



AI

The Essential 4 Ps for AI Monetization

A Comprehensive Guide to
Success in Your AI Go to Market

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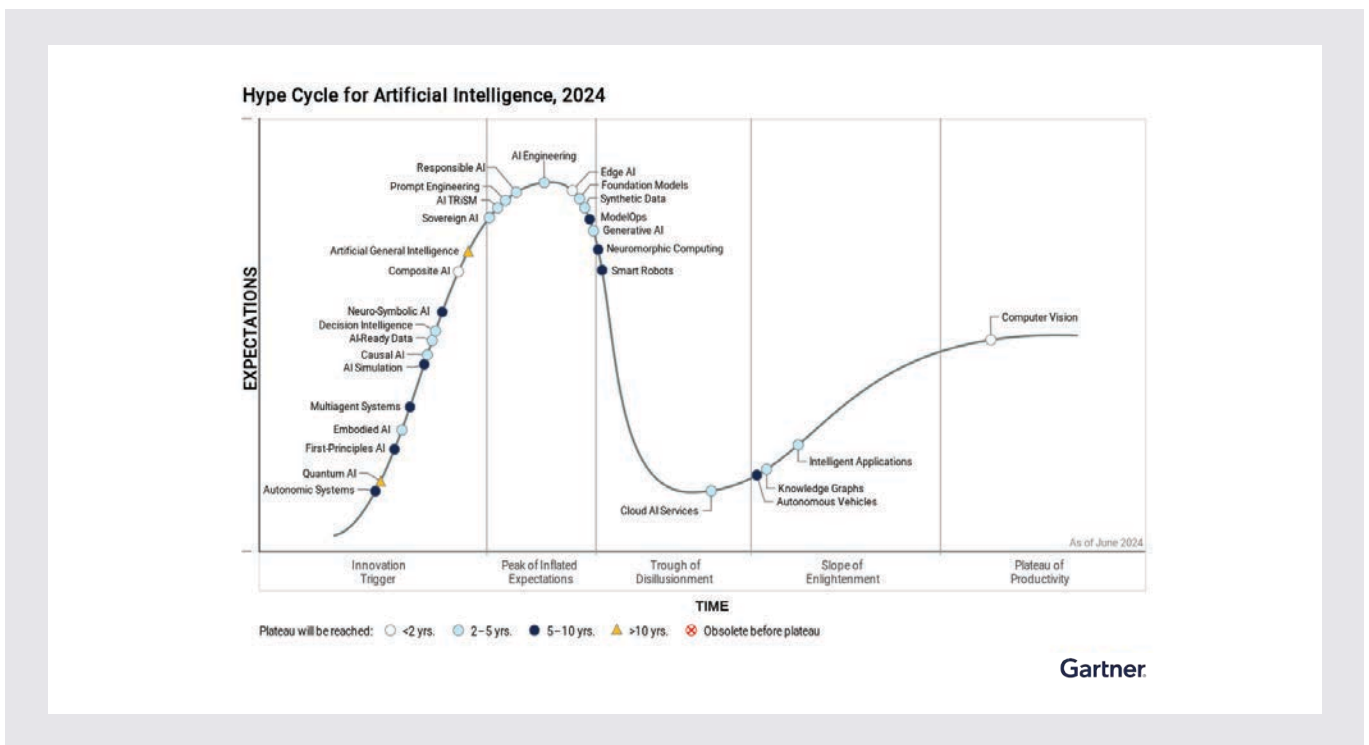
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Introduction

Thales' Software Monetization and Simon-Kucher have teamed up to bring you this practical step-by-step guide to making your AI software offer profitable. Rooted in collective experience of 70 years in consulting and operationalizing pricing and packaging strategies, the experts from both organizations present the do's and don'ts of successfully bringing your AI offer to market.

Overview of AI offers today

How many emails do you receive offering you an AI application for your personal or business use? Today, it's impossible to avoid encountering a variety of Artificial Intelligence (AI) products or support systems when browsing online. In fact, tech research and advisory company Gartner mapped it on their 2024 Hype Cycle, positioning AI at the "Peak of Inflated Expectations" (see below). At this stage of the cycle, both the industry and the media are caught up in excitement over AI's potential, envisioning the prospective offers while often overlooking its drawbacks.

