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An IBRS Futures Presentation

by Joseph Sweeney

The Economics of AI:

Why AI Vendors are Failing Economically...
and What it Means for the Future

Background

The State of the Art…

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AI is Not New… and its Progress is Predictable

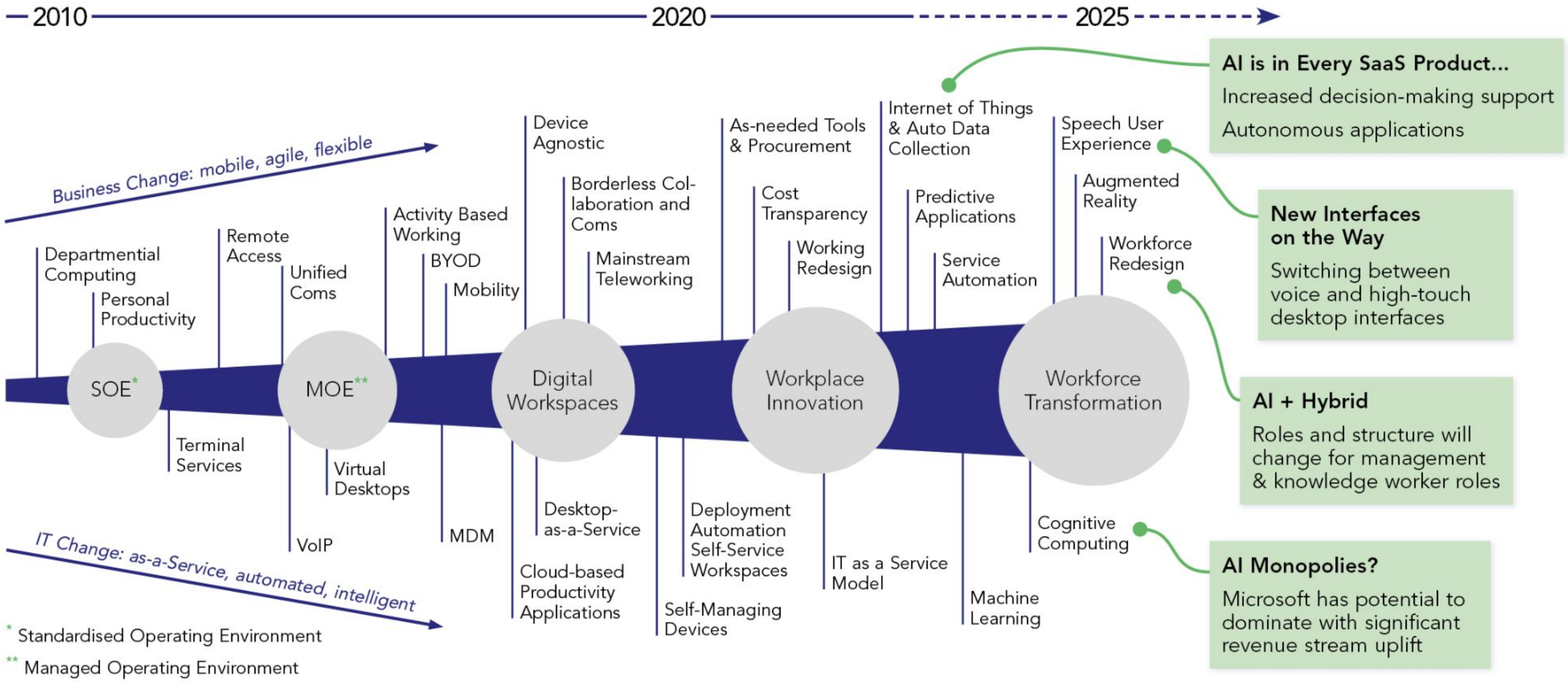

Figure 1: The Journey Towards the Workforce Transformation

Source: 'Market forces driving digital transformation and the trend towards digital workplaces', IBRS, 2016.

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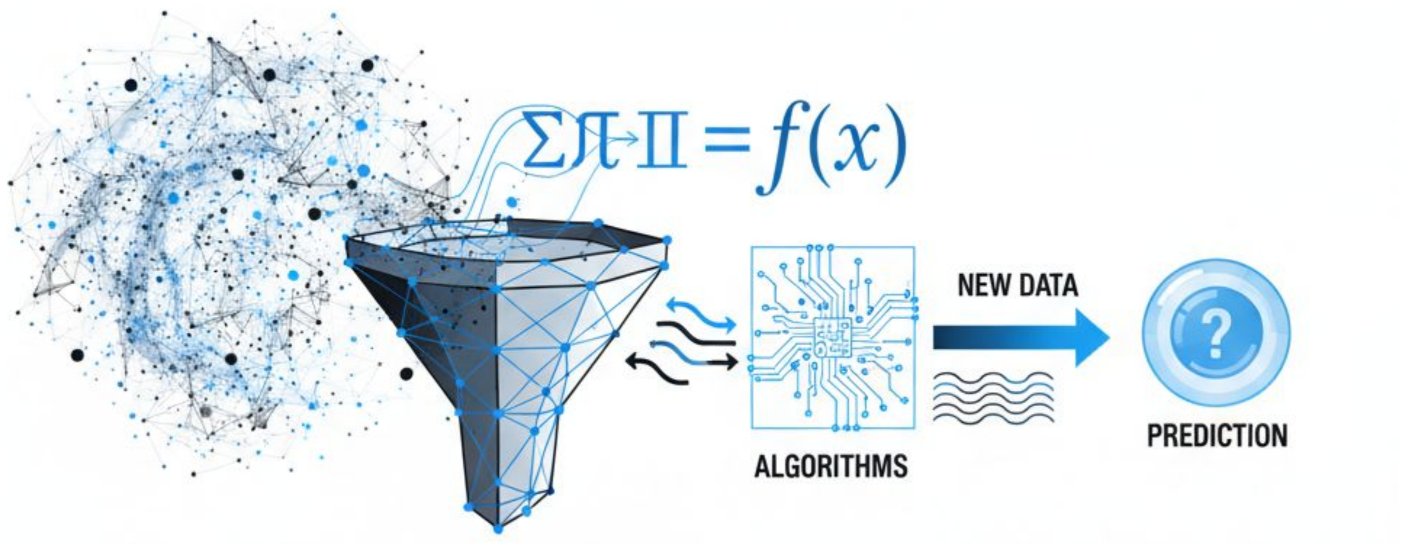
What is Artificial Intelligence?

