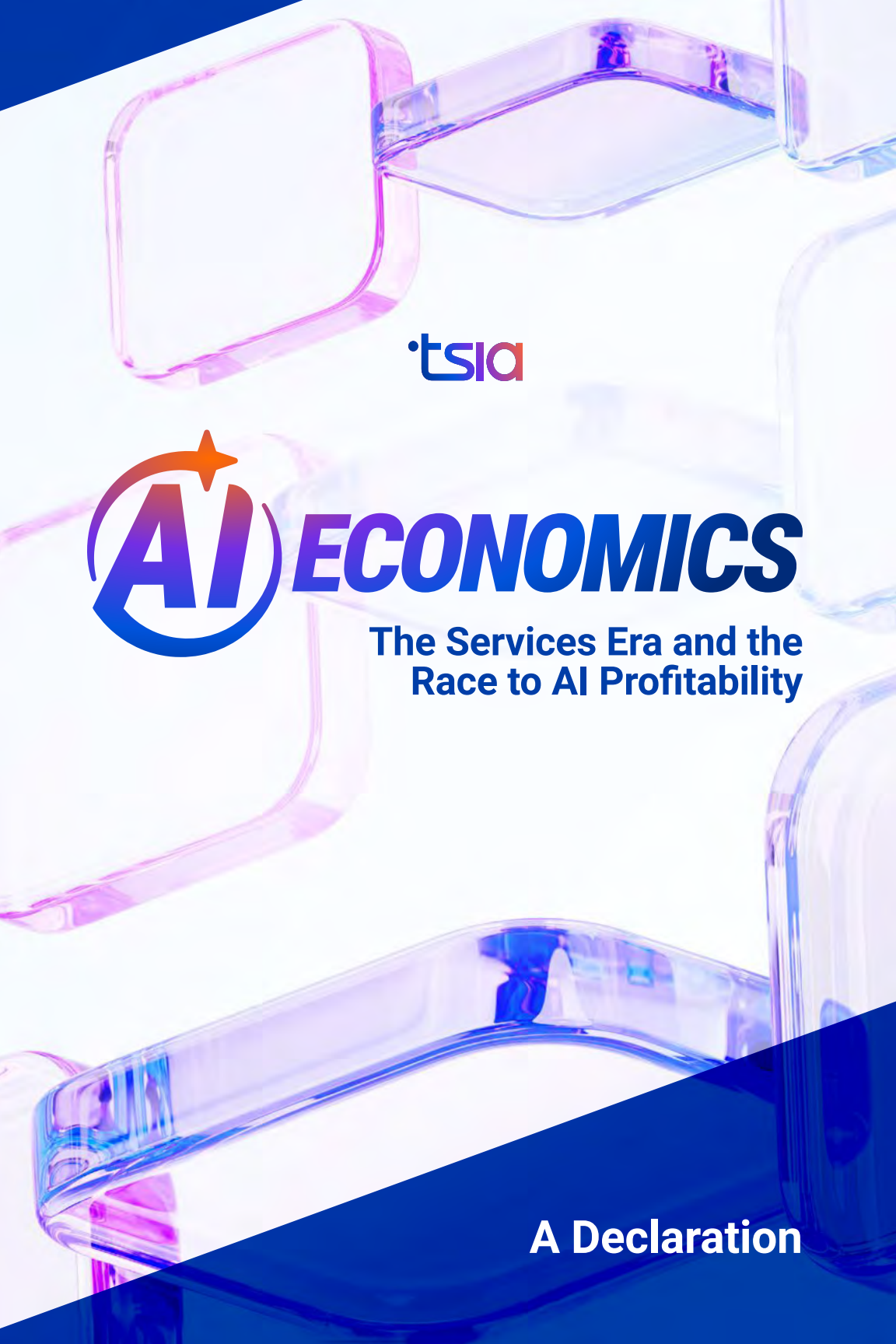




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ECONOMICS

**The Services Era and the
Race to AI Profitability**

A Declaration



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The Race for Profits and Dominance in the AI Era

The business world is obsessed with AI. Most of the chatter? Jaw-dropping tech, massively funded startups, jobs disappearing. That's noise. Beneath the hype, something far more profound is happening.