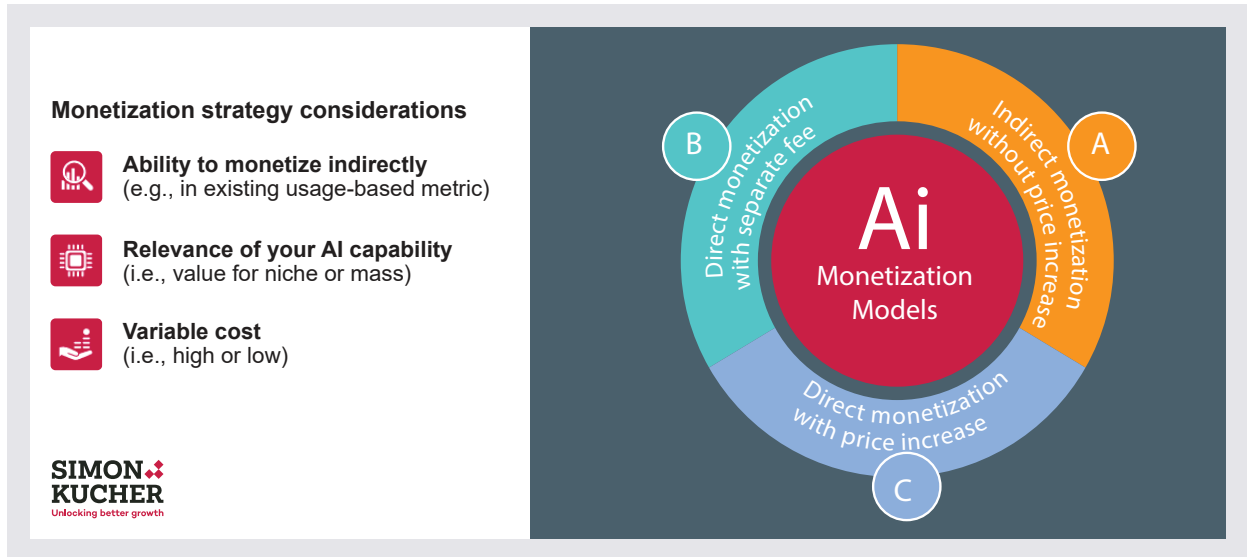


According to research by Simon-Kucher at the end of 2023, 94% of software companies were either developing or have already augmented their product with AI features. Everyone wants to offer this new technology to avoid the risk of being left behind. Yet, 42% of companies that have released AI products or features are not currently monetizing them, and even fewer are showing ROI (Source: Joe Floyd, 'Beyond Benchmarks 2024', *Emergence* (05/22/24)).

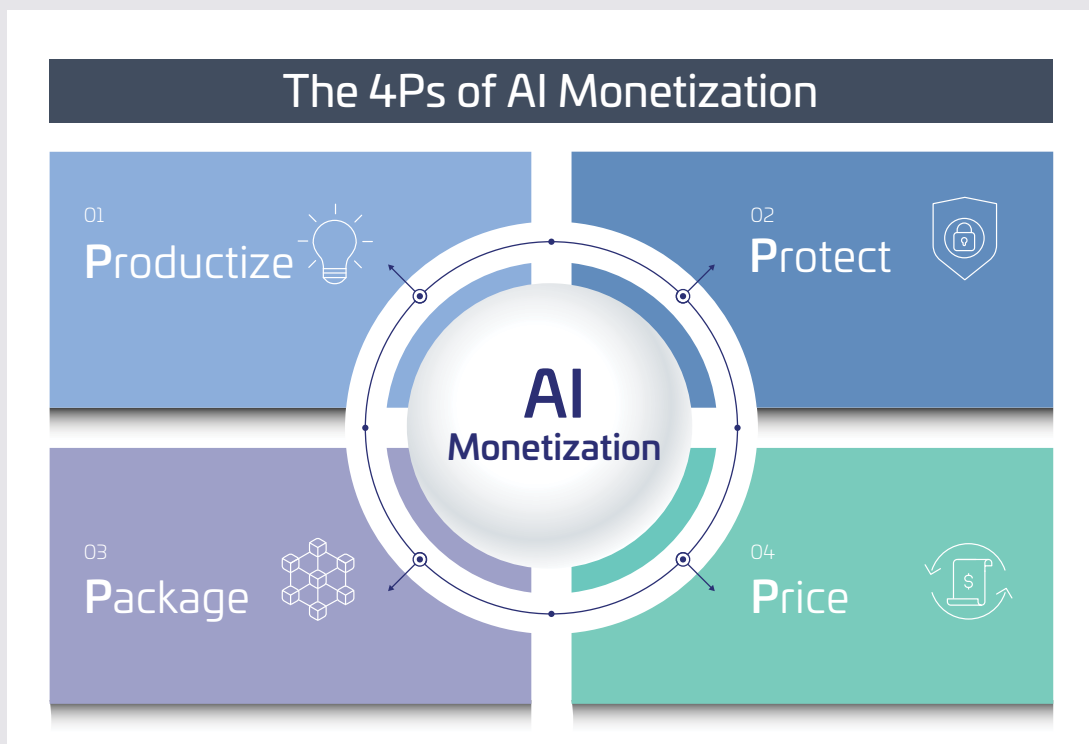
42% of companies that have released AI products or features are not currently monetizing them, and even fewer are showing ROI

Determining the monetization method

Determining the appropriate monetization strategy for AI involves assessing whether to charge directly for the AI features or to monetize them indirectly by offering AI for free and expecting returns in another way. This decision largely depends on three factors: the ability to monetize indirectly, the perceived value to the customer, and the variable costs associated with AI.



If you find yourself like the 42% of AI vendors with a product but no ROI to show for it, this guide will help you determine relevant course corrections and maximize revenue by focusing on the 4Ps of Monetization.



Productize your new AI capabilities

Today, AI is commonly commercialized either as a standalone product or as an addition to an existing product. Each has benefits and drawbacks.