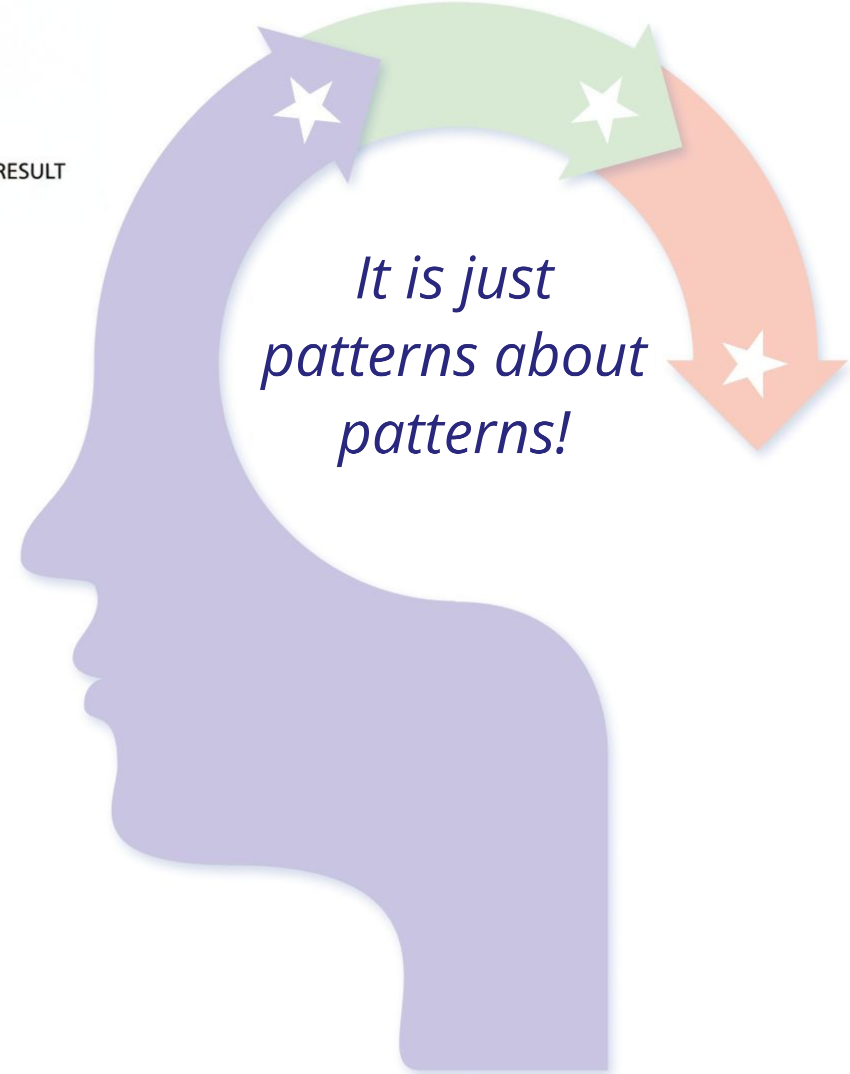
Generative AI

Finds approximate matches between patterns & generates new patterns.

Machine Learning

Discovers patterns & makes predictions based on those patterns.

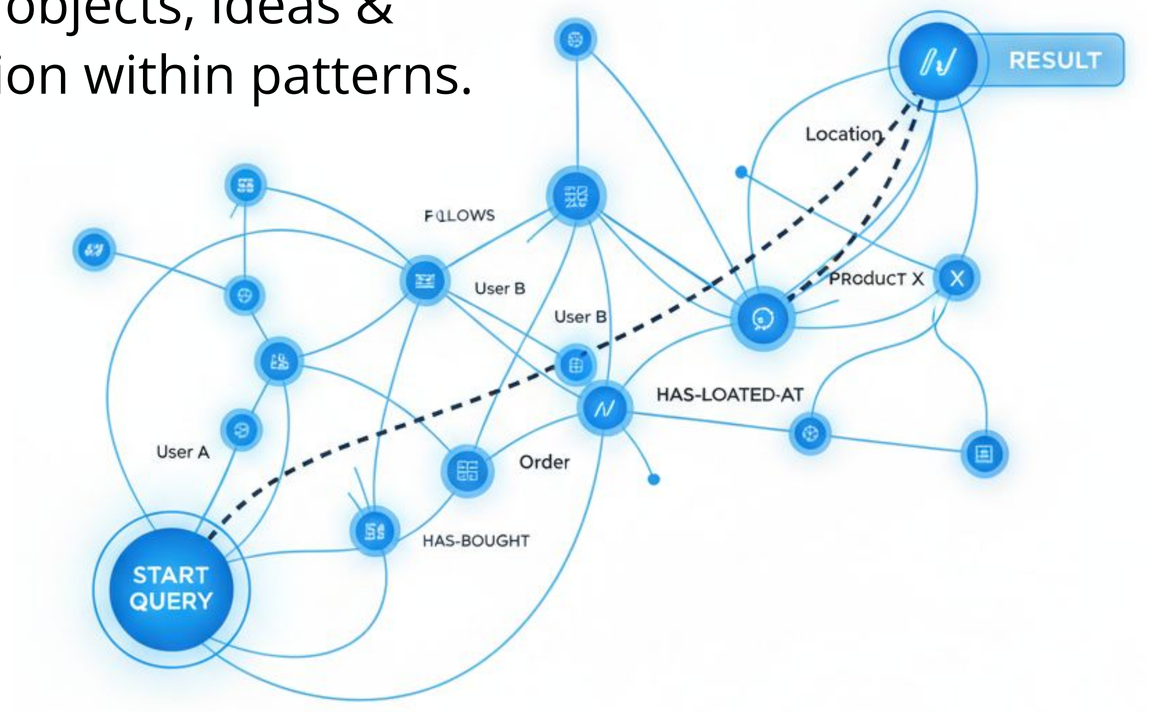




It is just patterns about patterns!

