

Navigating the AI Landscape: ChatGPT's impact on startups, the opportunities that arise and the call for sound regulation

Celebrating its first birthday on November 30th, ChatGPT's 'research preview' has garnered widespread interest, extending beyond tech enthusiasts to a more mainstream audience.

The chatbot received as much as 1.8 billion visits in May this year, which highlights the growing impact of AI on many aspects of society, and it has sparked discussions about its future implications.

Generative AI exemplified and spearheaded by OpenAI's *ChatGPT* emerges as a game-changer for startups. Both as an enabler for dramatically improved and reimagined processes, but also as a toolkit to empower existing and new products.

By automating tasks, improving customer interactions, and empowering innovation, ChatGPT becomes a highly valuable asset for a startup. Consider, for instance, a London-based startup targeting an audience in Berlin; it can now effortlessly create tailored marketing content and offer

round-the-clock customer support, something that previously required significant manpower and resources.

While many startups are already gaining advantages from current AI tools, there is also a noticeable increase in the number of new AI startups. In the last year, we have seen the surge of startups developing AI chat apps. Europe has positioned itself as a global leader in the AI chat app market, being the origin of 14 apps with a combined total of 8 million downloads, constituting 34% of the entire market.

The surge of AI apps and the need for differentiation from foundation models

These new capabilities have caused a surge in new startups entering the market, building on OpenAI and other large language models. The main challenge is finding a unique and defensible product that is less likely to face disruption when OpenAI and others introduce new capabilities. For instance, the launch of OpenAI's GPT store this month, likely wiped out numerous AI startups whose products closely resemble OpenAI's new core capabilities.

Venture capital firm, Sequoia, recently released a report reflecting on the impact of ChatGPT. Their conclusion was that the only means of differentiation that has so far been proven are user networks and workflows. This means startups should seek to build walled gardens around their users by trying to find network effects in the core product, which isn't exactly a small feat. Historically, only very few major social networks like Facebook, and community enabled products like Figma have been able to build user network-based growth models.

Workflows is most likely the easier play, where the key is to build a seamless experience where switching to another provider would come for example with a high cost of decreased efficiency.

As startups navigate the competitive landscape, the potential of AI becomes evident, and yet, there's a call for more diversity and competition in the market. A diversified and competitive market prevents AI surplus from being monopolised by one or two giants, ensuring a healthier and more inclusive ecosystem. SaaS and app segments often end up getting dominated by a few apps, which may or may not be true in an AI first given that the barrier to product development has become lower. As the market starts to coalesce and leaders emerge it will become much more difficult for new entrants to compete unless they bring something unique and innovative to the market.

With the AI market projected to reach £258.7B by 2032, European startups

have the opportunity to shine. With a pool of talented entrepreneurs and engineers, the UK and the rest of Europe can lead in developing diverse AI platforms. However, to compete with the US, Europe must continue to work towards creating a healthy AI ecosystem similar to the US, home to almost all major language model companies.

The potential regulatory divide

The regulatory framework for AI is still catching up. The UK's commitment to launching AI safety institutes reflects a growing awareness of the risks associated with advanced AI systems. However, startups now seek more than safety measures; they need regulatory clarity in order to be able to compete. As the industry evolves, efforts should be directed toward providing a clear regulatory framework that fosters innovation without compromising ethical considerations.

For instance, lawmakers in the EU early indications were that they were going to impose a more strict AI regulation than the US, which would put companies building and developing companies and solutions in Europe behind their US peers. Hopefully, these early indications were incorrect, and we can achieve a more aligned and balanced regulatory landscape across the globe.

Empowering startups to do things that weren't previously possible

The recent news about Sam Altman and the turbulent times for OpenAI raises questions about its future direction and potential implications for the broader landscape of AI startups. But, generative AI will, and is already playing a vital role in making our lives just a little bit easier. Embracing it as the new normal is the way forward.

The real opportunity is using this technology to rethink a function or process in a way which wasn't possible before prior to the existence of generative AI. This is the big startup opportunity for 2024 and beyond.

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