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White Paper

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How to Reap Value from (Generative) AI: Bypass the Hype, Focus on the Complements.

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Executive Summary

- Generative AI (GenAI) presents a paradox. While the business world has been enthusiastic and poured funding into the new technology, concrete use cases and measurable benefits are still difficult to find, even though much will change soon.
- So far, GenAI has primarily helped individuals to work on bounded tasks, but these benefits haven't necessarily translated to firm or organizational level.
- We surveyed hundreds of senior executives to discover how GenAI combines with other factors to transform certain organizations, sectors, and business models but not others.
- We discovered four factors that make GenAI disruptive or sustaining: pattern recognition, proprietary data, modularization, and regulation.
- How firms use AI can be more important than where or how much they use it. Rather than merely using it widely, they need to explore it deeply.
- We found three pathways to unlocking corporate value with GenAI: cost reduction and productivity improvement; hyper-personalization; and creating new revenue streams or AI-enabled business models.
- Firms also need to look beyond technology to focus on their ability to engineer and manage data (upstream of AI) and integrate AI-driven decisions at scale into decision-making (downstream).
- We also find that firms need to work on the moats that will protect them from competition, in particular proprietary data (upstream) and building a unique knowledge base (downstream).
- What works alongside AI can be just as important as the technology itself. Rather than asking simply “What can we do with AI?” firms should look at their existing assets and capabilities and consider how they can combine with AI to unlock new possibilities.
- While digital native firms come with flexibility and the DNA to leverage AI, existing firms have other valuable complementary assets and challengers can engage with them to change the playing field.
- More broadly, firms should use AI as an opportunity to rethink competitive advantage, structure, processes culture, and incentives in order to develop a realistic strategy for an AI world.

1. The GenAI Productivity Paradox

Two years after Generative AI's inflection moment, enthusiasm remains strong, yet evidence of impact is elusive. The truth is that GenAI is a paradox in more ways than one. Surely no technology has ever received so much funding with so little regard for monetization. motivated by the conviction that its creators will benefit somehow—a safe bet, given the ever-rising power of Big Tech. As striking technological breakthroughs elicit massive, FOMO-fueled investments from firms, GenAI has revealed its potential as a versatile sidekick that primarily empowers the *individual.* However, genuine corporate use cases are lagging far behind. On the one hand, executives are convinced GenAI is a game-changer; on the other, few can see exactly how, where, or even why monetization might occur.

We believe there is still a great deal of hype and misunderstanding over what AI in general, and GenAI specifically, can and cannot do. Consultants, who have a clear conflict of interest in terms of promoting their latest far-reaching AI transformation, have hardly helped. Neither has the dearth of systematic research on GenAI, as academics scramble to catch up and set out a rigorous analysis of what works and what doesn't. While some eye-catching statistics on task-level impact have been bandied about, hard evidence on organizational benefits and ROI remains scarce.

Much of the excitement over the productivity benefits of GenAI focuses on discrete or modular tasks. However, our research suggests that while these standalone functions can be greatly enhanced by GenAI, new value at the organizational level is often hindered by regulation, processes, and politics. Hence, we expect more and more companies to become quietly dissatisfied with the returns on their AI investments, despite continuing enthusiasm in the wider business world.