Graph

Defines shows relationships between objects, ideas & information within patterns.



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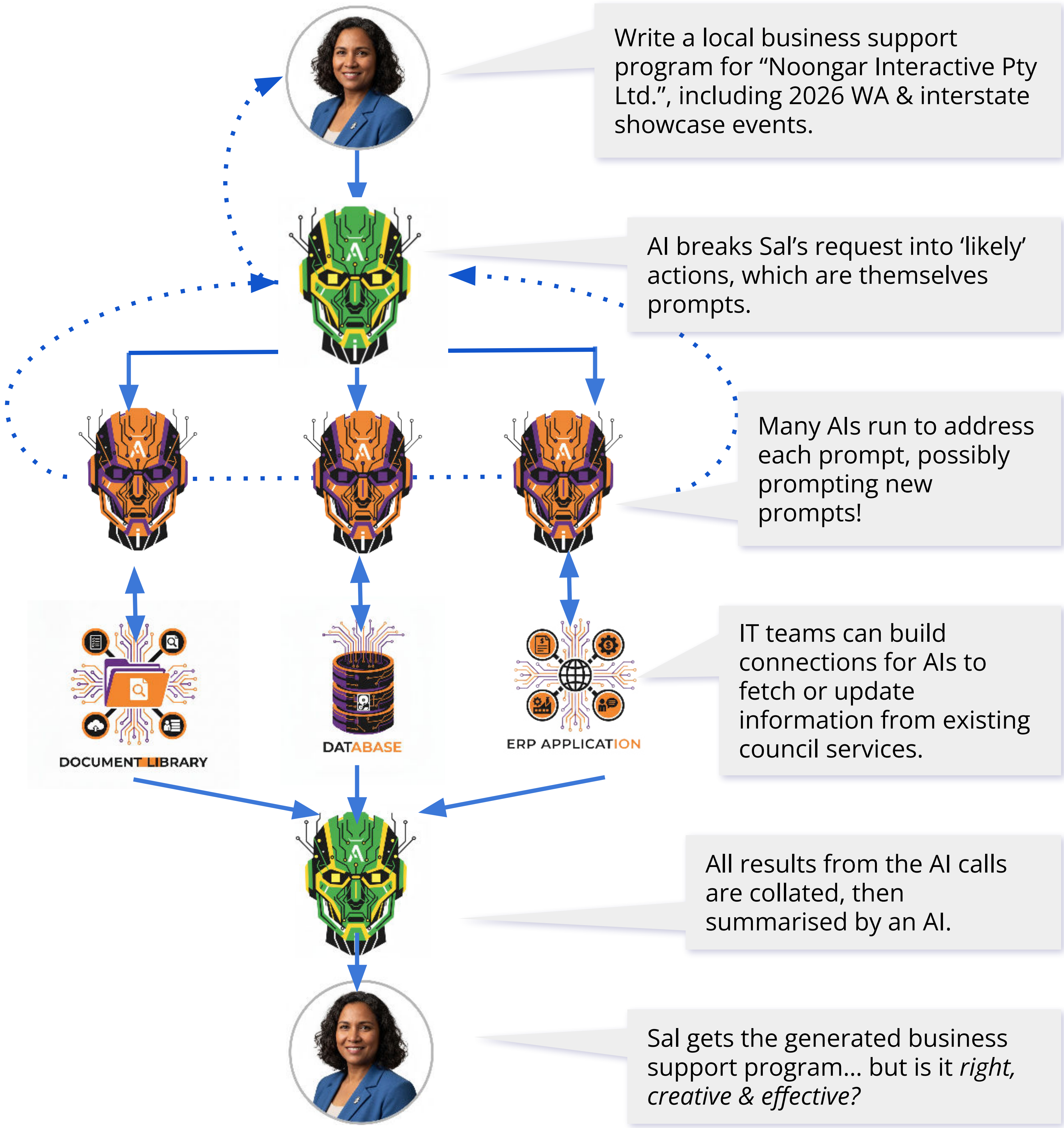
What is Agentic AI?

