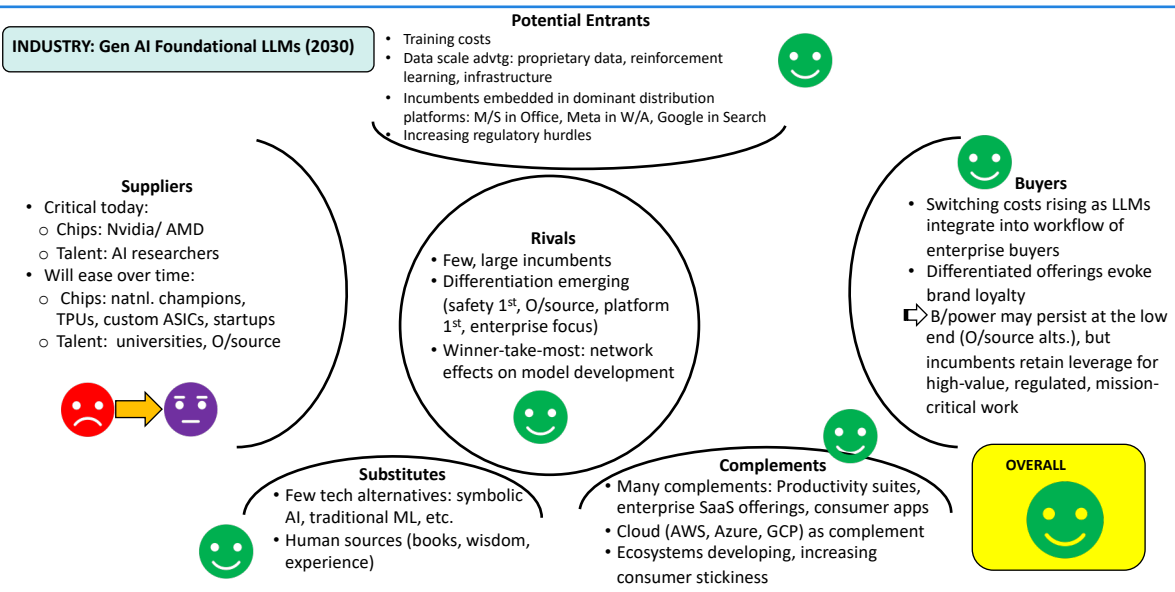




AI WARS: LOOKING TO THE FUTURE

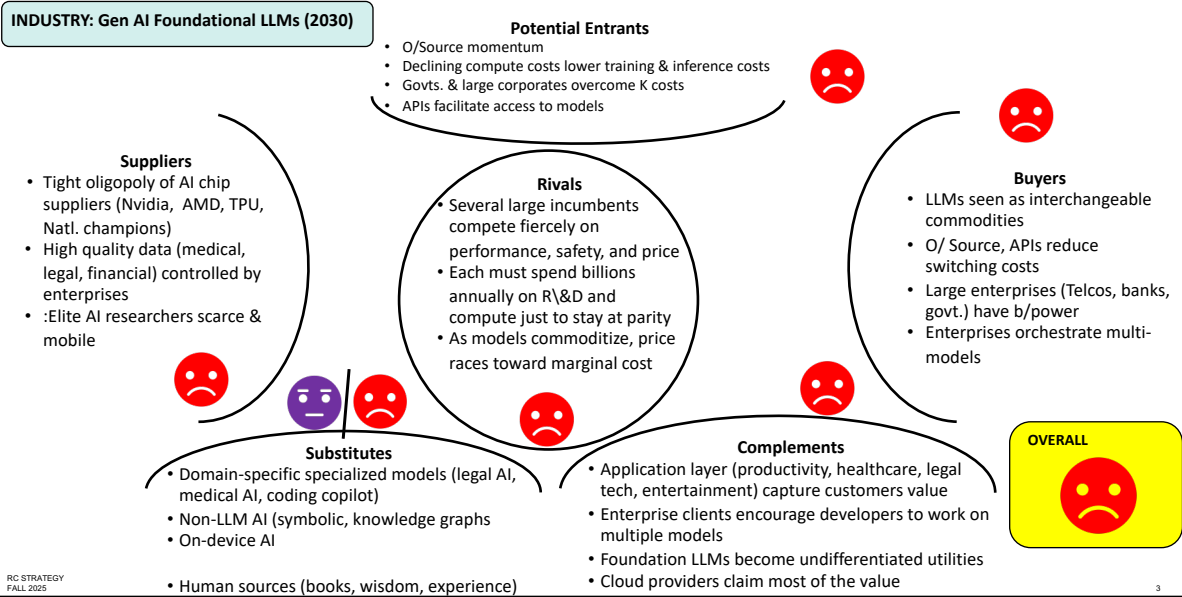
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Gen AI Foundational LLMs Industry in 2030: 5+1 Forces Analysis
An Optimistic Outlook



Gen AI Foundational LLMs Industry in 2030: 5+1 Forces Analysis

A Pessimistic Outlook



Alphabet's Strategy

What might be a good strategy for Alphabet to pursue in each of these scenarios?