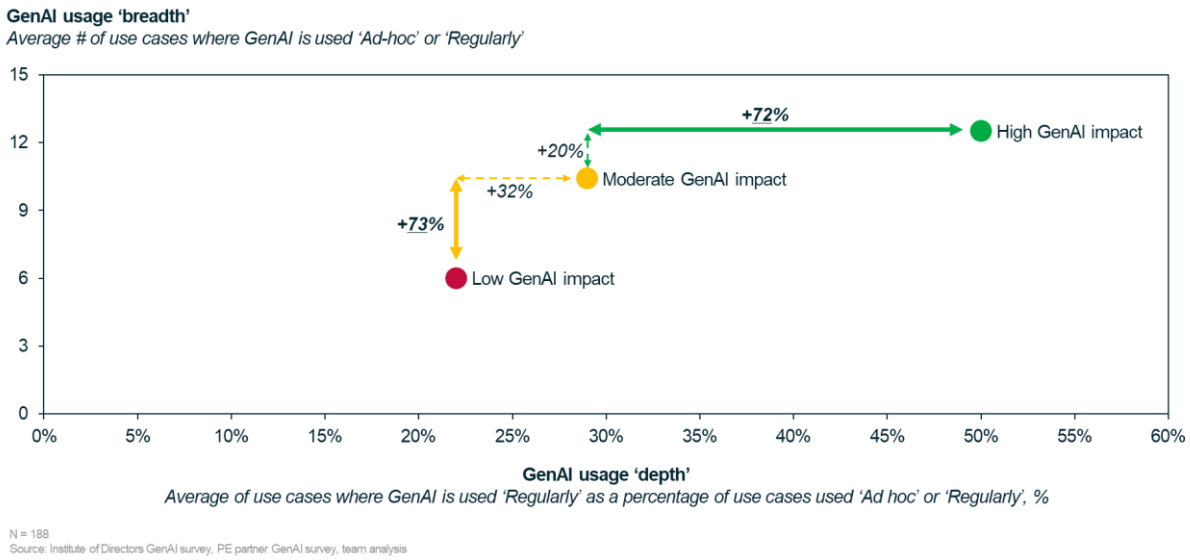
This productivity paradox motivated one of the first systematic studies of senior executives' experiences with, and expectations of, GenAI. We combined over 300 in-depth surveys with 16 workshops including qualitative insights from 160+ senior executive participants, in partnership with the UK's Institute of Directors and portfolio firms of a global leader in private equity. While our survey can only offer a snapshot, it does reveal how GenAI combines with other factors to transform certain organizations, sectors, and business models while leaving others largely untouched. Based on this insight, we developed a blueprint for where we expect disruption, and where not.

Our study provided preliminary evidence on the factors that executives believe make GenAI disruptive or sustaining. They include the importance of pattern recognition, the role of proprietary data, the importance of modularization (as many success stories concern atypically modular tasks), and sector-level regulation that can shelter incumbents. Beyond that, we considered in-depth accounts of success and failure with GenAI. The end result was a framework for making GenAI work, which we've been putting into practice with firms over recent months.

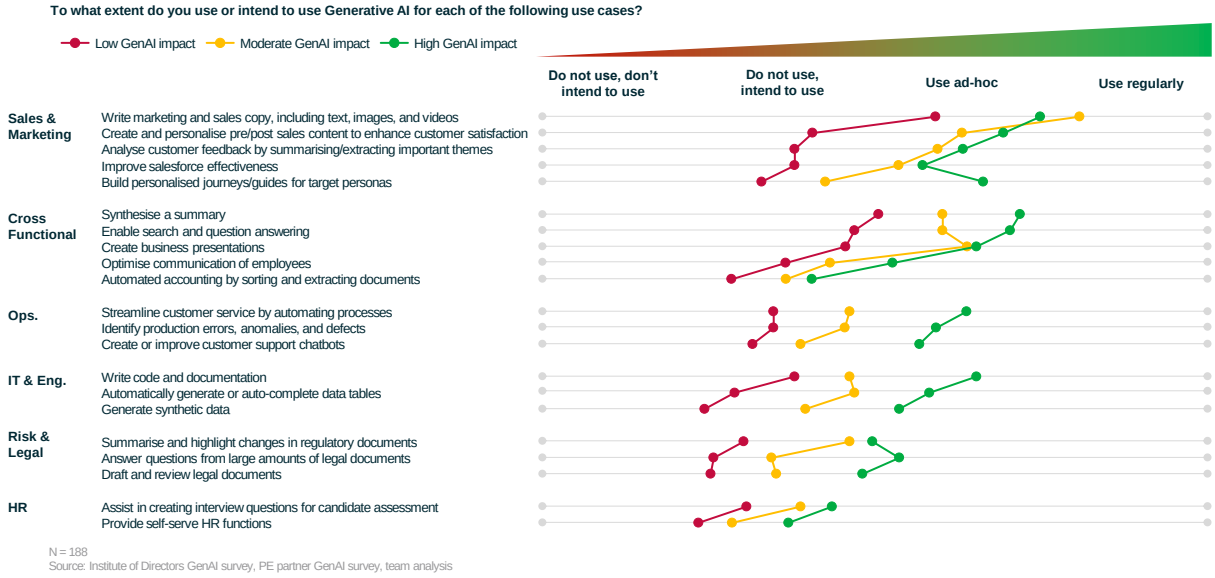
2. What Most Firms Get Wrong with GenAI — and How to Get it Right