AI is not merely another technology wave. It's about to launch the most violent reordering of business models and competitive dynamics the tech industry has ever seen. Market after market will be transformed. And here's the question that should keep every stakeholder awake at night: **Which companies—the startups or the incumbents—will capture the profits and dominance?**

More importantly:

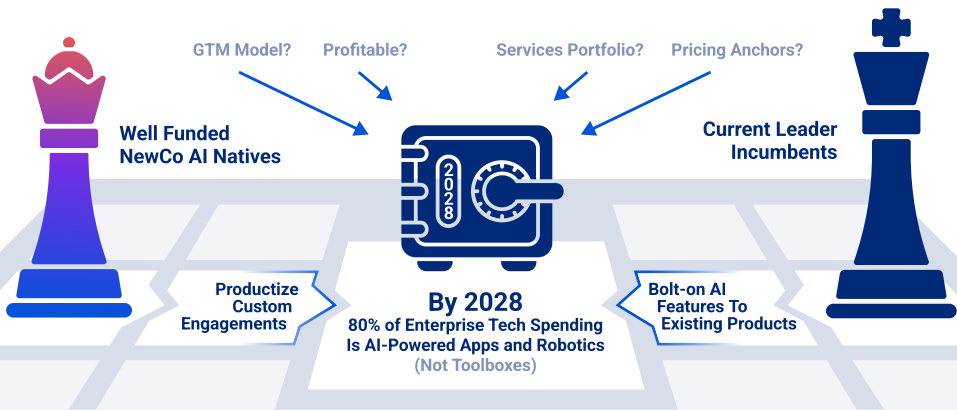
Do they even understand the game they're playing?



History has a verdict here. Every major innovation wave—hardware to software, desktop to cloud—has buried most incumbents. The last decade gave us the venture capitalists' favorite creation: the "unprofitable SaaS company." Now they're back with something even more audacious—the "capital-intensive, massively unprofitable AI company." **OpenAI burns \$5 billion to generate \$3.7 billion in revenue—and they're the success story.** Cool tech. Mountains of cash. Zero path to profitability.

The race is already underway. And there's a winner-takes-all finish line that everyone can see, but few understand. That's the moment when the vast majority of enterprises—the ones with real money—finally open their checkbooks for proven, packaged AI that actually works.

What Are We Running Toward?



The startups think they've got this figured out. Grab a handful of enterprise innovators. Deploy an army of “forward-deployed engineers.” Transform complex AI toolboxes into something that might create value for one customer, then pray it works for others. But here’s what they don’t have: domain expertise in these industries. Scale to reach beyond a few pioneering volunteers. Time before the money runs out.

Traditional technology incumbents? They’re running a completely different race. They have what matters—the customers, the domain expertise, the scale. But they’re scrambling to retrofit decades-old products with AI capabilities while their competitors build from scratch. Worse, they’re trying to retrain global sales and service organizations that have spent decades mastering yesterday’s technology. Failure to adapt risks becoming a dead-company-walking.

And there’s another killer paradox nobody wants to discuss. These incumbents built empires on “per-user” and “per-machine” pricing—the cornerstones of profitability for decades. Now AI comes along and does something devastating: it automates tasks, eliminates users, and obliterates the very foundation of their revenue model. The product becomes more valuable to customers, while simultaneously destroying the incumbent’s ability to capture that value.

This is the central risk of the AI era for incumbents: delivering breakthrough value while watching revenues and margins evaporate. Unless they totally reimagine the game.

The Broken Business Model

The core issue is brutal in its simplicity: a complete misalignment between how value is created and how it is monetized.

For six decades, the technology vendor's role was crystal clear. Provide tools and data. Let customers make decisions and take action. Let customers own the outcomes. Services wrapped around the product—preparing, implementing, maintaining. Simple. Profitable. Predictable.

AI obliterates this arrangement.

Now the product itself makes decisions. Takes action. And here's what nobody saw coming: this shifts the burden of outcome ownership directly to the vendor. The accountability framework that built the entire technology industry? Gone overnight.