Agentic AI is generative AI being called iteratively with added API calls

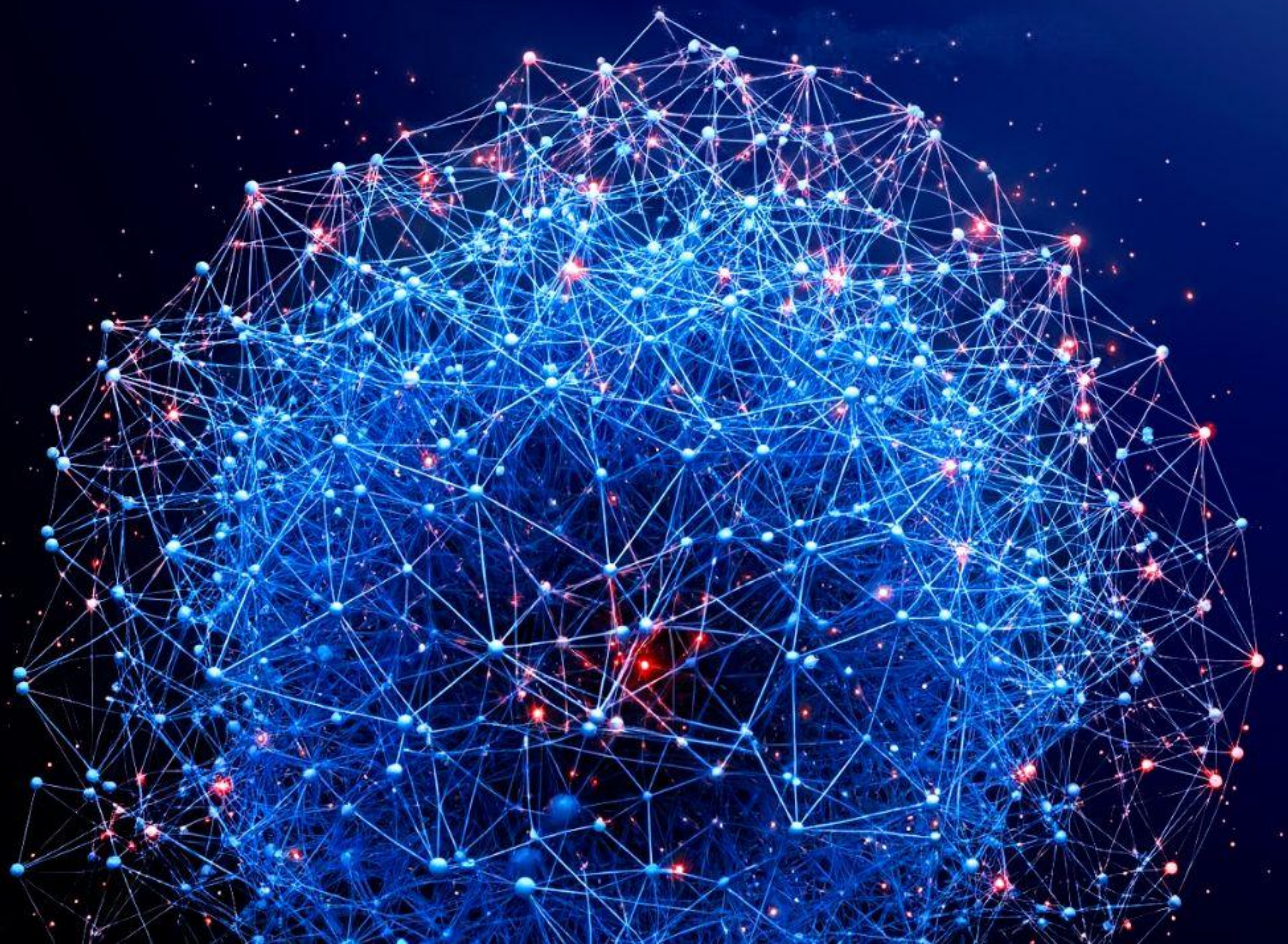
‘Reasoning’ is just a prompt to create a list of steps – which become new prompts.

Agentic AI improves on basic prompting and utility, offering easier productivity gains, but retains – or even magnifies – the limitations of generative AI.



Are Today's Mega-AI Models Tomorrow's Mainframes?

Massive corpus, non-curated, broad tasks.



Smaller corpus, curated, expert tasks

Are We in an AI Bubble?

Show Me the Money!