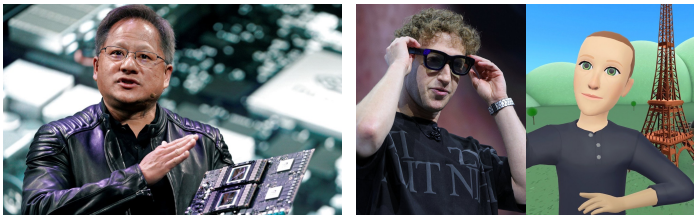
Scenario	Emerging Industry Structure	Alphabet's Strategy	How to create advantage?
Attractive Industry (disciplined oligopoly, high barriers to entry, complements expand the value pie)	Frontier LLMs are few, expensive to build, and highly differentiated; complements reinforce their value	Frontier model incumbent <ul style="list-style-type: none">• Keep Gemini at the quality frontier• Integrate vertically (chips → cloud → models → apps)• Capture value via complements (Search, Ads, YouTube, Workspace)• Shape regulation to favor incumbents	<ul style="list-style-type: none">• Cutting edge research• Scale• Vertical integration• Build an ecosystem to expand demand, capture value, and create stickiness• Support regulatory standards
Unattractive Industry (commoditized, cutthroat rivalry, powerful suppliers and buyers, complements capture value)	Many competitive models; APIs interchangeable; substitutes abound; value accrues to complements	Own valued complements & orchestrate ecosystem <ul style="list-style-type: none">• Strengthen complements (Workspace copilots, YouTube, Search answers, Android AI)• Position GCP as a neutral multi-model orchestration platform• Invest in domain-specific vertical solutions (healthcare, finance)• Invest in and monetize distribution rather than AI processing power	<ul style="list-style-type: none">• Ensure applications and platforms capture margins even as AI models commoditize• Lock in enterprises through GCP orchestration and compliance• Lock in consumers through AI-enabled Search, YouTube, Android

- Optimal strategy is contingent on industry structure
 - In a rapidly evolving industry, this requires prediction as to what the future will bring
 - However, strategy can also shape the future, not only for the firm, but also for the entire industry

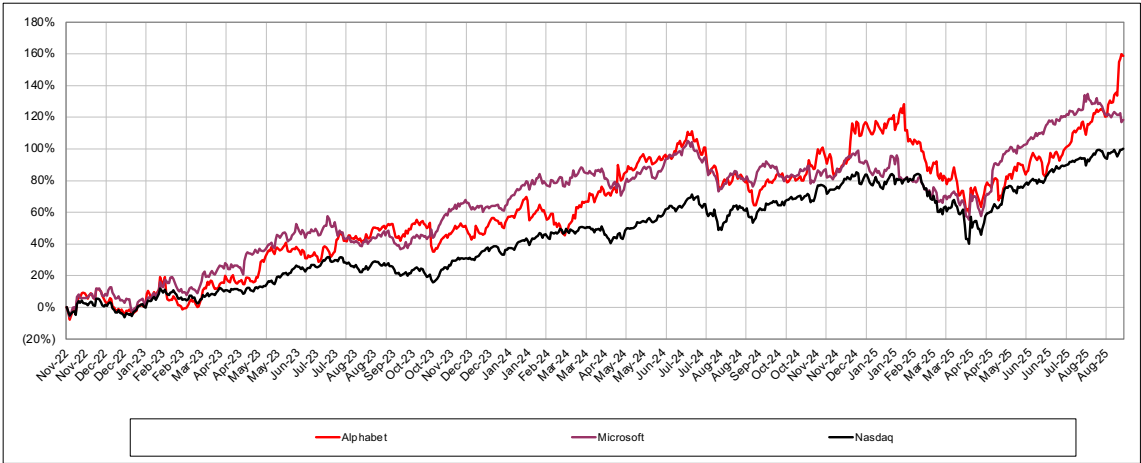
One View of the Future of AI



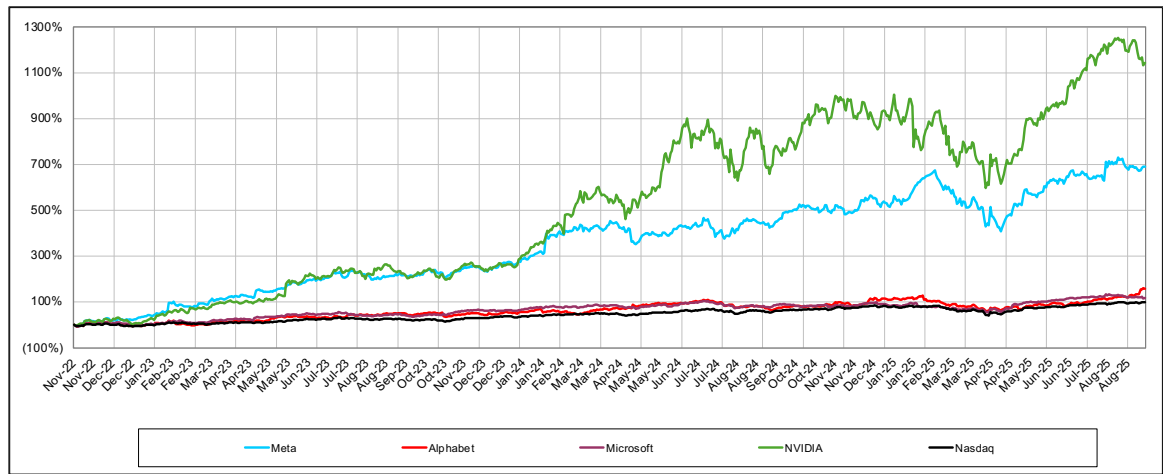
Many may dig for gold
but, for sure,
those who sell shovels
and those who sell jewelry will succeed



Stock Prices of Some Major Publicly Quoted Companies Since ChatGPT Launch



Stock Prices of Some Major Publicly Quoted Companies Since ChatGPT Launch



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