Standalone AI offer - Build a separate business

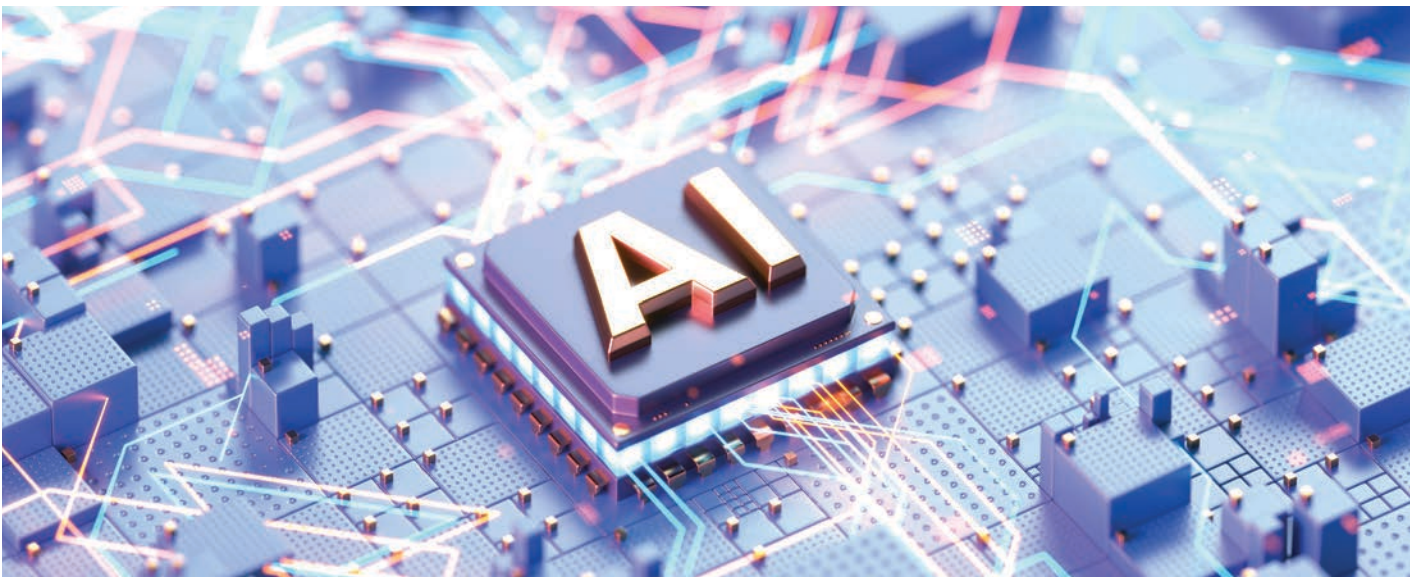
New AI-native companies, such as Lunit and AiMedic, offer products entirely centered on AI capabilities. Existing companies can also opt to market standalone AI products under a separate AI-native brand. For example, Waymo, a subsidiary of Alphabet, operates under its own brand name and is a leader in AI-driven transportation. When creating an offer, you must consider what problem it solves, to establish differentiation from the inception.

+ Pros:

A standalone entity provides greater flexibility in structuring the company and marketing the product. Pricing and packaging may also be more flexible if the entity is separate from the parent company.

- Cons:

Establishing a separate brand can be costly and may reduce operational synergy with the core business, affecting both operations and customer engagement. It will also require a separate means of communicating with customers under a different domain name.



Adding AI to existing products - Incremental business

Many companies are also embedding AI features into existing offerings. Building on the medical example, let's look at what may happen when a CT scan manufacturer adds a cancer screening AI feature to their scanner.

+ Pros:

This approach can create synergies, such as leveraging the existing customer base to enhance the overall value proposition and make the product more appealing to customers. It can also tap into existing marketing campaigns to reduce promotional expenditure. If your current pricing and packaging model is flexible, it may be easy to monetize the offer.

- Cons:

However, if the new capability is not recognized as truly innovative, it could fail to impact market positioning, and the additional cost may not be offset by increased direct revenue. Secondly, features which are dependent can impose constraints on teams and delay planned features or enhancements.

Considerations unique to AI productization

Whether you create a standalone offer or add AI features to your existing product, the key to productization is to differentiate your offer based on value drivers. Jumping on the AI bandwagon can backfire in that you may find that your costs exceed the benefits. It is important to consider these AI-specific issues when productizing your offer.

Understanding and communicating your value driver

Customers can easily find AI offers that promise cost-savings, better insights, personalization, collaboration, and innovation. In the rush to join the GenAI trend, companies fail to sufficiently differentiate between the free chatbots or affordable premium versions (e.g. ChatGPT, Claude, etc).

Solution: Think about the problem your existing software solves. Determine how your AI addition relates to that original purpose or addresses a related challenge. Only then will you add value to your existing product and have a compelling pitch to promote to your customers.



Maintaining regulatory compliance

Emerging regulations, such as the EU AI Act, impose product costs and uncertainty on AI providers. These regulations force companies to implement robust risk management systems, transparency measures, and ethical guidelines.

Solution: To ensure adherence to changing regulations, ongoing legal counsel will keep you on top of the limitations and standards for specific use cases (e.g., HR/recruitment rules). Software licensing tools also play a role in compliance by maintaining accessible records of who is using which software or feature, and when.



Data privacy, IP rights, and output accuracy

Training your model with data that is protected under privacy laws or where IP ownership lies with third parties exposes you to risks of penalties and litigation. Crackers manipulating your AI application or model can lead to false or even dangerous outputs, which can harm your customers, your reputation, and put you at legal and financial risk. This risk is particularly high if your AI application is deployed in private clouds or on-premise.

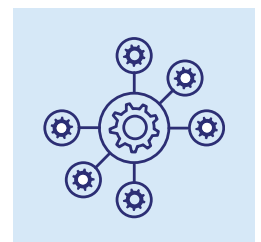
Solution: Carefully scrutinize your input data to be certain it meets privacy laws and doesn't infringe on others' copyrights. To safeguard your output, utilize protection technology (e.g. obfuscation and encryption) to secure the integrity of your AI application and model.



Operational integration

AI involves unique processes like data collection, model training, and deployment which can differ significantly from traditional business workflows. The resulting integration of your AI product can cause friction with existing operations which can affect your operational efficiency. From a customer perspective, an inadequate or poorly designed UI can negatively impact user experience (e.g., having a separate log-in for the AI feature).

Solution: Ensure that the AI features seamlessly integrate into your existing workflows and processes to optimize your operational efficiency. Standalone AI products should also mesh with your customers' workflows for a better user experience.



By addressing these considerations, you will conceptualize an AI product that stands out from the competition, appeals to users, and meets government regulations.



