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White Paper

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How Will AI Impact your Business? From Productivity to Strategic Transformation

Why AI's obsession with end users may lead organizations to miss the forest for the trees, and how you can build a strategy that's AI-powered—and AI-proof

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Executive summary

- AI, especially Generative AI (GenAI), has experienced astonishing uptake due to its user-centric design, surpassing traditional focus on monetization or business applications. GenAI stands out as a transformative tool in both personal and professional realms.
- Businesses often overlook AI's strategic impact, focusing predominantly on immediate operational efficiencies, rather than understanding its profound effects on competitive dynamics and long-term business viability.
- AI operates on three pivotal levels - transforming strategic operations and process design, innovating business models, and redefining organizational existence, necessitating a holistic approach to AI integration.
- AI challenges traditional business models, prompting a re-evaluation of revenue sustainability, competitive positioning, and industry ecosystems, as evidenced in sectors from fitness and financial services – or business education and business schools which the paper applies its framework to..
- AI's integration in high-stakes fields like healthcare and law raises critical questions about regulatory compliance, ethical considerations, and the evolving role of human oversight in technology-driven sectors.
- Firms must develop resilient strategies to embrace AI, requiring a rethinking of their role, customer engagement, and organizational transformation, balancing operational integration with regulatory navigation.

1. The risks from the understandable infatuation with GenAI

No technology has ever taken off like AI. One reason for its astonishing takeup is that it has been designed with the individual user in mind. Generative AI ("GenAI") was developed by smart, ambitious engineers who were given free rein to design a technology that could change people's lives—as opposed to eyeing monetization or business uses downstream. GenAI duly emerged as a powerful productivity tool that can transform what individuals can achieve in both personal and professional settings.

Clearly, firms must get involved or risk being left behind. Yet the response from business has been mixed. For many larger corporations, caution advocated by in-house lawyers and concerned regulators won out, leading to bans on the use of AI. Indeed, that may be no bad thing, as Samsung workers proved by inadvertently leaking source code through their informal use of ChatGPT.

Others, recognizing the potential for profit, have tried to experiment. Large firms with broad installed bases such as Microsoft, digital infrastructure providers like SAP, and consultants like Deloitte, PWC, BCG, and McKinsey have all been working to discover "use cases" for AI and create downstream demand for their offerings. CTOs around the world are pondering how AI can help them save labor costs or increase the scope of their offerings. Yet, as important as such initiatives may be, I believe firms are still missing the bigger picture: the impact of AI on the *strategic* landscape.

While AI has demonstrably improved efficiency at task level, its implications for entire complex organizations are less clear. What's more, efficiency gains don't necessarily translate into profits—there's no enduring advantage in a tool that everyone can use at low or even no cost. Instead, experience shows that the real impact of technology transitions is in the *competitive inequalities* they create. The burning question is not whether you can save money with AI, but rather whether it will allow you to keep making money as you currently do.

2. Beyond productivity gains: a strategic lens on the impact of AI

So, how should you think about AI in a strategic way? Over the last three decades as an academic and advisor, I've drawn lessons from how industries evolve, how value migrates, and how technology changes the competitive context. Through my work as a consultant, I've also seen at first hand how a wide range of ambitious, high-growth firms are adjusting to AI and setting their sights on new goals. And while every firm has a different story, a few overarching themes are beginning to emerge.

Our key insight is that AI operates at three distinct if complementary levels: strategic operations and process design, business models and monetization, and strategic viability (summarized in Figure 1 below). To make AI work, you need to tackle all three.

The first priority is to find "use cases" where AI can reduce costs, usually by replacing human labor, or expand what your firm can offer. Beyond that, though, you can leverage GenAI to redesign processes like new product design or customer service. Use AI to revisit how your processes work, how decisions are made, and how you could leverage the generative features of GenAI. Just as the digital revolution increased productivity through business process redesign, so GenAI will yield benefits to firms that can embed "digitally enabled agility."

GenAI can also be a force for improvement, with AI-proposed changes in strategy and operations being used by human managers to rethink corporate choices—as OpenAI recently did for Morgan Stanley. While GenAI might sometimes make mistakes, or miss important parts of the context, its value lies in its ability to come up with multiple divergent ideas that can challenge and refresh your strategy. The key is to focus not on the technology in a narrow sense, but on how it is integrated with your organization more broadly.

The second theme, which many firms neglect, is the implications of AI for your business model. Here, there are two elements to consider. First, how will AI affect your ability to sustain revenues from your client base? What challenges will you face, and where does AI create new opportunities? Will AI change your position in relation to competitors, and how will your cash flows be affected as customers consider cheaper ways to meet their needs—possibly bypassing incumbent providers?

Consider, for instance, how fitness tracker Whoop is developing a ChatGPT-based chatbot to advise users on how to improve their fitness based on their biometric data. Or financial service firms who are using AI chatbots not only to streamline customer service, but also to offer AI-driven advisory services.