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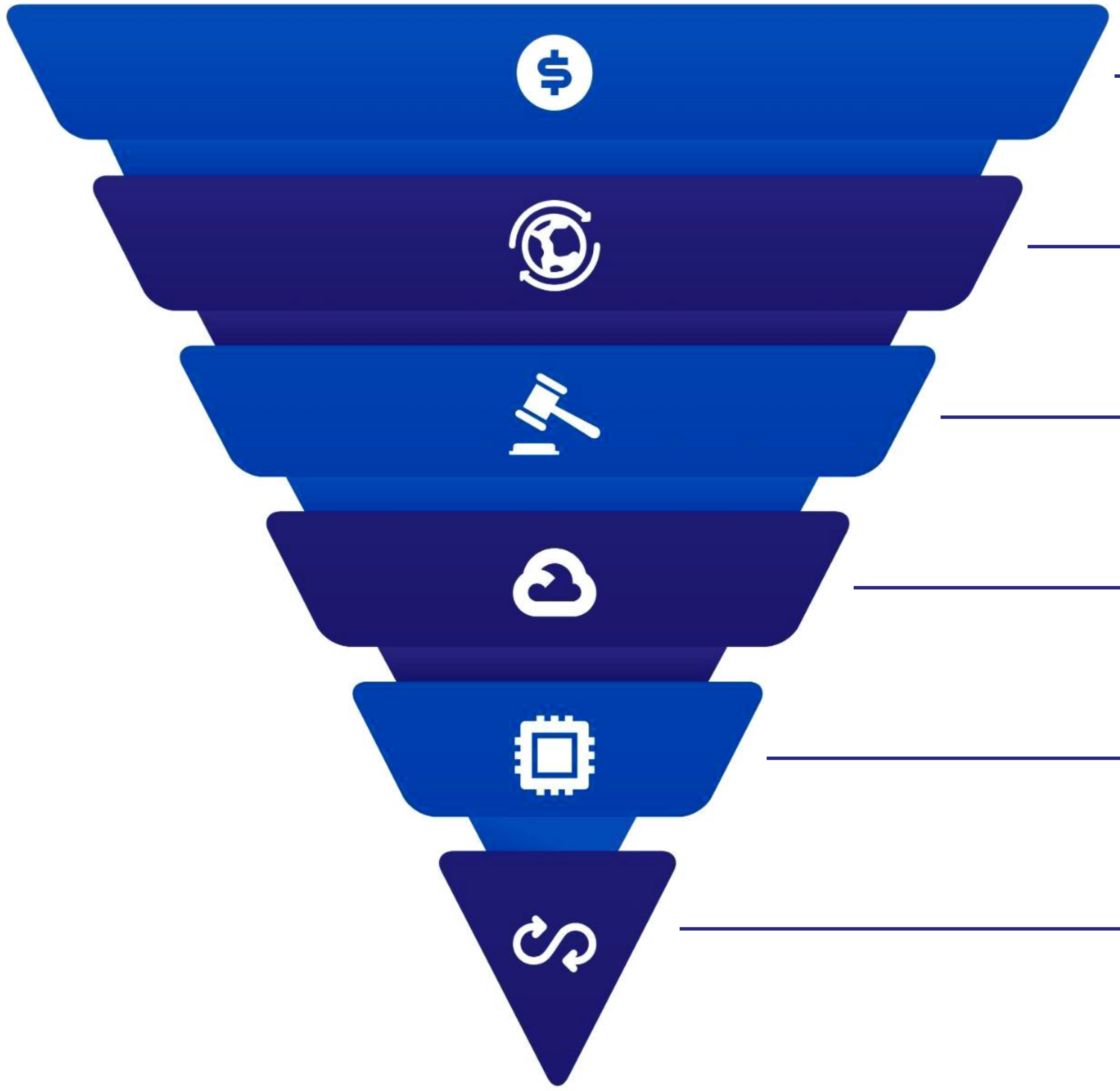
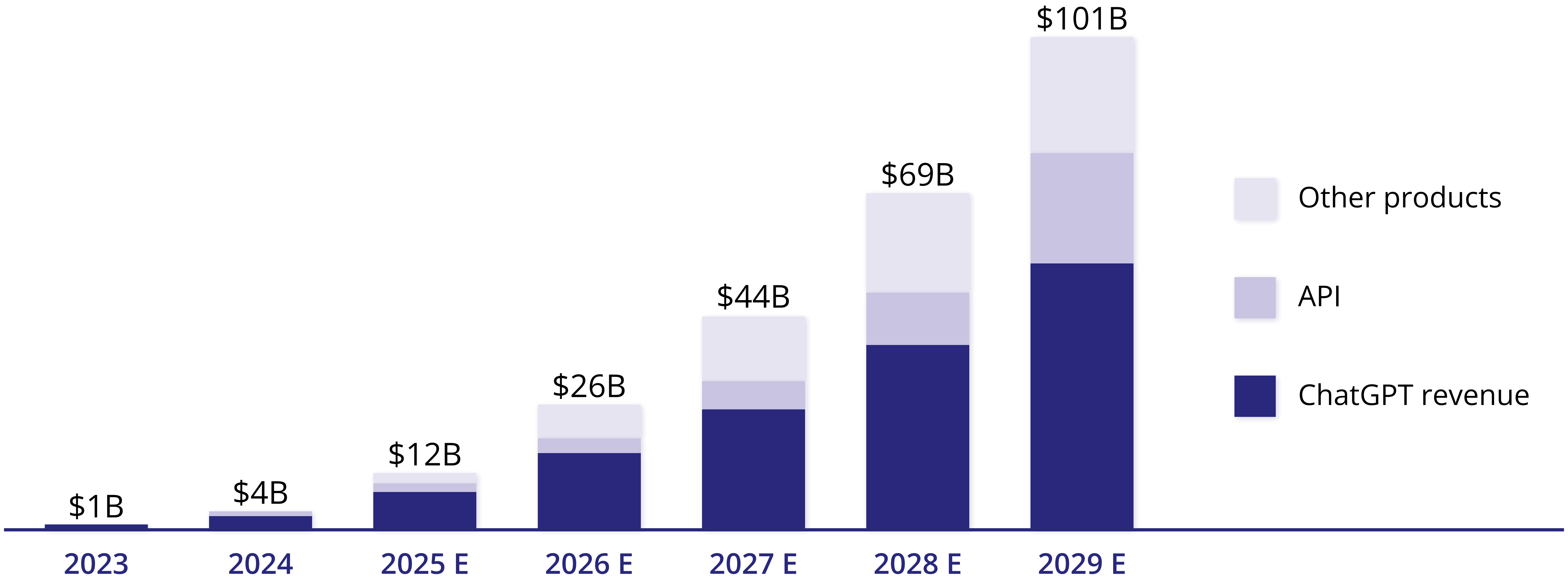
Factors Impacting AI Stock Market Stability



AI Vendors Losses Mount	Monopoly proves impossible. Vendors seek alternative revenue streams.
Shift in Model Architectures	Cost, sovereign concerns drive the use of open, small models. Aggressive lobbying.
Legislation	Copyright, AI safety, privacy legislation enforced by jurisdiction.
Infrastructure Depreciation	Major AI vendors need to replace infrastructure. USD$40b bill.
Chip Monopoly Cracks	Major cloud vendors & China break NVIDIA monopoly. Stock tanks.
Cyclic Investment	Liquidity crunch, vendors' reinvestments in each other stagnate.