Protect your IP investment (private cloud, on-prem or on the edge)

ML models are costly to develop, making them attractive targets for hackers and IP theft. While cloud deployments often rely on the provider's security, those with private cloud, on-premises and device deployments face numerous vulnerabilities. Here's a look at three:

Model poisoning and transfer learning attack

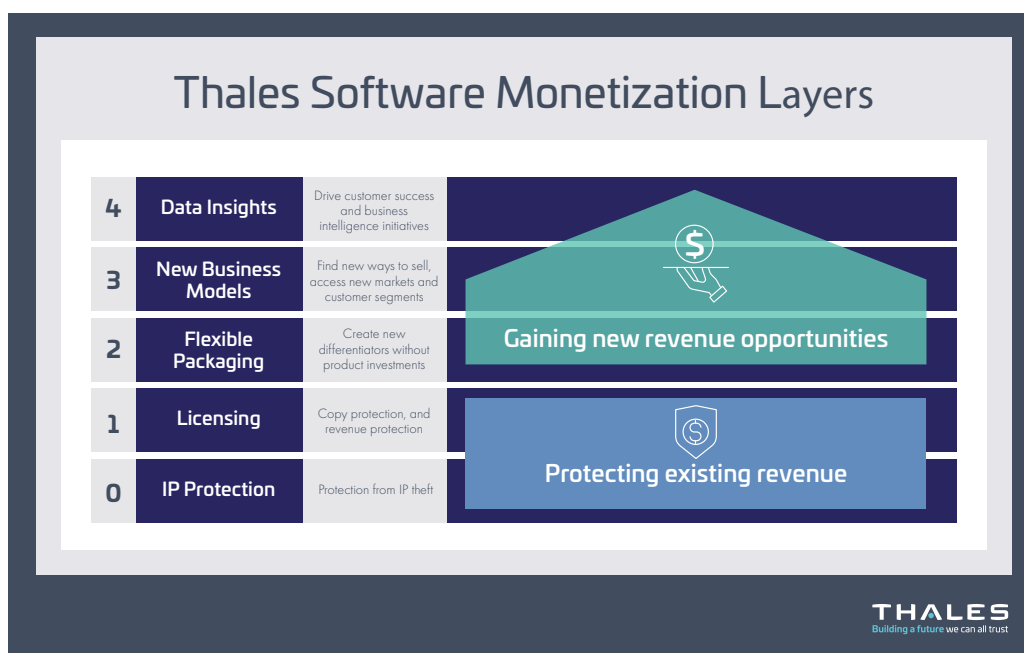
Both model poisoning and transfer learning attacks replace the authentic model with a modified version or a completely different model and can be accomplished through reverse engineering of the software.

Solution: Encrypt the model and allow only the correct application to decrypt and use it. An encrypted model is basically useless without the correct decryption key (see "Layer 0" below).

Input manipulation and output integrity attacks

Because AI is an iterative process that continually learns from inputs, receiving and preparing the data for input to the ML model or post-processing of the ML model output are points of vulnerability. Therefore the integrity of the application needs to be protected.

Solution: Safeguard the application against reverse engineering and modification. You can prevent these threats with sophisticated software protection tools found in advanced copy protection and licensing systems. (see "Layer 0" below).



“Thales’ layered approach puts IP protection and application licensing at the foundation of an effective monetization strategy. Securing the IP investment enables organizations to more confidently leverage the additional layers to create new revenue opportunities.”

Damien Bullot, GM Thales Software Monetization

Model theft/leapfrogging – lost revenue

Open Web Application Security Project (OWASP) lists model theft in its top ten attacks on ML models. Uncontrolled ML use exposes your model to being copied and even worse, puts you in danger of an extraction attack. A competitor can then use your ML to label their data training set and quickly overtake your competitive advantage.

Solution: Protect against model extraction with a strong licensing platform that can also impose rate limiting, making it inefficient for bad actors to use your technology to their own advantage. (see "Layer 1" above).

