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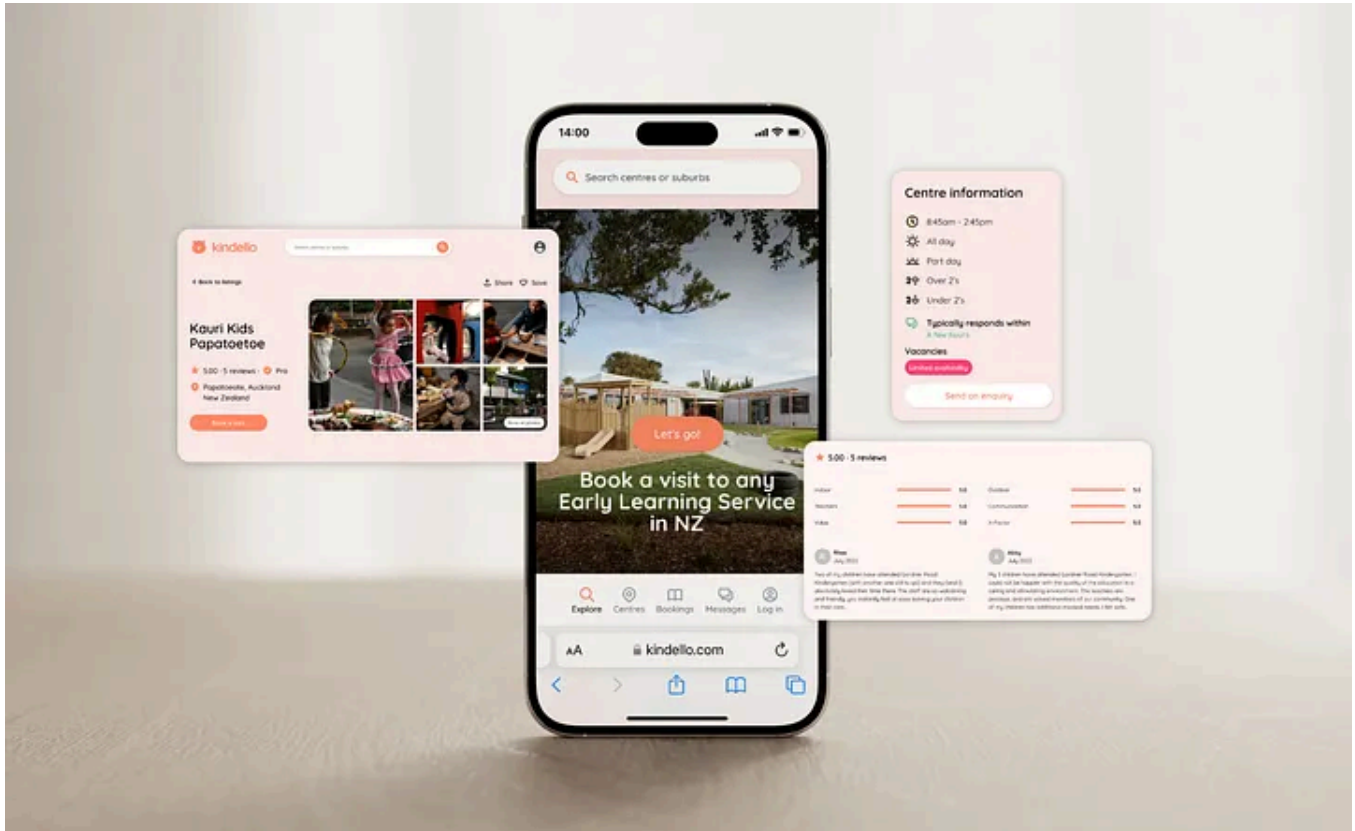

A childcare website that we built

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How has AI changed the cost of software? $20,000 is the new $200,000

6 min read · 3 days ago

👤 Chris Dunlop (Follow)

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I run a software development agency and we work with enterprise companies. The biggest impact on AI is that jobs that used to cost $200,000 can now be done for

$20,000.

The timeframes have condensed from 6 months to 6 weeks. It's a great time to be honest and I've never had more fun than I have in 2025 thanks to AI.

But we need to unpack that number a bit.

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Who is this article for?

I've seen a large number of hype articles on both sides of AI but never really seen any articles about the real costs of software development. So this is for:

- For people that are interested in the real cost of software

- For developers who can see what is happening in the industry

- For anyone that is going to tender in a market or wants to hire a developer for their startup idea

$20,000 is the new $200,000

This is the main takeaway from the article. I'm already seeing the impact of this. This means that companies that could never afford to build things can. $200,000 usually involves much more approval and business case work than $20,000.

Way more businesses can afford $20,000 and so way more businesses are entering the market. We are now doing way more interesting projects.

So I'll give you a list of what you can do now:

- If you are building a custom CRM

- If you want to build any sort of internal financial reporting system — like an integration to Xero and then a whole suite of custom cashflow reporting tools

- You can build client portals now. Client portals are great and lots of businesses want them.

- Learning management systems

Then all the above should be able to be built for ~$20,000.

What do I mean built?

- I think the core loop of what you need should be built in there. For a CRM that would mean a custom site with clients/jobs/opportunities/actions/reporting/user permissions

That same milestone in the past would have been 5–10x the price and 10 times longer.