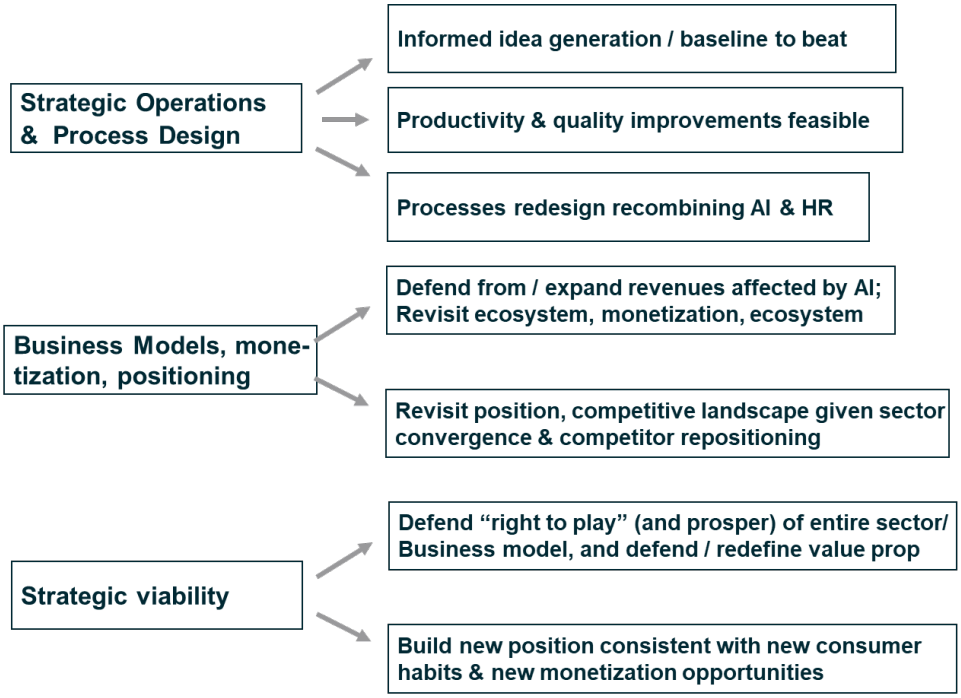

Figure 1: The Three Elements of the AI Strategy

However, these changes don't only affect opportunities and risks for your own firm—they also change the landscape in which you operate. Therefore, you must also consider how AI affects other firms. How could technology enable firms to enter new areas—either other sectors, or your own? And, if you expect change, how can you position your firm as an attractive partner? AI, particularly in combination with other new technologies (including Web3), can spin new webs of producers and services, changing the nature of ecosystems and the competitive dynamics within them. How can you leverage AI to rethink how you add value and who you compete with? What allows you to leverage your assets or positions?

Let's return to the example of an AI-enabled fitness advisor. AI fitness tools might have the scope to empower related businesses such as gyms, FMCG manufacturers, or makers of health supplements- or become part of BigTech's insatiable appetite for growth and ecosystem expansion. In the pet care sector, the availability of AI-enabled guidance for pet owners might change the opportunities and challenges for players like Purina, the leading petfood firm, pet retailer Chewy, or vet clinic owner Mars, Inc, all of whom have been expanding their services. For example, they could push for a one-stop-shop multi-product ecosystem strategy built around AI advice on pet care.

Last but by no means least, AI can pose fundamental questions about firms' "right to exist"—or at least, to prosper. Consider doctors' offices that employ primary care physicians. They have been built on the basis of doctors' expertise, acquired over many years of hard training. But what value do doctors add in a world where GenAI outperforms the average doctor on diagnosis? Human doctors might be reduced to providing checks and balances—yet even that can be challenging when AI doesn't necessarily reveal how its answers have been obtained.

This brings us to the role of regulation, liability, and our expectations as a society. High-stakes, life-or-death areas such as law and medicine have long been under the tightest regulatory oversight. So, the value-add of humans may be to certify the advice that AIs offer, or to bear the legal responsibility that an AI cannot. Since machines can't accept liability, that role will be left to humans—at least for now. More broadly, society still offers both rights and obligations to particular areas – law, accountancy, the provision of social services, so that even if AI could provide a viable and exciting alternative, a regulated firm will still be necessary, and the use of AI itself may become regulated. So, beyond AI regulations such as the EU or US AI Acts, regulation at the level of sectors and professions will have an important role to play.

3. Who will be affected?

Not everyone will be affected by AI. Just as certain functions or professions will be impacted more than others, so some firms and business models will feel stronger effects. While manufacturing firms or those in the primary sector will find interesting opportunities to benefit from GenAI, they will not face the major strategic challenges of firms in sectors like education or professional services. Our research suggests that there are a few features that make a particular business model, sector, or firm more liable to AI disruption. We can sum them up with three key questions.

