navigate a more complicated, fast-moving, and high-stakes vendor environment.

This issue of *Gartner Business Quarterly* will help you embed optionality into your GenAI vendor relationships, take control of your AI spending, capitalize on rare SaaS buyer leverage caused by AI disruption, know when and when not to use AI agents, and make AI vendor governance a competitive advantage. We also explain why the overwhelming CEO consensus on AI creates a dangerous blind spot, and why future AI scenarios can help you pressure-test your strategy.

— John Lovelock
Distinguished VP Analyst, Chief Forecaster

> “... C-level executives must navigate a more complicated, fast-moving, and high-stakes vendor environment.”

Embed Optionality to Win With Generative AI Vendor Relationships

by Dave Aron

Let's say your daughter is about to graduate from college and wants your help in choosing a career. Some of her options are very specific, narrow fields, while some could lead to multiple career paths. You would probably try to aim your advice somewhere between a vague "keep your options open" and a more complex spreadsheet of recommendations.

Many business decisions require executive leaders to operate at a similar altitude: beyond the mushy notion that options are good, but without advanced math and spurious accuracy that gives a false sense of certitude. In between these generalized and detailed approaches lies a middle ground that executive leaders can use to identify far more choices, including those regarding generative AI (GenAI) vendors.

Enterprises need to have multiple options when they work with GenAI vendors, but they typically don't attach a financial value to these choices. Executive leaders can use a commonsense method — enabling more rigorous decisions, without much more math — to make optionality a peer consideration alongside revenue, cost, and other financial metrics.

Consider Your Real Options

True agility comes in part from having options. **Real options** (as opposed to tradable financial options) include the ability to spin up or spin down projects, processes, products, and relationships quickly, and being able to change scope as needed.[1] When operating conditions are volatile, executive leaders can generate enterprise value by identifying and exercising real options.

Studies of real-option valuation identify categories of real options, such as the option to defer (wait), expand/contract, abandon, and switch (see Figure 1).

When working with external providers, such as GenAI vendors, think about what options you can embed into your operations. For example, you might want to:

- **Switch vendors and partners relatively quickly and painlessly.** For example, imagine that signing an AI service provider contract with Vendor A locks your company in for two years, while an agreement with Vendor B allows you to terminate anytime with three months' notice. The value of that three-month termination clause is very similar to a financial option.
- **Outsource and (re)insource capabilities.** (This option is really a specialized example, in which the vendor you are switching to is your own company.)
- **Use a more open AI model or approach, rather than committing to a closed, proprietary vendor model.** For example, would you prefer to use a commercial foundation model (e.g., provided by Anthropic or OpenAI), or an open weights model (e.g., provided by DeepSeek or Alibaba [Qwen]), where switching would probably be easier?
- **Spin up, increase, decrease, and spin down AI services, features, or number of seats.** Choices include switching between levels or performance, an option that many AI service providers offer.
- **Adapt to potential regulatory and sovereignty changes.** For example, if your organization uses a cloud-based AI service that stores data outside its home country, regulatory or geopolitical changes may require you to adjust your geographic footprint quickly.

Sounds like common sense, right? Normally, having options is a good thing. (One counterexample is applying the military tactic of "burn the bridges behind you" — to increase motivation by giving yourself no choice but to advance.) But there are a couple of wrinkles:

- Don't try to be flexible everywhere.
- Attach a financial value to real options.

Figure 1: Examples of Real Options

Category	Description
Timing	The ability to lock in a potential deal, then wait and see whether conditions get more favorable.
Exit	The option to stop a project, or sell an asset or business more quickly/cheaply/easily.
Hedge	Like insurance or buying a put option.
Staging	The ability to roll out an investment in stages.
Flex	The ability to do things in multiple ways/ apply things in multiple domains.
Scale	The ability to scale up and down.

Source: Gartner

Don’t Try to Be Flexible Everywhere

First, true agility does not come from being flexible everywhere. Flexibility usually increases cost, and also complexity. True agility comes from making strategic decisions about where to be flexible and where to be ruthlessly standard. Just like you can’t buy insurance for everything, you can’t, and indeed shouldn’t, invest in optionality for every eventuality.

Connect your optionality needs to your business strategy. A real business strategy defines which business processes are commodities and which are differentiators that make you win in the market.

Unless you have a special reason to do otherwise, simplify and standardize commodity processes, while allowing flexibility in differentiators. A company’s differentiators can be headline items, such as the customer relationship, or seemingly mundane elements, like quality of service.

Attach a Financial Value to GenAI Vendor Options

The second wrinkle regarding real options is the real kicker. Even though executive leaders know that optionality is important, and mention it qualitatively in discussion, **they don’t typically attach a financial value to it,** or even any kind of quantitative benefit.