When a new technology generates such irresistible buzz, firms feel pressure to show they have a gameplan, even if they don't. One very common mistake is magical thinking at senior level, egged on by advisors who assert that GenAI will unlock productivity and profits alike. This duly unleashes lavish investment budgets with limited scrutiny. Meanwhile, one or two levels down, there's ambivalence over what it all comes down to, which raises understandable resistance to change. In larger, more established organizations, concerns over compliance, regulation, and processes also hinder creative uses of technology. So, what *does* allow firms to benefit from GenAI?

Our study differentiated between firms that see GenAI move the needle and those that found no evidence of impact — and what sets them apart. We found that GenAI has the greatest impact when it is used not merely in more ways, but in a more *systematic* way overall. In other words, the *depth* of GenAI use is more important than *breadth*.



Self-evident use cases such as writing emails or supporting communications had little impact, perhaps because the benefits accrued to individual employees rather than the firm. Corporate benefits only emerged when firms used GenAI closer to their core—operations, legal, and production as opposed to HR and advertising—and embedded it in their organizational decisions.

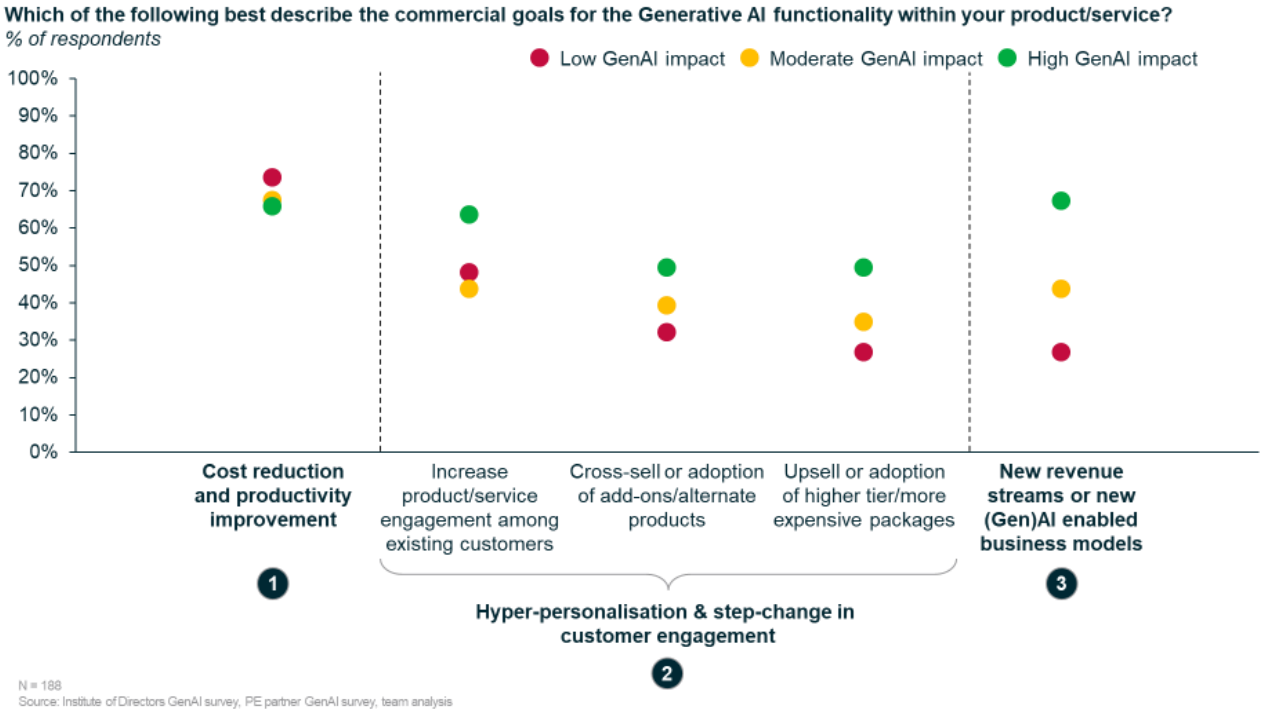


We found that GenAI offers three pathways to corporate value. The first is *cost reduction and productivity improvement*, a common priority. JPMorgan Chase, for instance, is rolling out the "LLM Suite," its new AI tool, to 140,000 employees. Here, the expected boost to operational efficiency is based on the Suite being a broad, deep, customized set of tools. It remains to be seen how well smaller organizations, which lack the funds and expertise to customize Large Language Models (LLMs), will be served by more generic Big Tech offerings or rapidly emerging sectoral specialists.