This is the “value paradox” that's destroying business models across the industry:

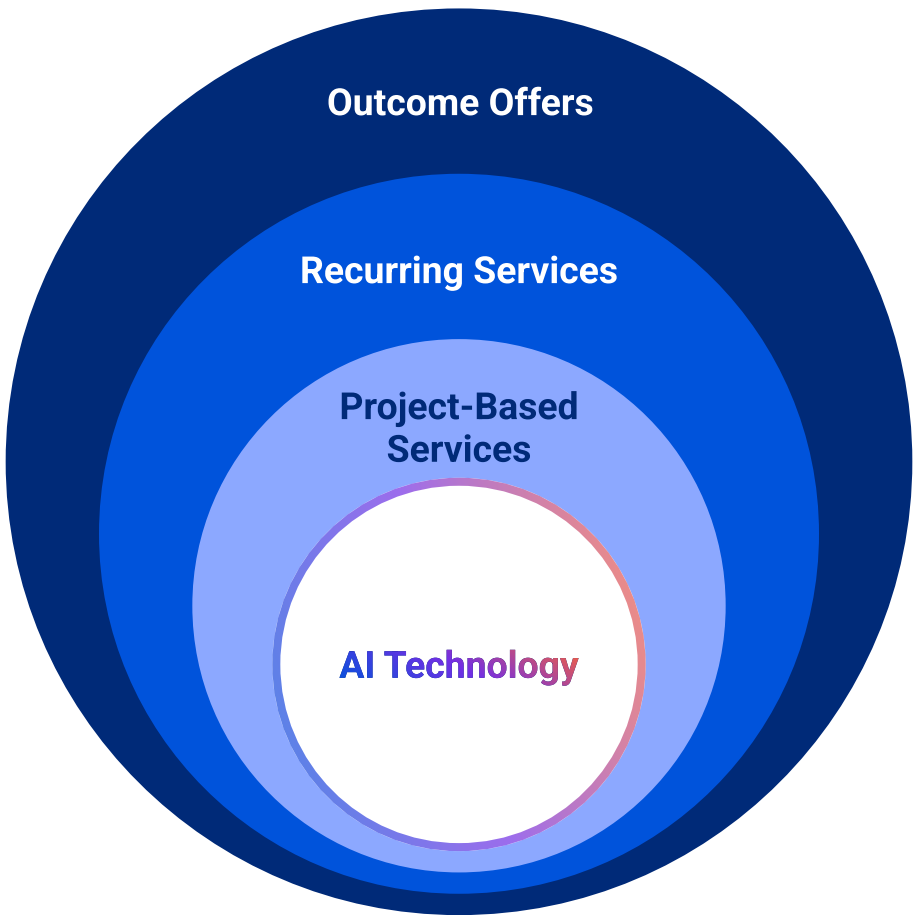
AI makes products exponentially more valuable by automating work, while simultaneously vaporizing the revenue model that made those products profitable.



More value. Less revenue. That's not a business model—that's a death spiral.

Everyone sees the hype. Only TSIA sees the economics. For years, we've been documenting the collapse of traditional pricing models. TSIA visualizes this new business model challenge through the Four Rings of AI Economics.

Four Rings of AI Economics



At the center sits the core AI technology. Around it, layers of Project-Based Services, Recurring Services, and finally, Outcome-Based Offers. The AI-native startups? They've camped out in the inner rings with simple pricing and zero profits. The incumbents? They're desperately clinging to pricing models designed for a world that no longer exists.

Both are playing a losing game. The business model isn't just challenged—it's fundamentally broken. And the solution is not in the inner rings.

The Services Era

Here's what the industry refuses to see. Everyone's obsessed with the technology itself, but they're missing the real game. **The future of profitable growth in the AI era is not in selling technology, but in delivering value through a service-intensive business model.**