First, does the business model rely on accessing, reproducing, or recombining an established body of knowledge or practice that is relevant to particular circumstances? If it doesn't, GenAI is likely to have only a limited effect. If the answer is yes, however, then GenAI may threaten to upend a business model or an entire sector. In the past, success required significant expertise, built over time and hard to replicate without long-term and sustained investment—whereas now, GenAI can do the job just as well as humans and their firms.

GenAI's main skill is using knowledge: recombining it, repurposing it, adapting it, reproducing it. For now, it is not so good at pushing the boundaries of the possible (although it's improving all the time). Therefore, it will have an outsize impact in areas like professional education, law, consulting, and communications—until it bumps up against the limit where humans can still outperform AI.

As a result, the impact of GenAI will be discriminatory. It will gobble up "bread and butter" work where it can match incumbents' work at a fraction of the cost. On more advanced assignments, however, the better firms will still add value as complements to AI, and might even pick up additional work as a result. This asymmetric impact will throw up new winners, a few survivors, and a new generation of "born-GenAI" firms to fill the resulting gaps.

The second question is whether or not the pattern recognition/application element of a task is modular. Consider legal services, where activities such as legal research, drafting, document review, and approvals can be neatly separated, allowing AI to take over the areas to which it is best suited. In areas such as medical surgery, however, the benefit of AI is inextricably linked to wider healthcare provision, making it harder to neatly separate the part from the whole. The easier it is to unbundle a process, the more likely AI is to upend existing ways of operating.

When products and services are bound together, integrated incumbents have a better chance of adjusting—although a new generation of GenAI-based firms may still succeed without challenging the intrinsic nature of the sector.

Another interesting example is consulting. Here, the service consists of a bundle comprising problem identification, pattern recognition, navigating organizational politics and offering advice or a solution to a problem. If these elements can be unbundled, many consulting firms will see their business model challenged—and indeed, many are already having trouble sustaining revenue growth. With Microsoft's co-pilot automating professional slide presentations and ChatGPT offering intriguing elements of strategy analysis, one of consultants' areas of value add is coming under pressure. To survive, consulting firms will need to show how they can do more, and that their bundle still adds value. The need to integrate with GenAI to preserve the core of their proposition, perhaps altering their mix of technology and labor spend or their recruitment aims in order to evolve.

Beyond the need to change their offering, consultants will need to rethink their organization. Many studies find that AI is better at helping those who are less skilled, closing the gap between the better and worse performers and eroding skills advantage. So consultancy firms will also need to reflect on how to recruit and promote their own staff, and also rethink what their clients really need, and how they can draw on their unique attributes to provide it—or risk smaller, nimbler firms using AI to lure their customers away.

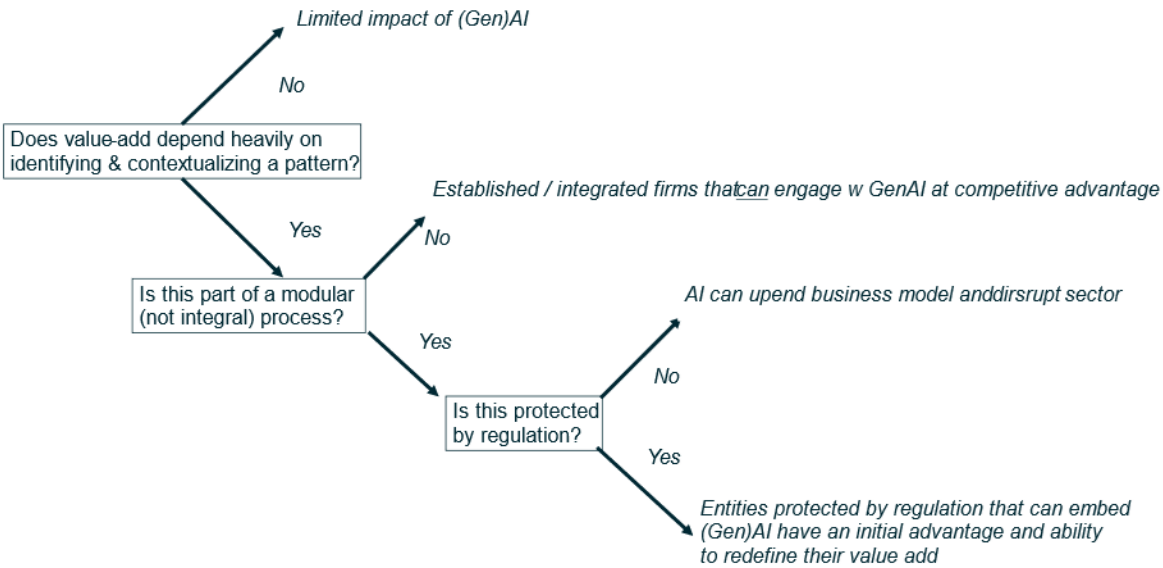

Figure 2: Determining where AI will have the greatest strategic impact

One powerful factor shoring up integration is regulation. There has already been a lot of discussion about regulating AI, with the EU, the U.S., and China all imposing their own regimes. At the same time, competition authorities like the CMA are closely monitoring the competitive impact of AI, and the world is braced for AI's impact on misinformation in a pivotal

electoral year. Another factor is the intellectual property (IP) that is harnessed to train AI: should those who created it have a say in how it is used?