The second way to add value is to focus on *hyper-personalization* and improving the revenues from each customer. Michaels, a leading Arts & Crafts / light DIY retailer, has leveraged GenAI as part of its omnichannel personalization strategy, boosting clickthrough rates by up to 41%. More ambitiously, Michaels' DIY cousin Lowe's has rolled out Lowe's Product Expert, a custom GenAI-driven tool offering hyper-personalized product recommendations to simplify home-improvement projects. Going further still, Lowe's is experimenting with virtual reality to help customers visualize their solutions, improving sales conversion on a purchase that is highly discretionary—and typically highly competitive too.

The third way to add value via is the *creation of new revenue streams or GenAI-enabled business models*. Both established firms and challengers can follow this path. In terms of incumbents, Amazon has launched CodeWhisperer, a GenAI-powered code generation tool, which has allowed AWS to create a new business model by integrating the tool with its cloud services. Turning to the challengers, Evolver.ai, a venture built by senior leaders from EY, Google, and Microsoft, is building a suite of LLM-based products for tax, insurance, audit, and finance that will allow corporates to derive far more insights from their data. By switching monetization from "time and material" or "mainframe"-based charging to charging based on compute power, approaches such as Evolver's promise to revolutionize how professional services firms and large corporates consume corporate intelligence without obliging them to change their legacy IT systems.

Firms that report corporate value from GenAI are significantly ahead of their peers in their efforts towards customization, new revenue streams, or new business models. However, this is hard work, as new business models require a profound rethink of technology and business value alike. Our research and advisory work with companies suggests that a framework that puts AI tools in context is crucial in this regard.