For example, imagine executive leaders are comparing an AI service from Vendor C versus Vendor D. Vendor C’s service is 20% cheaper, but Vendor D allows the enterprise to pull out of the relationship in six months — compared to one year for Vendor C. Typically, at the executive committee and board level, numbers talk. The C-suite will likely ignore the optionality and select Vendor C because of the apparently clear, financially measurable saving. But it is easy to imagine that being able to shut down a service six months earlier could be more valuable financially, if circumstances change.

Put a financial value on your real options to **make optionality a peer consideration** alongside revenue, cost, and other financial metrics.

The option value becomes a much larger part of any investment decision when volatility is high. When operating conditions are steady, the optionality angle is minor. But when sovereignty considerations might shift rapidly overnight, and powerful AI innovations come thick and fast, optionality becomes much more important, and may vastly exceed other value considerations.

Avoid Overly Complicated Math

Organizations can use various methods to value real options. Some of these tactics employ the complex formulas behind financial option pricing, such as Black-Scholes, binomial pricing, or Monte Carlo simulations, and are too convoluted for the average management team to understand or believe.

Valuing real options in this way has two other problems:

- Assumptions hidden in the methodologies that apply to financial options but not real options. For example, the Black-Scholes approach assumes a lognormal distribution of the underlying asset that the option is on. This is not necessarily true for real options; in fact, it is very unlikely.
- Spurious accuracy stemming from the black-box nature of these models. For example, if an executive leader is choosing whether to spend $20 million on one vendor's product versus $30 million on that of another vendor, they want to know whether the optionality is worth a few million or tens of millions. They don't want, need, or believe a precise figure, like $7.23 million.

Choose a Practical Valuation Method That Fits Your Context

A commonsense valuing of optionality based on the provision of better outcomes if risks arise is more useful, as well as easier to calculate, understand, and believe.[2,3,4]

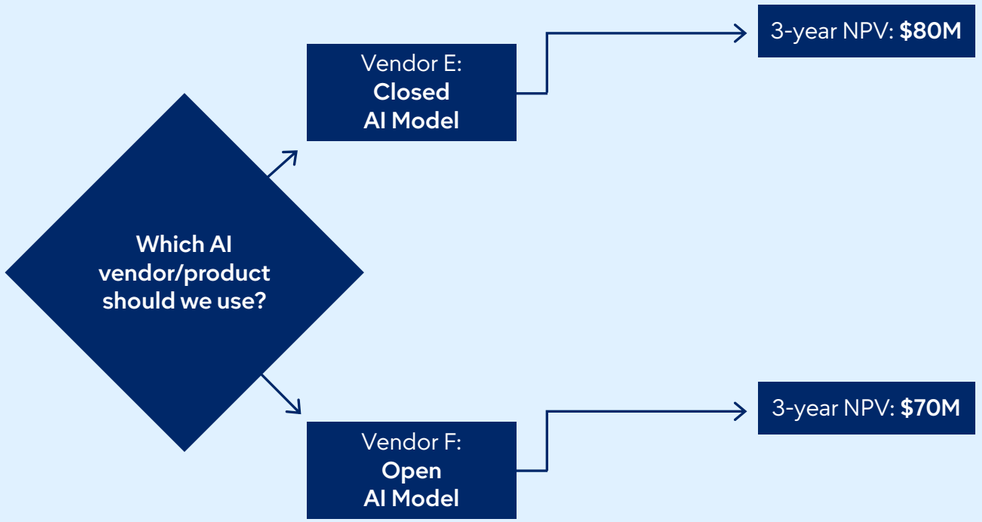
One common method is to build **a simple decision tree** outlining the likelihood of certain conditions arising and the value implications of each. (This technique is a simpler version of the binomial option pricing model used in the financial markets.)

A commonsense valuing of optionality based on the provision of better outcomes if risks arise is **more useful, as well as easier to calculate, understand, and believe.**

Note: The following example is intentionally oversimplified, and hence somewhat unrealistic in its detail, for the purpose of clarity.

A bank plans to use GenAI to create a new kind of report for its high-net-worth clients and will choose between two providers. **Vendor E's** model is closed and proprietary. **Vendor F's** model is more open and more expensive, but slightly worse in terms of functionality. Pursuing the project with Vendor E's model would result in an estimated net present value (NPV) of $80 million over three years. Vendor F's model would yield a lower NPV of $70 million. Vendor E clearly looks like the right choice (see Figure 2).