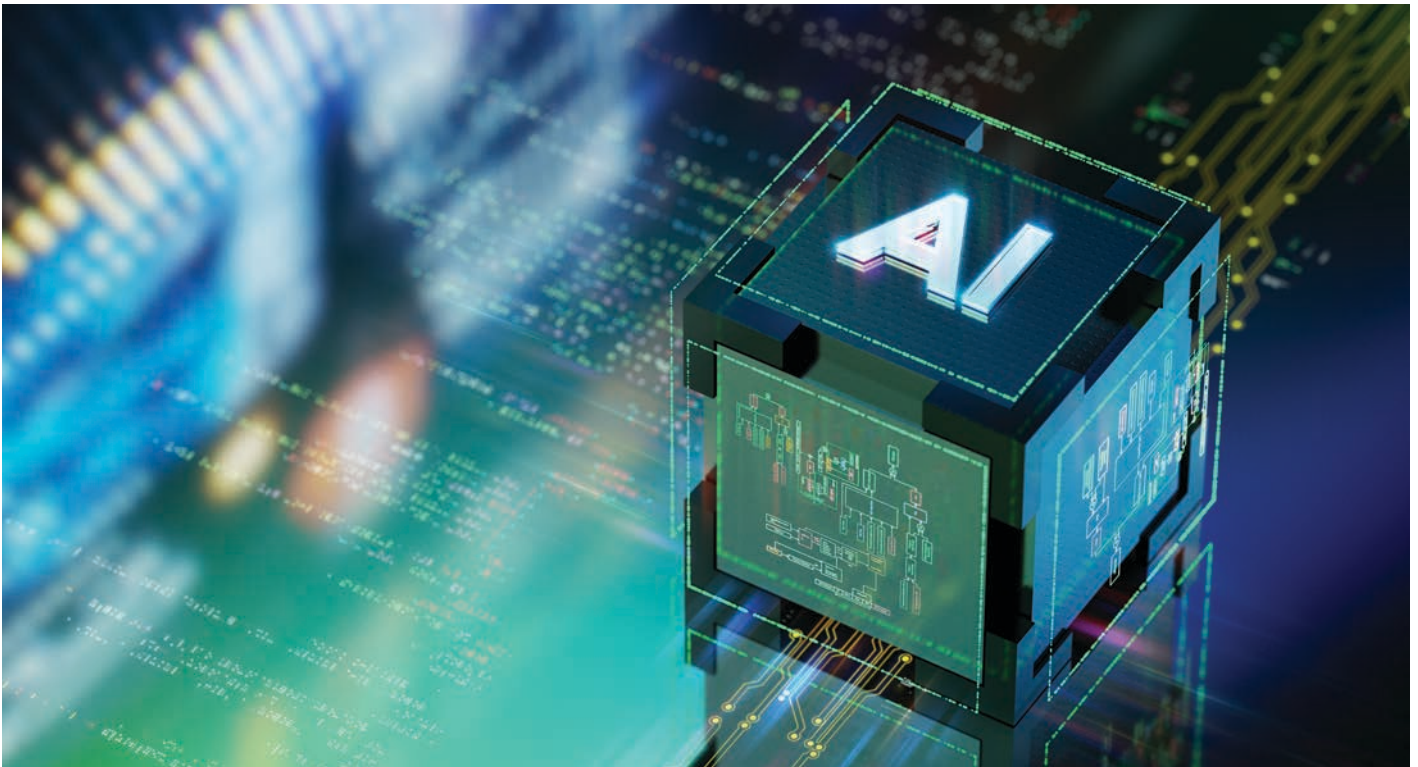
Packaging for direct monetization

Packaging is an effective product differentiator. For established products, it is a low-cost way to grow revenue from existing resources. There are multiple packaging models that can serve as a powerful tool to maximize value and appeal.

Packaging as a means of differentiation

Not all organizations or individuals will need the same functionalities of an AI offering. Typically, enterprise companies will require a greater level of privacy and compliance while end users and SMBs may not need a very sophisticated package.

Solution: To create valuable packages, analyze your customer base to identify segments that would benefit most from specific AI capabilities and structure their offerings accordingly. To support this flexibility, a robust software licensing and entitlements platform is crucial for operational efficiency.

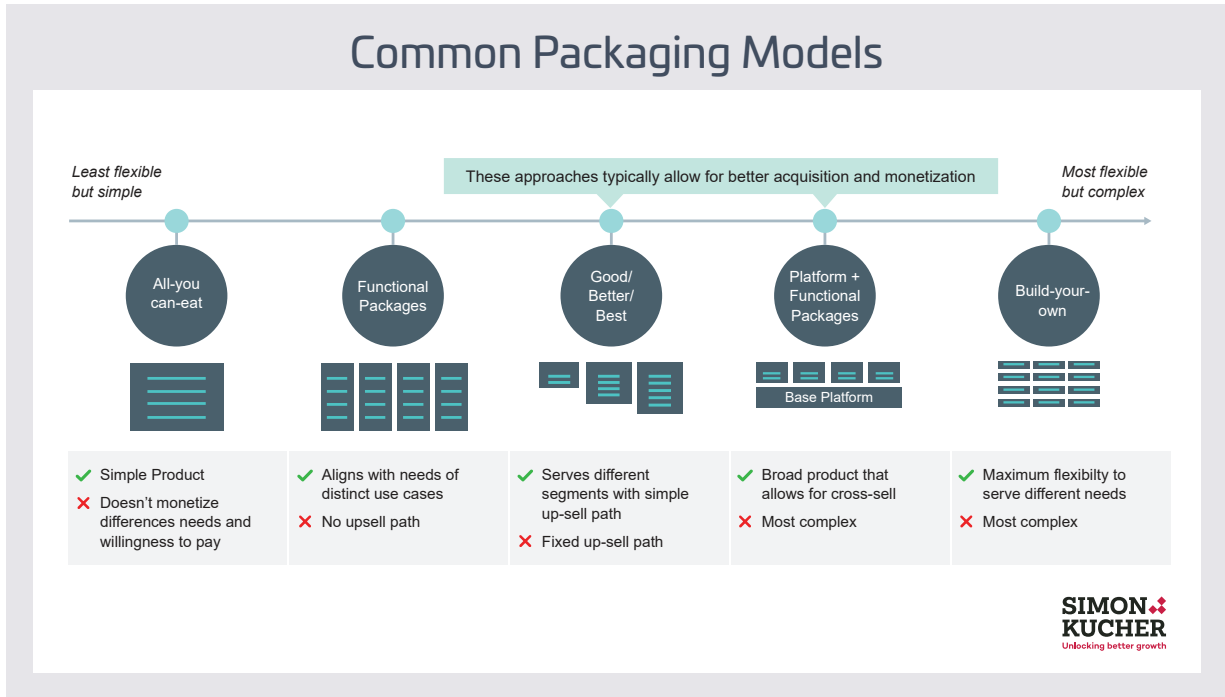


Operationalize packaging with software licensing

Customers have become accustomed to buying just what they need, demanding flexible packaging from their suppliers. Software vendors aim to meet these new baseline expectations. However, implementing a flexible packaging offer can be a time-consuming and stressful manual process on the backend.