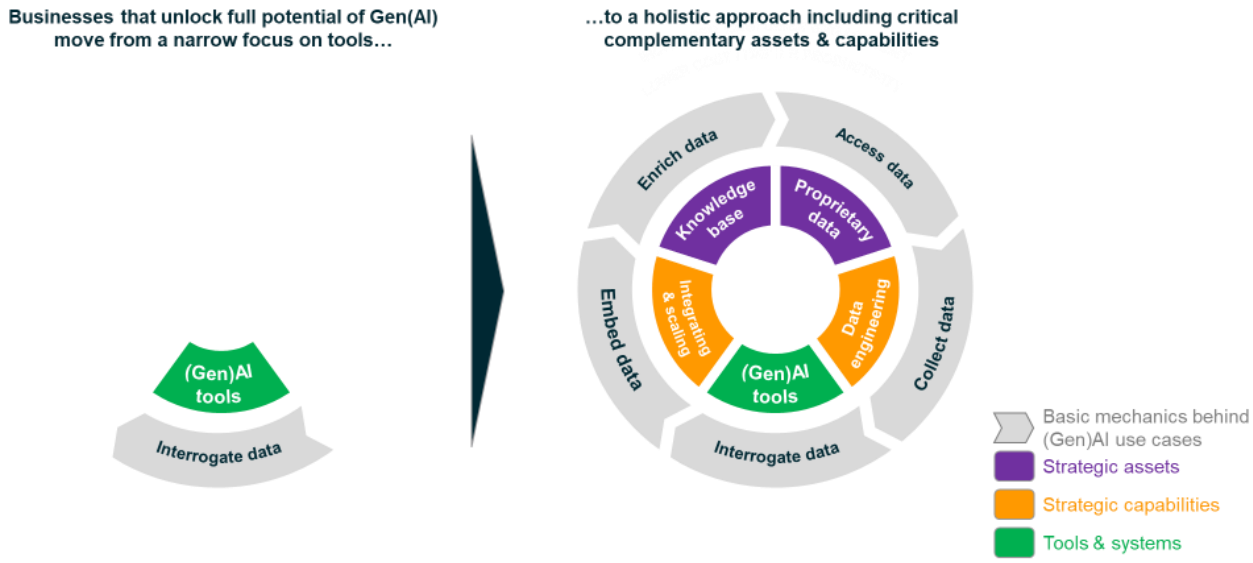


3. A Framework for AI Value: Focus on Upstream and Downstream Capabilities and Assets

Our work suggests that in order to benefit from AI, executives need to start with the business context and appreciate that technology is only part of the solution. AI is good at analyzing data and identifying patterns, while GenAI is good at contextualizing, preparing output, and coming up with plausible recommendations. But all this depends on managing what lies *upstream and downstream* of AI. Upstream, it means obtaining, organizing, articulating, dimensionalizing, and exploring the relevant data. Downstream, it means integrating AI recommendations into organizational action and creating the specialized knowledge that will provide the firm with a competitive "moat"—even against competitors who also use AI.

Consider, for instance, the world of law, where specialized companies such as leya.law and Harvey.ai are offering custom-made AI tools to help law firms significantly reduce the cost of work and manage working processes. This is an area of interest to both generalist AI platforms

such as Microsoft and content providers such as ThomsonReuters, who can parlay their *specific content* into complements that give law firms a competitive edge. In the future, the foundational capability of analyzing data and "doing the (Gen)AI work" may become less of a differentiator and more of a utility. In this world, value may flow to the owners of complements, who will either own their own ecosystems or become universally valued partners.



3.1 Data Engineering

Upstream of AI lies a reservoir of data that must be articulated, selected, and verified before it can be used. Only those few organizations that have the data-engineering capabilities to manage their data effectively are in a position to leverage it through AI. Consider, for instance, how T-Mobile's investments have enabled it to build serious data-engineering capabilities through its Databricks Lakehouse. This contrasts sharply with sub-scale, non-tech focused firms, which find it much harder to leverage AI technology. Or consider Uber, which can build an advantage by combining data engineering and data focus with AI—unlike local taxi companies.

Since GenAI can draw on unstructured data and is building multi-modal capabilities that span video and images, it's tempting to conclude that data engineering might not even be required. However, we find that this is not the case. Instead, the structure in the data (and how it is embedded in the production process) renders AI more effective. Firms with "hard," trustworthy data and an internally unified "single source of truth" can leverage GenAI to generate exciting new ideas rooted in their existing capabilities. Consider Södra, one of the world's largest forestry companies, which had to invest heavily in data warehousing and data cleaning before it could exploit GenAI to augment human intelligence and identify new ways to take advantage of its diverse, logistically complex set of forestry products and the myriad sub-markets it can be directed to.

3.2 Proprietary Data

We also find that firms' digital / data assets combine powerfully with AI. These could include proprietary data on customers, ecosystem partners, processes, or products, allowing firms to tailor their offerings. Better still is data that allows firms to make new connections and draw new inferences—like Netflix's insight into patterns of demand for shows, which underpins its commissioning process. Or consider how Argus Media, a leading provider of market intelligence on energy and commodities. By integrating vast proprietary industry data collected directly from market players into its AI-powered forecasting models, Argus goes beyond the capabilities of generic market reports, providing deeper, more actionable insights that standard data providers cannot match, often making their benchmarks a reference point used by many in contracts, creating powerful network effects cementing their competitive position.

Building such assets is crucial, as bottlenecks inevitably shift to where the scarcity is—whether that be data or sector connections. And while AI and GenAI may affect the value and availability of information, other forces also have a part to play—not least regulations on data and privacy. This is why firms like ThomsonReuters, WK, and RLEX—multi-billion-dollar groups that own information assets on law, tax, and medicine—are frantically trying to redefine their value proposition and reconfigure their ecosystem, lest the tidal wave of AI sweep them into a sea of commoditization.