Figure 2: Example Decision Tree on the Value Implications of Generative AI Vendor Options
Vendor E vs. Vendor F

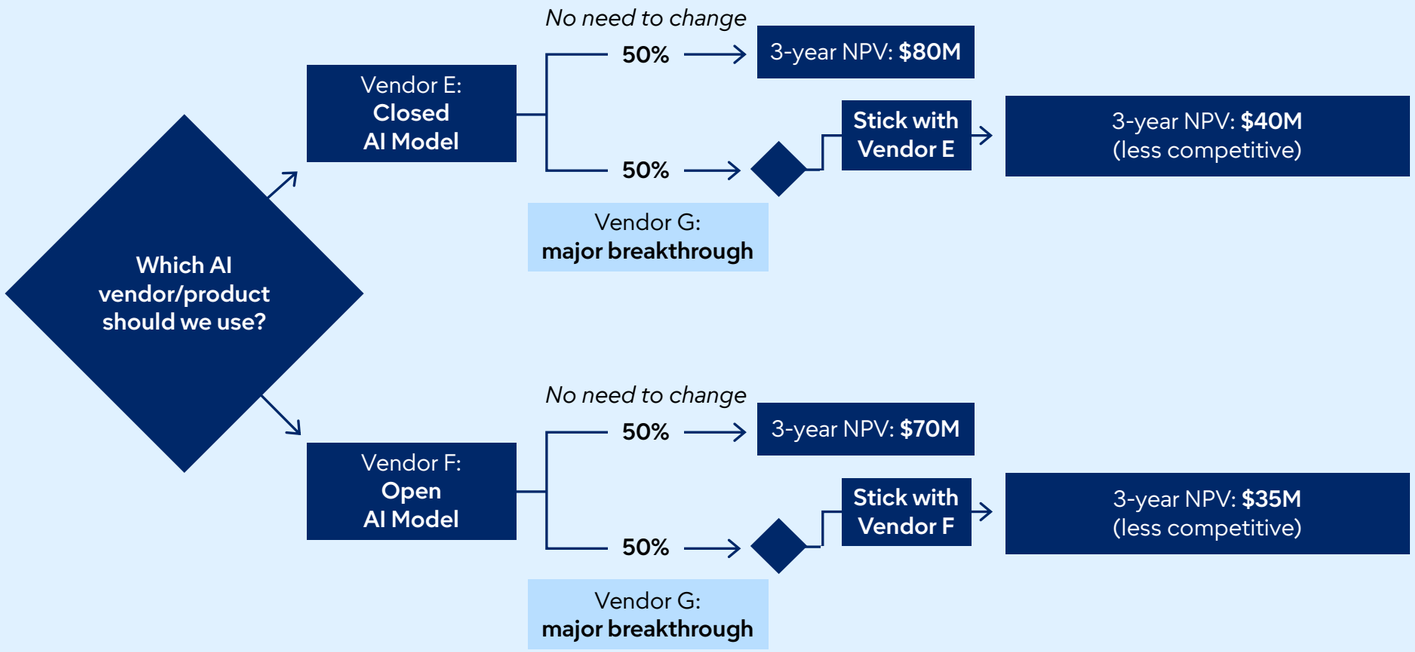


Source: Gartner

But now let's throw in some volatility and optionality. Imagine that **Vendor G** has a GenAI model in the works that would be significantly better than Vendor E's and Vendor F's models, and has a 50% chance of coming to market in the relevant period.

If Vendor G's model becomes available, the bank could choose to stay with the model they have already chosen. If the bank stays put, the NPV of its project would likely be halved. So, the Vendor E version would yield $40 million (instead of $80 million) and the Vendor F version $35 million (instead of $70 million) (see Figure 3).

Figure 3: Example Decision Tree on the Value Implications of Generative AI Vendor Options
Vendor E vs. Vendor F vs. Vendor G