Solution: Licensing protects your existing revenue by limiting access to your software in accordance with your commercial terms and conditions. It is also necessary to implement entitlement management which determine the features, functionalities, and services a user can access. Entitlements decouple the license from the product code so you can mix and match different functionalities or even product offers into bundles that meet a wide variety of customer needs, without the expense and development time to re-engineer your software for each iteration.

5 widely used packaging models



- 1 All-you-can-eat** All-you-can-eat is common for young companies with few features to differentiate.
- 2 Functional Packages** Functional Packages works well if the product offers vastly different use-cases, without logical growth path in customer needs.
- 3 Good/Better/Best** Good/Better/Best is a tiered system that adds features and value incrementally, helping customers understand the benefits at each level, then upgrade as needs evolve. This works well if there is a logical growth path in customer needs.
- 4 Platform + Functional Packages** Platform + Functional Packages model works well when there is no inherent growth path and offers the opportunity for more customized solutions. It's often chosen if there are common needs across customers, but without a logical growth path beyond that.
- 5 Build-your-own** Build-your-own works well in complex deals with long sales cycles where a lot of customization is needed for every customer. .

There is often a trade-off between simplicity and flexibility when considering packaging models. *Good/Better/Best* and *Platform+Functional Packages* typically strike a good balance between simple and flexible. These two approaches also enable clear communication of the distinct benefits of each package, ensuring customers understand the value at different price points. It should be immediately clear to prospects which package fits their needs. Companies must avoid overwhelming them with choice and avoid technical jargon unless it is appropriate for the audience.



Price your offer for profitability

Rushing to market without planning for the unique challenges of pricing and packaging can lead to pricing below costs and therefore lead to significant financial losses. Here are 5 key challenges to consider:

1. The costs of bringing AI offers to market

AI is flipping cost structures upside down. Traditionally, R&D intensive industries, such as software, have high fixed costs and relatively lower variable costs. Companies that sell GenAI solutions are surprised to find the opposite – higher variable compared to fixed expenses. Here are the typical costs associated with creating an AI offer.

Computing

Fixed and variable

Training complex machine learning models often requires significant one-time CapEx investment in high-end computing hardware, such as GPUs and TPUs. However, the ongoing OpEx expense for cloud services like AWS or Azure will continue to increase with usage of your offer.

Energy

Fixed and variable

According to Alex de Vries, a Dutch Data Scientist who spoke to The New Yorker on the subject, a single search with AI integration will consume 10 times more energy (3 KWh) than a regular search.

Data acquisition

Fixed and variable

Obtaining high-quality, relevant data sets for ML training can be expensive. Depending on your product, you might need to purchase access to labeled data or dedicate resources toward in-house data labeling. For example, Bloomberg invested over \$10M to develop a large language model (LLM) tailored for financial tasks based on its own curated data and third-party data.

Model optimization

Fixed and variable

Optimization involves improving response accuracy, training the model, and fine-tuning it. This represents a large upfront and ongoing cost necessary to ensure that the models deliver the expected performance.

Licensing LLMs

Variable

Utilizing existing capabilities like OpenAI's GPT models can become costly. Almost all the largest GPTs follow a consumption pricing model, where your expenses increase with higher user adoption.

Solution: Choosing the direct monetization approach – charging directly for the product rather than relying on incremental business through cross-sales and increased usage fees from existing products – offers a better option to cover the direct costs for a new offering. However, there are instances where indirect monetization may be more effective.

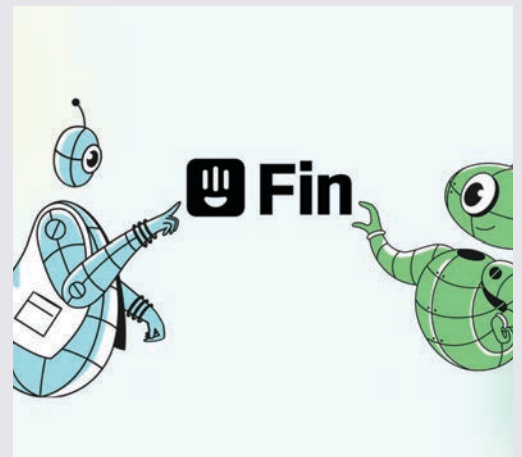
Example of Direct Monetization:

Intercom Fin - AI-powered customer service bot

Intercom Fin is an AI-powered customer service bot add-on that automates and resolves inquiries by providing instant answers from various sources. It supports multiple languages and escalates complex issues to human agents.

Pricing is based on a per-resolution model, charging \$0.99 for each successfully resolved query, in addition to fees for other products. In the first half of 2024, 17% of product purchases reportedly included the Fin add-on."

Source: <https://www.theinformation.com/articles/new-ai-business-model-charging-customers-only-when-the-tech-works>





2. Earning returns on AI investment via cross-selling and upselling

Indirect monetization occurs when AI features enhance the overall product offering, leading to increased conversions through cross-selling and upselling, or higher usage-based pricing. Achieving success requires a variable cost structure that allows high-intensity usage to remain profitable. Beyond the immediate financial returns, this method can help you remain competitive and relevant in a rapidly evolving market.

Solution: It is important that indirect monetization be approached as a deliberate strategy rather than as a by-product of adding an AI capability.