3.3 Integrating & Scaling

Turning to what lies downstream of AI, we come to the use of data in decision-making—a crucial and often overlooked aspect of using AI. Here, Big Tech and tech-native companies with a digital-first mentality have a massive advantage over old-economy incumbents. Not only can they experiment to validate and refine AI-generated offerings, but they also have the operational muscle and technical infrastructure to put them into practice. Consider how Visa has successfully realized new insights by deploying, integrating, and scaling over 500 AI applications across its operations, in areas from fraud detection to customer service. Or consider how Amazon has successfully integrated AI across its entire business, from personalized product recommendations to logistics optimization and voice-driven experiences through Alexa, and how this contrasts with the data paucity and difficulty of integrating AI insights in smaller or bricks-and-mortar retailers.

Rather than pouring money into AI, therefore, non-digital natives would benefit from rethinking their inflexible processes, legacy systems, or standard operating procedures. They may also be able to benefit from the ever-growing roster of firms that focus on complementing firms like them. This is what drives the rapid uptake of ventures such as mooveo.ai, which combines AI tools with a mapping of a client's processes, or vertically focused AI specialists such as Harvey.ai in law or the more radical offerings of ventures such as Evolver.

3.4 Knowledge Base

Another valuable tool that tech firms have pioneered is the systematic use of "A/B testing": testing AI-generated variants of a service or value proposition to see which works and, crucially, enhance learning. Firms in more traditional sectors could replicate this advantage by rethinking their processes. Consider how PingAn, China's leading insurer, draws on its vast data resources to microsegment its customer base, derive personalized recommendations, and pass them on to in-house or independent agents to offer recommendations and track customer response. This allows PingAn both to benefit from AI and to improve its proprietary customer data asset, creating a virtuous circle.

PingAn showcases the importance of another strategic *asset* that complements GenAI: a "moat" around the business, built on a superior knowledge base, underpinned by network effects and knowledge of what works, and amplified by AI. This is an area in which AI platforms or ecosystems can connect powerfully to build, protect, and occasionally challenge competitive advantage. L'Oréal, for instance, through its AI-based Beauty Genius virtual assistant, draws on its profile and brand equity to build repositories of details on skin care. This allows L'Oréal not only to offer personalized assessments to customers, but also to build an unparalleled database of skin conditions. This then becomes an integral part of its "moat," defending the firm against current and potential competitors with access to AI. Likewise, Spotify leverages data on listening habits to deepen its understanding of users' cultural, listening, and individual traits.

While such virtuous circles may be easier for more dominant and tech-savvy actors to create, challengers can also benefit. Consider Arco, a profitable EdTech leader in Brazil, which builds educational tools and offers customized, AI-enabled support. Data from its broadening engagement and proactive gathering of feedback allows Arco to continuously refine its educational tools. By integrating this data into GenAI, the firm personalizes learning experiences at scale while steering product development, securing an edge over competitors that are less driven by data.

Overall, AI (and especially GenAI) will make a few Big Tech firms even bigger, especially given the outcome of the U.S. election. AI tools are likely to be available to everyone for a price, which will turn complementary resources and capabilities into the determinants of competitive advantage. As such, if you want to drive economic profit and set strategy, it's best to start with these complements before asking "what you can do with AI."

4. Revisit Your Bottlenecks, Shape Your Ecosystems, and Rethink Your Strategy and Organization to Unleash the Power of (Gen)AI

We began by noting that AI remains a paradox. On the one hand, the technology has both impressive reach and the potential to transform sectors, business models, and value propositions—as industries from legal services to advertising have already shown. On the other

hand, we believe the ranks of the disillusioned will quietly swell, because firms that bet on technology tend to forget the importance of what technology *complements*—data, knowledge, strategy, organization, and competitive "moats." Today's quest for GenAI "use cases" may even misdirect efforts, as there is too much emphasis on the "how" and the "what" and not enough on the "why." Shifting the spotlight from technology to complements shows us that we must tackle underlying business problems ourselves, not expect AI to magically fix them. To do so, we must make an effort to understand what AI combines with.