OpenAI's Stated Profit Objective



OpenAI Revenue, in U.S. dollars

Source: NYTimes, Bay Area Times analysis

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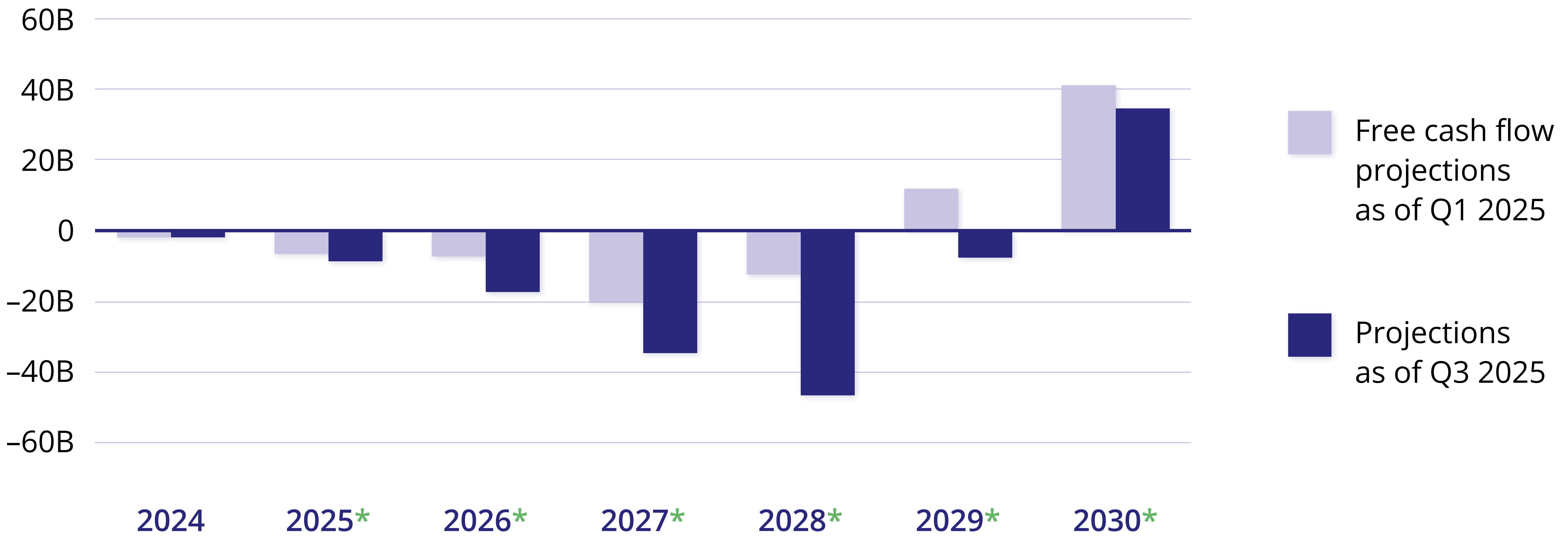
Devil is in the Detail With OpenAI

Cash Crunch

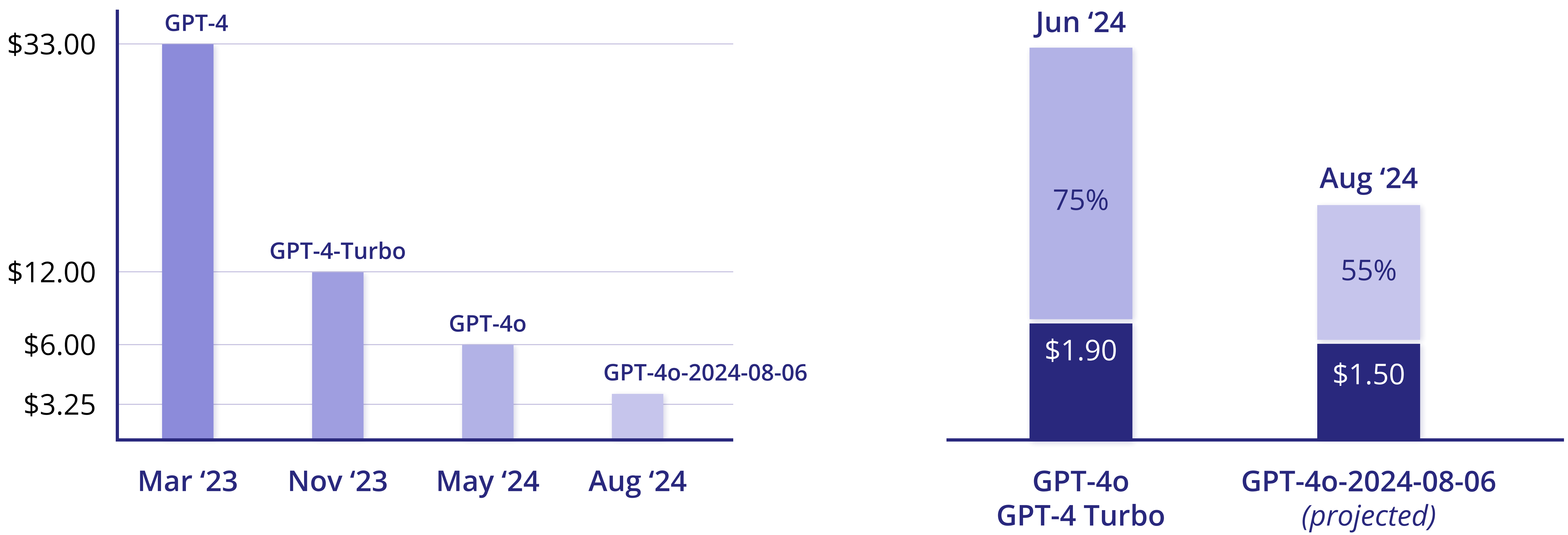
OpenAI is now projecting much higher cash burn due to cloud computing and data center-related expenses.



OpenAI Cash Burn, in U.S. dollars (*Projection)

Source: The Information reporting

Those Smaller, Niche Models Look Even More Likely Versus the Mega Models!