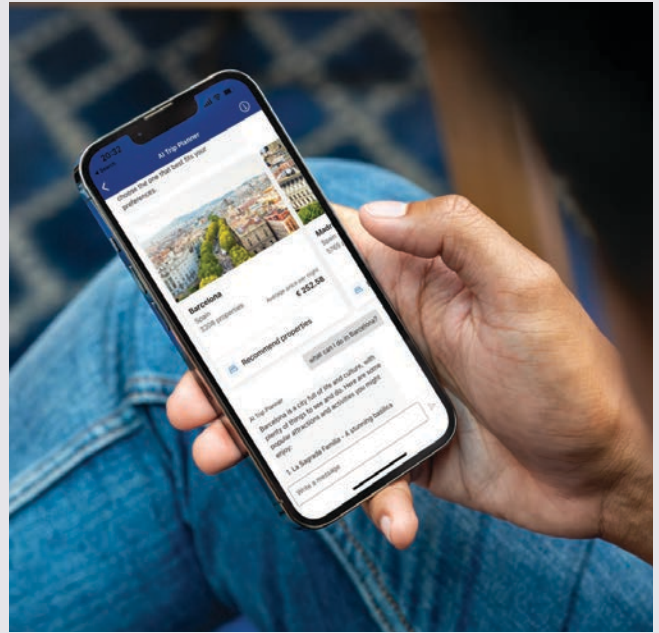
Example of Indirect Monetization:

Booking.com - AI Trip Planner

Booking.com aimed to increase revenue through cross-selling additional services alongside accommodations. The online travel agency launched a travel planning tool that, with the help of GenAI, encourages consumers to book additional services, such as flights or rental cars through the platform.

This chatbot tool provides personalized travel suggestions, answers destination-specific questions, and helps plan entire holidays, including transportation and additional activities.

No fee is charged to the user as revenue is generated through the backend.



3. AI efficiency impacts user-based pricing

A key concern with AI adoption is the potential reduction in user numbers if AI automates tasks traditionally performed by humans. This will directly impact revenue under a user-based model, as there are fewer users to bill.

Solution: Usage/Consumption-based pricing

This model charges customers based on their usage of AI services, such as the number of API calls, data processed, or computational resources consumed. The caveat is the “taxi meter effect,” which causes customers to be conservative in their usage for fear of paying too much.

Operationalizing usage-based software licensing can help mitigate this issue. Users can purchase a set amount of software license tokens upfront and use these to “pay” for different AI functionalities. The usage metering license then tracks the number of tokens consumed by each customer. As customers deplete their bundle of tokens, they’re offered the option to buy more, allowing vendors to generate recurring income streams without putting undue pressure on clients.

+ Pros:

Usage-based pricing overcomes price as a barrier to entry as customers find paying for what they use is fair and transparent. Vendors are compensated for the value their AI delivers and ensure high variable costs don’t cut into profit margins.

- Cons:

One challenge in executing this model is setting up a system to track actual usage in real-time to ensure customers do not exceed their token limit.



4. Revenue instability

Relying solely on usage-based or outcome-based pricing can lead to significant revenue volatility, particularly if customer usage patterns or the outcomes achieved with your product fluctuate widely. This unpredictability can create challenges in financial forecasting, budgeting, and resource allocation, hindering your ability to plan for growth and investment.

Solution: A hybrid pricing model offers a way to mitigate the risks associated with revenue instability by combining elements of both fixed and variable pricing. This approach allows you to: establish a predictable revenue base. The fixed component, such as a monthly subscription fee or a minimum commitment, ensures a consistent stream of income, even during periods of low usage or outcomes, providing a safety net for your business and facilitates better financial planning.

+ Pros:

The hybrid pricing model allows you to meet customer flexibility demands and still maintain a consistent revenue stream.

- Cons:

With complexity comes possible customer confusion if not presented clearly. Internally, it may incur administrative costs to track usage, calculate variable charges, and communicate billing details to customers.

Example of Revenue Instability:

AI-powered customer support

Imagine a customer support platform that charges customers strictly per query. Customers may be pleased to only pay when they are using the platform, but the ISV will find that during peak periods (e.g. product launches) inquiries will surge, leading to a spike in revenue.

However, during quieter periods, usage may dwindle, causing a sharp drop in income. Such fluctuations can make it difficult to sustain consistent cash flow and maintain financial stability. Hence the appeal of a hybrid pricing model.



5. Pricing sensitivity

There are two types of AI prospective customers who may be hesitant to pay for the offer. The first group are those who have used a free AI service and might expect all AI products to be offered at no charge. The second group may have difficulty grasping the potential value of an AI product.

Solution: Value or outcome-based pricing is growing in popularity among AI providers as a way to address these two groups. It overcomes resistance to higher AI pricing by aligning the provider's success with the customer's success. However, because success differs between customers, determining the right metrics can be challenging and therefore measuring performance may be difficult.

Certain industries lend themselves more readily to showing measurable metrics that can be agreed upon at the outset. These metrics include increased revenue, cost savings, and productivity improvements. Flexible, segment-based packaging allows you to adjust price points according to the perceived value in different customer segments.

+ Pros:

This model demonstrates clear value and provides a rationale for higher pricing.

- Cons:

The challenge lies in effectively implementing and accurately measuring the necessary metrics.










Evaluating pricing effectiveness


Because AI is in the nascent product development stage, offerings and market forces will quickly change. Pricing should be flexible enough to reflect this dynamic environment. Both product-led and sales-led companies will need to make evolving pricing decisions based on tracking a range of KPIs, doing frequent pricing tests, and conducting customer research. Sales-led companies have the additional advantage of leveraging valuable insights from their sales teams, such as win/loss data and discounting patterns, to further refine their pricing strategy.

A study by Simon-Kucher demonstrates that companies making frequent incremental course corrections to their pricing (e.g. small adjustments on a quarterly or bi-annual basis) typically achieve higher growth than those that do not.