The irony here is that, from a strategic perspective, AI and GenAI are likely to be even more important than we understand today, not least by shaking up winners and losers. AI will enable some incumbents, if they play their cards right, to strengthen their grip on the competitive landscape, bolstering their multi-product ecosystems and cementing their positions as orchestrators of multi-actor ecosystems. Meanwhile, AI will also enable innovative entrants to redraw the map of their sectors, changing monetization and value-add—provided they focus on what will be in short supply.

It is clear that digital-native firms with the scale, pockets, and wherewithal to take advantage of these new technologies will gain strength from AI, with Big Tech becoming more powerful yet. At the same time, we may see a new wave of entrepreneurial firms that will complement incumbents. While such incumbents may be hampered by inertia, legacy systems and lack of resources, they may also be protected by regulation, or be sitting on valuable assets that they should dust off and reappraise. Whether Big Tech or Old World, what firms need more than ever is alignment and a gameplan. Even Google, the instigator of GenAI, was unable to benefit from its intellectual achievements because the rest of its flywheel was misaligned, and is only now building a bolder response.

Sometimes, firms have to rethink their strategy to *build* the right complementary assets that will serve them in a world of AI. Consider UAE-based Majid Al Futtaim, the dominant mall, property, retail and lifestyle conglomerate. Not only was it challenged by the rise of e-commerce, it was also data-poor, compared to Amazon- but also to its mall tenants. It took a strategy rethink and the creation of a compelling value proposition to the customer, linked to its SHARE loyalty program, for its tenants to see the value of information sharing, which is becoming ever more important with the rise of AI. Technology is a complement; solid alignment is where it all starts. For firms of every size, what will make a difference is a plan for how to benefit from AI and GenAI—whether through operations, hyper-specialization, or new business models—and a clear understanding of how technology can be complemented by key assets and capabilities.

The AI revolution presents an opportunity to go back to basics and honestly consider whether your competitive advantage is set to be shored up or broken down. The answer will depend on precisely identifying the complements to AI and GenAI, and how your firm can draw on its skills and connections to build or preserve advantage. But while you do need a base level of complementary assets and capabilities to benefit from AI, you don't need to be the leader in all of them. Instead, you need an effective strategy to take advantage of what you have, and what you can access by building an ecosystem.

We can illustrate with an example close to our hearts: business education. Business schools need to consider how GenAI will change the market for MBA graduates. It may thin the ranks of

junior analysts in consultancies and banks, which business schools have traditionally produced in droves, yet increase the demand for those who can thoughtfully combine technology and organization in incumbents, or those who want to create entrepreneurial ventures—whether standalone firms or innovation engines within incumbents' ecosystems. Business schools will increasingly differentiate themselves on how well they can fulfill these needs, to gain share and recognition in a market that may come under challenge. More fundamentally, they will need to consider how they can leverage their network and reputation to become catalysts of connection between tech, students, thought leaders, and industry, and how to shift from teaching basic frameworks (work that GenAI can do effectively) to critically leveraging GenAI skills in organizations. While business schools may benefit from some GenAI skills, their gameplan will decide their ultimate fate.

Finally, to truly benefit from AI, we should rethink organizational structure, culture, and incentives. We recently participated in an event where a global beer manufacturer proudly presented its new GenAI info portal for employees, combining reliable, single-source-of-truth data with the latest verified evidence on customer behavior. Despite the palpable excitement, we feel the most vital questions still lie ahead. With this information at each employee's fingertips, should we not rethink managerial authority, empowerment, autonomy, and entrepreneurial responsibility? Do our structures reflect the information and reasoning limits we have today, or those of yesterday? Nvidia, taking advantage of these new technologies, has already increased its control span to 47—that is, each of its managers has around 47 direct reports, with a far flatter structure. True benefits will come when we combine AI technology with a more dynamic organization.

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As the emphasis shifts from pure technology to an approach that starts with strategy and organization, we expect that AI and GenAI will start to have truly transformational effects. At the same time, given the incentives of many AI ecosystem participants, we expect that disappointment with AI will only grow over the coming months. To resolve this paradox, we'll need some robust thinking and evidence-based, theory-tested frameworks to guide our attention. This fascinating journey has only just begun.

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