While legal firms could have their activities unbundled into modules, regulation may keep them together, enabling legal firms to retain a key role despite the cheaper alternative of AI. As in healthcare, the desire to maintain regulatory boundaries and establish legal responsibility will ensure the survival of certain firms and organizations. Strategically speaking, special responsibilities will confer special privileges—just as they always have. If regulation is relaxed, however, powerful forces may be unleashed.

4. Building an AI-proof strategy

As we have seen, AI has implications for firms that go far beyond productivity gains. With the technology evolving with remarkable speed, firms need to make bold bets right now—and our framework can help. First, use Figure 1 to analyze the opportunities and challenges facing your firm. Then, use Figure 2 to reflect on the implications. Consider how your role will evolve, how your customers' world will change, and how you could reinvent yourself—then invest accordingly.

Understanding what the nature of the challenges and opportunities is, how pervasive they are, is critical as it will influence what are the specific capabilities your organization should build, and how to embed AI in your firm. Inasmuch as AI opportunities rely in operations and productivity gains, a combination of bottom-up initiatives to redesign processes with top-down requirements to use GenAI and showcase benefits will be productive. However, if opportunities of GenAI consist of redefining the value proposition, building new monetization and ecosystem plays, or taking advantage of changes in the competitive landscape, senior management must be more actively engaged in a strategic reappraisal of capital and business commitments, with a more coordinated redesign efforts and with building a mechanism to open up the pores of the firm and make it an active part of its broader ecosystem, not an island onto itself. Finally, if GenAI changes the entire reason for firms', sector and business models' existence, then there must be a clear and public commitment to an AI-proof sense of purpose for the organization, a more proactive engagement with peers and regulators, and emphasis on gaining stakeholder support.

Skills, capabilities, organizational engagement and means to build on GenAI will all depend on the guidance of tools such as those presented in Figure 1 and Figure 2. Firms protected by regulation should ensure they leverage GenAI so that they can benefit from the new opportunities, rather than risking backlash against their regulatory protection. Firms protected by more integral production processes should take advantage of the opportunities their position offers seeking to better integrate with GenAI, lest the power of new competitors unseats them. And newer firms powered by GenAI will have to consider where they want to outcompete firms in the status quo, and where they will strategically or tactically ally with them.

At this early stage, it's impossible to predict who will win the AI game. As we have seen in many a technology transition—including the overhyped but slow-burning Metaverse—success

comes from combining new ideas and technologies with established firms who can realize their benefits. While many things have yet to fall into place, we believe that the time to create a robust AI strategy is now.

Illustrating our approach: How should Business Schools engage with AI?

Our framework suggests that the business education sector will be profoundly affected by AI. That's because business education depends on pattern recognition, and business schools' offerings are relatively easy to unbundle.

What business schools probably *will* do, given their decision-making habits, is one thing. But what they *should* do is quite another. As a co-chair of London Business School's AI Task Force, I have had ample opportunity to reflect on the latter question.

First, consider productivity enhancements. Part of our mission is to evaluate students and their work. So how do we avoid evaluating their skills at using AI rather than their intellect? How can we make our assessments rigorous without denying the reality that GenAI is widely available?

Perhaps we could use tutor-bots to enhance the learning process or even help with grading. Yet, we would have to safeguard academic integrity and the role of faculty, combining teachers and technology to advance learning. Looking outside the classroom, maybe GenAI could help us manage stakeholder links or even improve the way we operate.

Beyond these practical issues of *how* we teach lies the deeper question of *what* we should be teaching. What competencies will tomorrow's executives need? Should we focus more on courses that combine AI and commercial knowledge, and bring in more interactive and virtual material? Demand for our graduates might change, impacting our finances and business model and even calling our entire *raison d'être* into question.

So, how can business schools reinvigorate their value proposition, earning the right to survive and thrive? Our framework shows that top business schools still have significant assets. In a world of information overload, the watchful eyes of their faculty can help separate the wheat from the chaff. They can also provide both enhanced networking opportunities and the motivational and experiential elements that self-taught AI tools lack. However, schools will need to work hard if they are to deliver the promise of integrating AI and human expertise. Even as expert teachers, we still have much to learn.

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