How To Choose A Pricing Model For Your AI Offer

Identify the unit you are charging for → Define the pricing model → Consider business implications

	Identify the unit you are charging for	Define the pricing model	Consider business implications
Static Metrics	<ul style="list-style-type: none">  Number of users  Number of instances  Feature set included 	Flat Rate Pricing Model	<ul style="list-style-type: none"> Measurability ☆☆☆☆☆ Revenue stability ☆☆☆☆☆ Alignment to value ☆☆☆☆☆ Ability to offset costs ☆☆☆☆☆
Usage Metrics	<ul style="list-style-type: none">  Number of uses  Number of transactions processed  Compute/storage consumed 	Consumption Pricing Model	<ul style="list-style-type: none"> Measurability ☆☆☆☆☆ Revenue stability ☆☆☆☆☆ Alignment to value ☆☆☆☆☆ Ability to offset costs ☆☆☆☆☆
Outcome Metrics	<ul style="list-style-type: none">  Incremental revenue generated  Savings from cost efficiencies  NPS improvement 	Value Based Pricing Model	<ul style="list-style-type: none"> Measurability ☆☆☆☆☆ Revenue stability ☆☆☆☆☆ Alignment to value ☆☆☆☆☆ Ability to offset costs ☆☆☆☆☆



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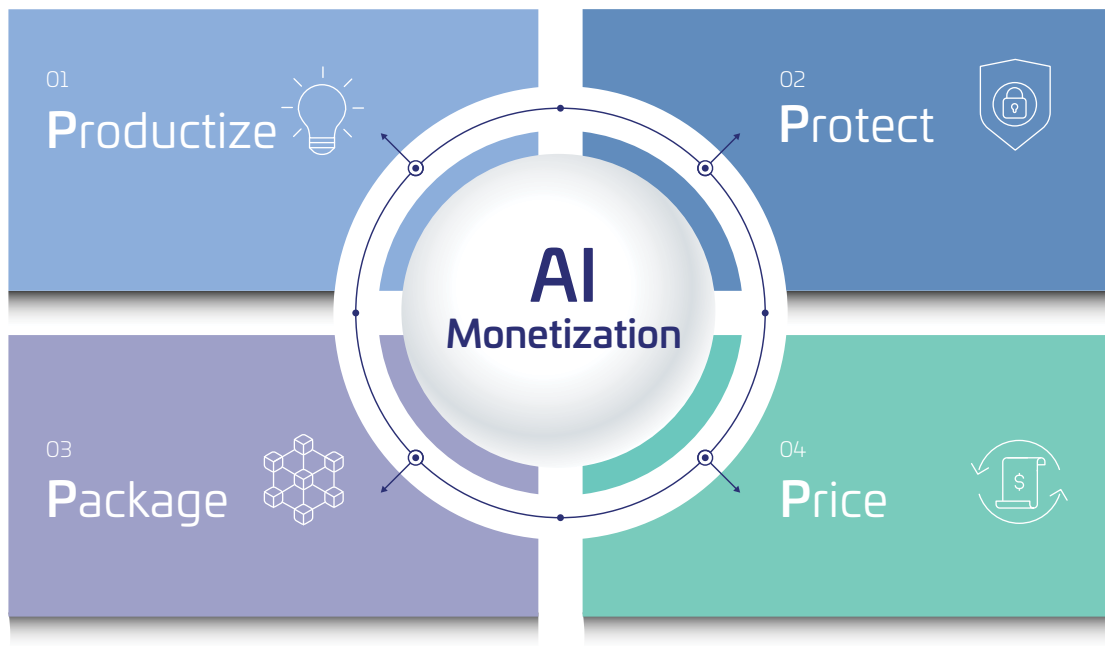


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Turn investments into profits

There is no doubt that AI offers enormous opportunities. At the same time, there is also increasing pressure from investors. Gartner predicts that “at least 30 percent of 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.” To mitigate your risk of falling into that 30 percent, ensure you build a sustainable business model.

The 4Ps of AI Monetization



4Ps Implementation: Checklist for Success

<p>01 Productize </p>	<p>Add value and be different - don't be a "GPT wrapper," but differentiate yourself with AI-driven value drivers.</p>	<p>Understand the regulatory issues and establish strict privacy protocols from the beginning.</p>
<p>02 Protect </p>	<p>Encrypt your ML model to avoid reverse engineering and malign cracking.</p>	<p>Utilize strong licensing to prevent software from purposeful or inadvertent overuse.</p>
<p>03 Package </p>	<p>Consider your packaging structure as a means of differentiation, balancing simplicity and complexity.</p>	<p>Operationalize your packaging with a robust software licensing and entitlement management system.</p>
<p>04 Price </p>	<p>Ensure your price reflects a well-articulated value and covers the unique AI costs.</p>	<p>Plan for flexible pricing models to evolve with market conditions and capture wide market reach, whether they are usage-based, outcome-based, or hybrid models.</p>

About the authors



Simon-Kucher

Simon-Kucher is a global consultancy firm with over 2,000 employees in 30+ countries focused on unlocking better growth that drives measurable revenue and profit for our clients.

With nearly 40 years of experience in monetization topics of all kinds, we are regarded as the world's leading pricing and growth specialist.

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For more information visit:

[Master GenAI monetization for sustainable growth \(simon-kucher.com\)](https://www.simon-kucher.com)



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Today's businesses and governments depend on the cloud, data and software to deliver trusted digital services. That is why the most recognized brands and organizations around the world rely on Thales to help them protect sensitive information and software wherever it is created, stored or accessed – from the cloud and data centers to devices and across networks. As the global leader in data security, identity & access management, and software licensing, our solutions enable organizations to move to the cloud securely, achieve compliance with confidence, create more value from their software and deliver seamless digital experiences for millions of consumers every day

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For more information visit:

[Software Monetization Solutions by Thales](https://www.thales.com)

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