OpenAI Gross Margin per 1M API Tokens

Source: FUTURESEARCH estimate

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Impact on Vendors

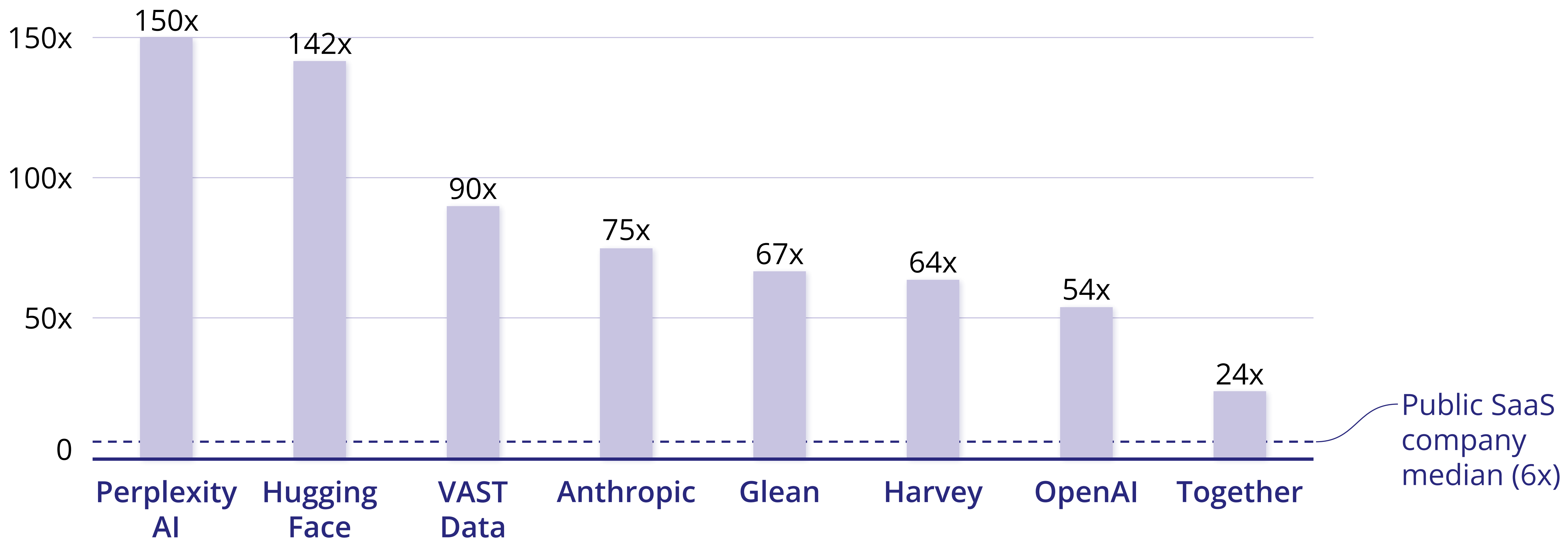
Is Microsoft replacing staff with AI?

Year	Capital Investments *(USD in Billions)*	Revenue *(USD in Billions)*	Year-over-Year Revenue Growth *(%)*	Number of Employees *(End of Fiscal Year)*	Year-over-Year Staff Growth *(%)* *(Absolute Change)*	Staff / Revenue Ratio	Capital Investments / Revenue
2015	5.9	93.6	8%	118,000	N/A	$793,220	6.30%
2016	8.3	85.3	-9%	114,000	-3.40%	$748,246	9.73%
2017	8.1	89.95	5%	124,000	8.80%	$725,403	9.01%
2018	11.6	110.4	14%	131,000	5.60%	$842,748	10.51%
2019	13.9	125.8	14%	144,000	9.90%	$873,611	11.05%
2020	15.4	143	14%	163,000	13.20%	$877,301	10.77%
2021	20.6	168.1	18%	181,000	11.00%	$928,729	12.25%
2022	23.9	198.3	18%	221,000	22.10%	$897,285	12.05%
2023	28.1	211.9	7%	221,000	0%	$958,824	13.26%
2024	44.5	245.1	16%	228,000	3.20%	$1,075,000	18.16%

Source: IBRS Financial Analysis for AFR inquiry, 2025

Valuations are Not Sustainable

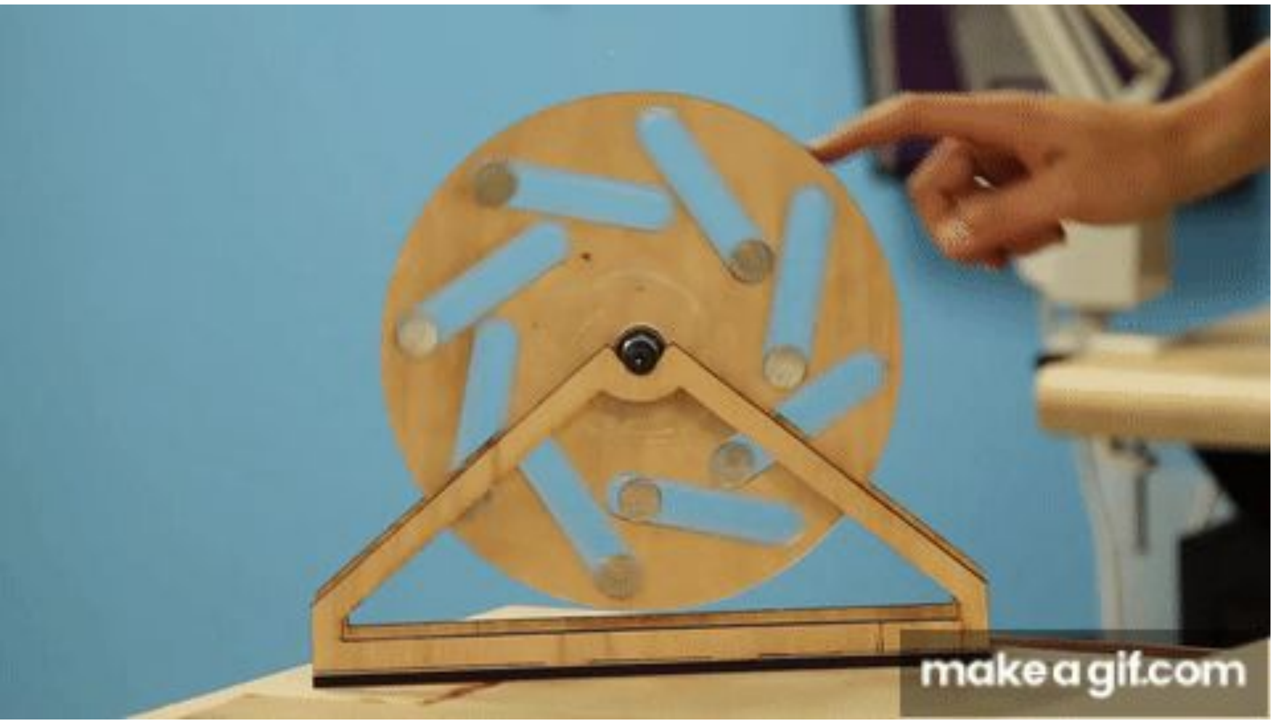
AI startups are being valued far more highly relative to the next year's projected sales than most software companies.