Most businesses are spending more than $20,000

What usually happens now is that $20,000 gets the first unlock and then the companies keep spending, but they are just getting way more value than before.

In fact this has led to more money being spent than less as there are far more businesses in the $20,000 camp than in the $200,000 one.

If you aren't getting more value than 18 months ago then something is wrong (assuming that your systems aren't really old and terrible or other factors like that.)

I can already hear the objections from very large scale enterprise people to me on this, but yes we do deal with large scale enterprise businesses and yes even they are getting cost savings as well. The main thing for them is that you need to silo off a greenfield project and you need to be given the freedom to just implement and experiment with features. Not every business is geared up to do this.

I don't think you should start your tender at over $50,000 in 99% of cases

Yeah that's a bold statement but honestly the best projects now all benefit from momentum.

Whenever you go to >$50,000 at the outset, typically you lose momentum and then you are stacking risk by feature cramming everything in. You are better off, to tackle a smaller slice and just get something working first.

Sure every now and then you will get a call from a large franchise who needs to do a POS integration and big inventory across like 300 stores. Then in that case, the cost will be in the hundreds of thousands of dollars, but those types of jobs are rare, whereas most businesses could benefit from smaller projects.

Also the other caveat is if you are on an isolated system or a really old system. This is typically in big businesses, banks/airlines, etc. Unless they can silo off a greenfield environment, then yeah you aren't getting any cost savings.

Where the cost savings have actually come from

Requirements gathering

One of the first ones is in translating requirements. It used to take months to figure out what to build. If you wanted to build a custom project or finance system, you would have to first map things out, understand everything and do a number of interviews.

Now we can feed documents to Claude, which cuts down time immensely. One of the fish hooks with this phase is that now you have to be careful not to 'lap' the customer and do too much without keeping them in the loop.

Development

Obviously this is where the savings are coming from but it's a specific way that we are achieving these cost savings.

The first thing is that you are only getting cost savings with developers of at least ~2–3 years experience. You can encounter enough fishhooks with development, and the key thing you need for larger jobs is the ability to quickly scan code and high level structures and to understand if it is right or not and what the implications of that are going to be.

Where we used to have teams of 3 people, you can now definitely do the same job with 1 developer.

This is where all the cost savings are coming from.

How the maths works out now

So if we take an hourly rate of $150 an hour, that works out to be $6,000 a week, or ~ $25k a month.

Now in the past if you need 3 developers plus a QA plus a project manager, you are looking at $75k+ a month quite easily. So this project in this case would take roughly 3 months. (Let's ignore the 3 months of enterprise faff that usually goes on.)

So now this same project is taking roughly 1 month.

That value should in theory get passed on to the client.

Here's what is really happening in the industry

I believe that currently development companies aren't fully passing on the cost savings to clients.

How do I know this?

Well in tenders, sometimes after the clients will tell me the prices that the market came in at. The large development companies prices haven't shifted at all.

What is funny about this, is that now if you price on tenders against other competitors, your price can come in significantly under everyone else, which, get this, **is a red flag**. Tenders are ridiculous in my opinion, and a necessary evil, but it's quite funny as they are setup so that you can't game the system by just underpricing everyone. But AI literally makes that happen.

Also there is a principal agent problem isn't there, which is that the agency has more information than the client about cost and so can effectively charge what they want.

If you're hiring developers or doing a tender

If you are running a tender or getting developers into your business then here's it what I would look for.

Ask them if they use AI coding. The answer should be yes for 99% of projects. They should be excited to show you what they can do.

Ask for a prototype. You should be impressed after 1 week. Just set aside a budget of $5k.

Time box things to solve the chicken and egg problem. Just say cool, my budget is $25,000 and here is what I want. Sometimes if you say the number as a client it is a forcing function for the agency. Pricing is quite a stressful and time consuming process and so this trick can help everyone save time.

The main thing I'd say is, just do little tests and build up trust with a few smaller things. You don't need to jump to big $100,000 builds as a first build anymore.

All in all you should feel the difference as a buyer of software now

The main point of this article is that you should feel the difference in software development. You should feel the speed, you should be doing more and your developer or development team should be doing more. In 99% of cases, they should

be using AI and if things are going slow then that is a red flag that something isn't right.

So I think for 2026 if you have a new software project or startup idea you are planning, set aside a small budget to start and get some runs on the board. Prove the value of your idea and then build and launch from there. This should be an exciting time as it's never been more fun to build software than in 2025.

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Responses (7)

Bgerby

What are your thoughts?

I R H
3 days ago

Great article. Now I can explain to none technical people (like my other half!) how AI is changing how software is being developed and how this affects all companies. Keep writing. Ian.

👏 3   Reply

Headmonk
4 hours ago

I sold my agency 2 years ago to a bigger player, now I am developing my own products and businesses with way smaller teams (sometimes just myself). There is a huge race to the bottom in agency work, I don't want to be a part of that. I can automate... more

👏 2   Reply

Andrew Walsh MD. PhD.
16 hours ago

Well done. I am so tired of reading how LLM's make coding worse not better. I know from personal experience the opposite is true. About time people acknowledge this.

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