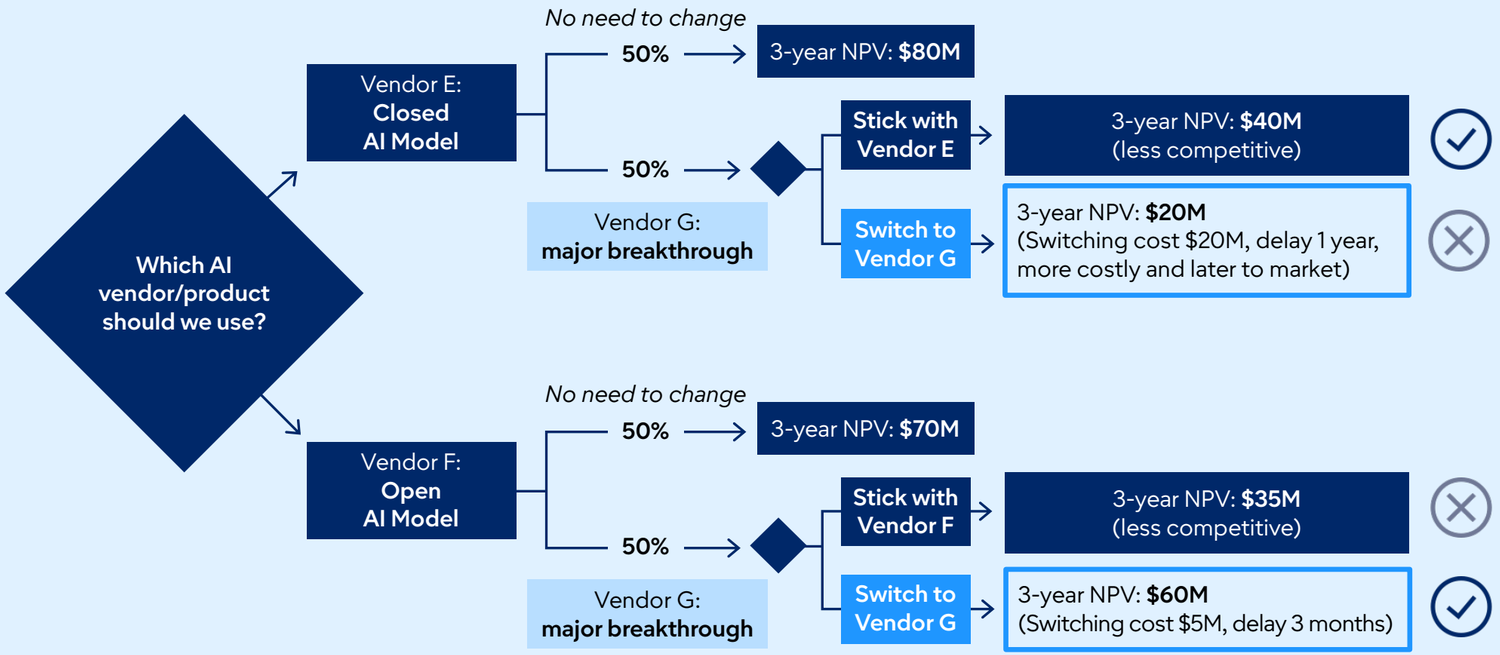


Source: Gartner

If the bank decided to switch to Vendor G from Vendor E's closed model, it would cost the organization $20 million in switching costs and delay the project by a year, reducing the NPV to $20 million. Since that is a worse outcome, the bank would stick with Vendor E and get an NPV of $40 million.

If the organization used Vendor F's model, switching to Vendor G would only cost $5 million and delay the project by just three months, yielding an NPV of $60 million. That outcome is better than sticking with Vendor F, so the bank would switch (see Figure 4).

Figure 4: Example Decision Tree on the Value Implications of Generative AI Vendor Options
Vendor E vs. Vendor F vs. Vendor G (stick with or switch)



Source: Gartner

The bottom line:

If the bank chooses **Vendor E,** the expected project value is (50% x $80 million) + (50% x $40 million) = **$60 million.**

With **Vendor F,** the expected value is (50% x $70 million) + (50% x $60 million) = **$65 million.**

The entry of Vendor G, with its new model, swings the calculation from $10 million in favor of the Vendor E option to $5 million in favor of Vendor F. The extra optionality represented by the Vendor F option is worth $15 million.

In reality, this kind of decision tree would be more complex, with multiple stages and more choices. For example, even in this simple case, we ignored the option of delaying until it was clearer if Vendor G would succeed.

Recommendations for Executive Leaders

All organizations must become masters of optionality thinking to survive and thrive in the next decade. Executive leaders should:

- Develop or hire a financial expert who can help with real-option valuation. They could be a member of the finance department, or a finance expert in the AI or IT team.
- Organize education sessions on optionality for as many staff as possible.
- Develop real-options valuation methodologies that make sense in your business's context.
- Embed optionality considerations in all of your strategically important vendor, service provider, and partnering decisions.

[1] Stewart Myers, a professor at the MIT Sloan School of Management, is credited as the inventor of the term "real options." S.C. Myers, "Determinants of Corporate Borrowing," Journal of Financial Economics, 1977.
[2] Timothy Luehrman wrote two foundational articles in Harvard Business Review in 1998 outlining a relatively simple way of approaching real option valuation.
[3] T.A. Luehrman, "Investment Opportunities as Real Options: Getting Started on the Numbers," Harvard Business Review, 1998.
[4] T.A. Luehrman, "Strategy as a Portfolio of Real Options," Harvard Business Review, 1998.

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