**AI will not eliminate services;
it is, in fact, the *ERA* of services.**



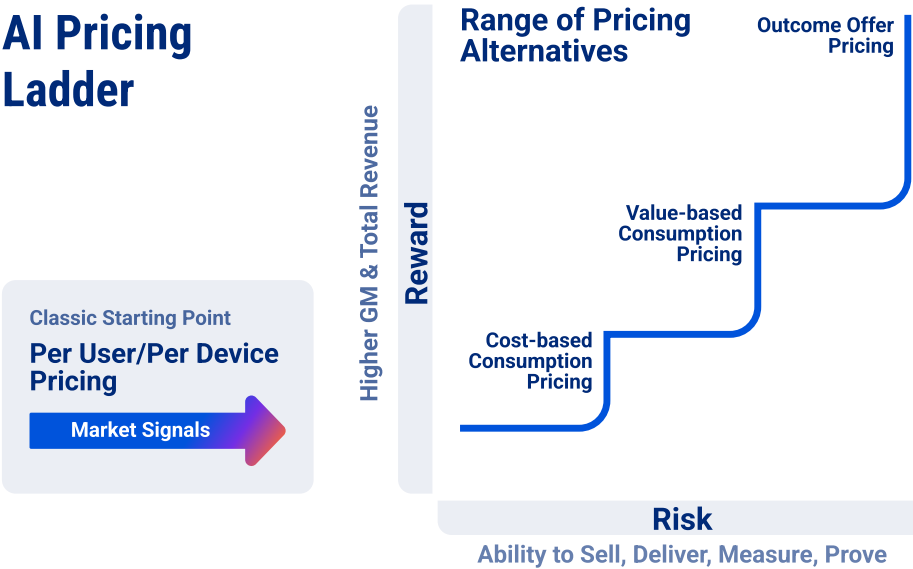
Why? Because there's this nasty complexity nobody wants to acknowledge—the “last mile” of AI adoption. The vertical industry requirements. The messy data. The legacy systems. The security nightmares. Getting AI to actually deliver value in an enterprise? That demands a powerful services layer to bridge the gap between raw capability and real-world application.

Three revolutionary categories of services will define who wins and who becomes irrelevant:

- **AI Readiness & Governance Services (ARGS):** The foundation. Define the AI strategy. Assess the data infrastructure. Navigate the minefield of legal, compliance, and ethical risks. Do it right or don't do it at all.
- **Model Optimization Services (MOS):** Where the real work happens. Clean and transform customer data. Fine-tune models to specific, proprietary needs. Generic models are toys—customized models are weapons.
- **Outcome-Oriented AI Services (OOAS):** The pinnacle. Stop managing technology. Start contractually committing to specific, measurable business outcomes. That's not service—that's partnership at its most radical.

Here’s the insight everyone’s missing: As AI capabilities commoditize—and they will, faster than anyone expects—differentiation and margin defense won’t be in the technology. They’ll be in services. TSIA’s AI Pricing Ladder shows the path. Start with per-user pricing if you must, but that’s yesterday’s game. The new game is climbing to value-based consumption and ultimately, outcome-based pricing. That’s where the margins live. That’s where the future is written.

AI Pricing Ladder



But vision without execution is hallucination. **ARGS clears the runway. MOS keeps AI alive. OOAS guarantees the outcome.** This is TSIA's proprietary Services Continuum—the only system that turns these concepts into repeatable, scalable victories.

Only TSIA has the frameworks to win the Services Era. **The companies that master this system will set the pricing anchors and capture the profits of the next era.**

Which brings us to the only question that matters...

It's the Incumbent's Moment To Lose. What Will Your Company Do?

AI isn't coming. It's here. And it's about to determine which companies dominate the next decade and which become footnotes.

The pot of gold waiting at the finish line? It's exponentially larger than the combined revenue of every AI startup today. There's a version of that prize in every market segment, every industry vertical—including yours. Right now.

Marc Andreessen recently declared:

“All incumbents are gonna get nuked.”
He doesn't have to be right.



The advantage should belong to the incumbents. Not because of their legacy technology—that's a liability. But because of two unfair advantages the startups will never have: decades of domain expertise and massive services scale already in place.

But here's the catch: This is an existential moment. Incumbents will either dominate the AI era or join the graveyard of “last-gen leaders.” There's no middle ground.

To win—and do it profitably—requires something most incumbents aren't prepared for. Don't use AI to eliminate your scale. Re-purpose it. Re-tool it. Transform it into a services-first business model.

The winners won't be those with the best AI. Everyone will have good AI. **The winners will be those who master the art of delivering, pricing, and contractually owning the business outcomes that AI enables.**

TSIA is constantly analyzing industry data to deliver the frameworks, playbooks, and economic models that make this transformation possible. We've guided thousands of technology companies through market and model transformations. **This one is different. This one is existential.**

This is the moment. Not to adapt. Not just to evolve. But to reimagine what a technology company can be.

The race has begun. The incumbents have the inside track. But advantages mean nothing if you don't know how to use them.

Your move.

Master the Game. Or Become a Footnote.

Join the AI Economics Movement—
your path to winning the Services Era.



Explore more resources: tsia.com/ai-economics



Start a conversation: aieconomics@tsia.com



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