

Gartner Predicts 30% of Generative AI Projects Will Be Abandoned After Proof of Concept By End of 2025

SYDNEY, Australia, July 29, 2024






Analysts Explore the Business Value of Generative AI at Gartner Data & Analytics Summit, July 29-30 in Sydney

At least 30% of generative AI (GenAI) projects will be abandoned after proof of concept by the end of 2025, due to poor data quality, inadequate risk controls, escalating costs or unclear business value, according to Gartner, Inc.

Speaking at the **Gartner Data & Analytics Summit** (<https://www.gartner.com/en/conferences/apac/data-analytics-australia>) in Sydney this week, **Rita Sallam** (<https://www.gartner.com/en/experts/rita-sallam>), Distinguished VP Analyst at Gartner said, “After last year’s hype, executives are impatient to see returns on **GenAI investments** (<https://www.gartner.com/en/newsroom/press-releases/2024-05-07-gartner-survey-finds-generative-ai-is-now-the-most-frequently-deployed-ai-solution-in-organizations>), yet organizations are struggling to prove and realize value. As the scope of initiatives widen, the financial burden of developing and deploying GenAI models is increasingly felt.”

A major challenge for organizations arises in justifying the substantial investment in GenAI for productivity enhancement, which can be difficult to directly translate into financial benefit, according to Gartner. Many organizations are leveraging **GenAI to transform their business models** (https://www.gartner.com/en/doc/779868-emerging-tech-top-use-cases-for-generative-ai?utm_source=press-release&utm_medium=promotion&utm_campaign=RM_GB_2024_HT_NPP_PR1_GENAI&utm_term=gi) and create new business opportunities. However, these deployment approaches come with significant costs, ranging from \$5 million to \$20 million (see Figure 1).

Figure 1: Costs Incurred in Different GenAI Deployment Approaches

	 Consume Commercial GenAI apps	 Embed GenAI APIs in custom apps	 Extend GenAI models via data retrieval	 Customize GenAI models via fine-tuning	 Build Custom models from scratch
Use case	Coding assistants	Personalized sales content creation	Document search with RAG	Virtual assistant	Medical, insurance or financial services LLMs
Upfront costs	~\$100K to \$200k	~\$750K to \$1M	~\$750K to \$1M	~\$5M to \$6.5M	~\$8M to \$20M
Recurring costs (per user per year)	~\$280 to \$550	~\$790 to \$1.2K	~\$1.3K to \$11K	~\$8K to \$11K	~\$11K to \$21K

Source: Gartner (July 2024)

“Unfortunately, there is no one size fits all with GenAI, and costs aren’t as predictable as other technologies,” said Sallam. “What you spend, the use cases you invest in and the deployment approaches you take, all determine the costs. Whether you’re a market

disruptor and want to infuse AI everywhere, or you have a more conservative focus on productivity gains or extending existing processes, each has different levels of cost, risk, variability and strategic impact.”

Regardless of AI ambition, Gartner research indicates GenAI requires a higher tolerance for indirect, future financial investment criteria versus immediate return on investment (ROI). Historically, many CFOs have not been comfortable with investing today for indirect value in the future. This reluctance can skew investment allocation to tactical versus strategic outcomes.

Realizing Business Value

Earlier adopters (<https://www.gartner.com/en/webinar/588829/1318318>) across industries and business processes are reporting a range of business improvements that vary by use case, job type and skill level of the worker. According to a recent Gartner survey, respondents reported 15.8% revenue increase, 15.2% cost savings and 22.6% productivity improvement on average. The survey of 822 business leaders was conducted between September and November 2023.

“This data serves as a valuable reference point for assessing the business value derived from GenAI business model innovation,” said Sallam. “But it’s important to acknowledge the challenges in estimating that value, as benefits are very company, use case, role and workforce specific. Often, the impact may not be immediately evident and may materialize over time. However, this delay doesn’t diminish the potential benefits.”

Calculating Business Impact

By analyzing the business value and the total costs of GenAI business model innovation, organizations can establish the direct ROI and future value impact, according to Gartner. This serves as a crucial tool for making informed **investment decisions**

(https://www.gartner.com/en/information-technology/topics/ai-readiness?utm_medium=press-release&utm_campaign=RM_GB_YOY_ITAI_NPP_PR1_AIREADYORGAPS&utm_term=ebook) about GenAI business model innovation.

“If the business outcomes meet or exceed expectations, it presents an opportunity to expand investments by scaling GenAI innovation and usage across a broader user base, or implementing it in additional business divisions,” said Sallam. “However, if they fall short, it may be necessary to explore alternative innovation scenarios. These insights help organizations strategically allocate resources and determine the most effective path forward.”

Gartner clients can read more in the report **“Calculating the ROI on GenAI Business Model Innovation.”** (<https://www.gartner.com/document/5517195>) Learn more in the complimentary Gartner webinar **“What Mature Organizations Do Differently for AI Success.”** (<https://www.gartner.com/en/webinar/588829/1318318>)

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