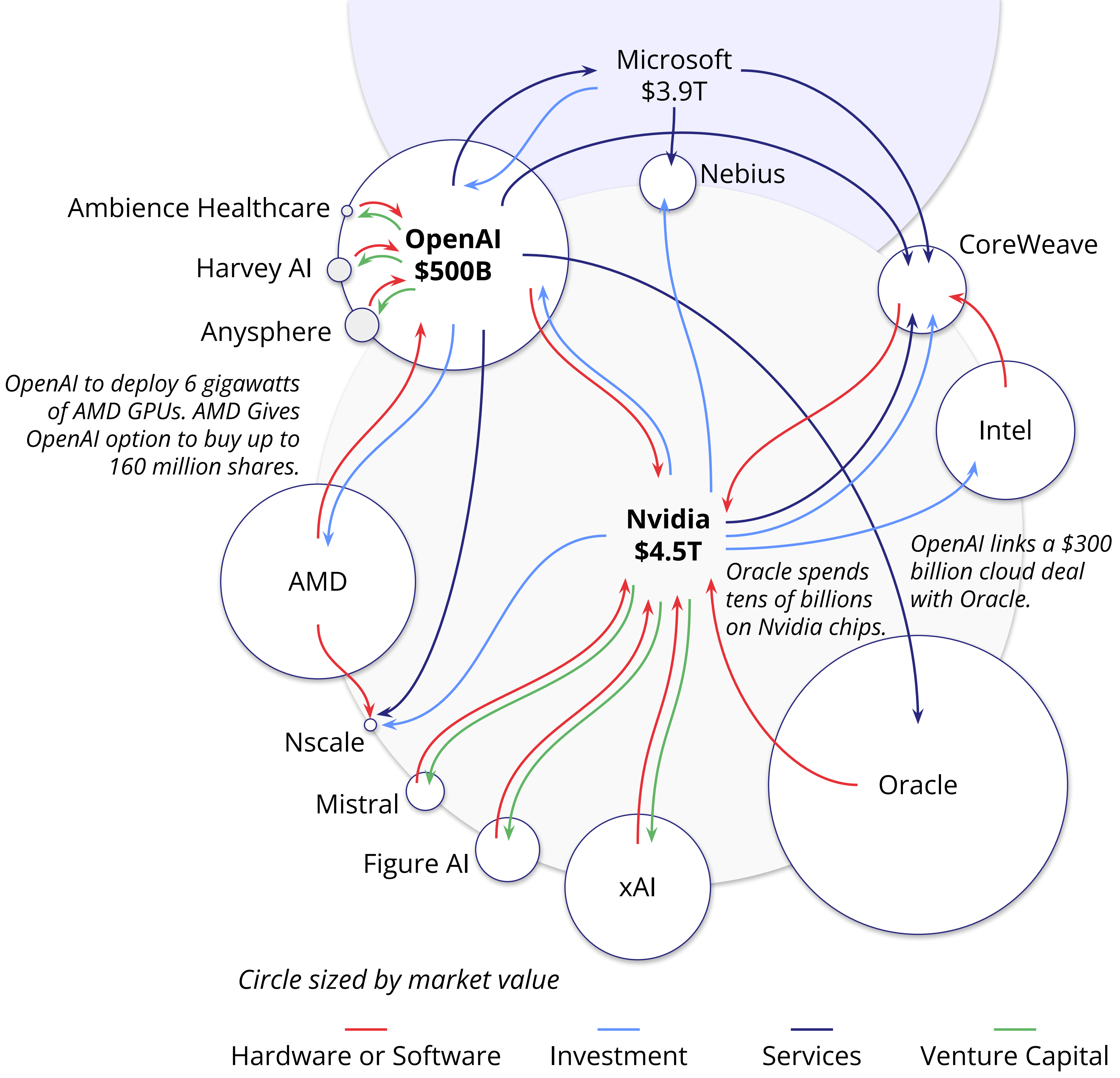


AI Startups Valuation Multiples Based on Forward-Looking Revenue

Source: The Information reporting. Median multiple via Meritech Capital

Introducing the Amazing Perpetual Money Machine!





How Nvidia and OpenAI Fuel the AI Money Machine

Source: Bloomberg News Reporting

Putting This Knowledge to Use
The Road Ahead

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Impact of an AI Bubble Burst

Major AI Services

- Harvesting and selling usage data
- Bias as a revenue stream
- Aggressive lobbying for trade barriers
- Aggressive lobbying for indemnification
- New services are explicitly consumption-based
- Degraded services
- Price increases
- Bait and switch licensing

Market Reaction

- Core business platforms now run their ‘own’ AI models
- Most AI use moves to core business platforms
- Adoption of self-hosted ‘open source’ models
- Move to smaller, specialised generative AI models
- AI platforms largely merge into low-code process automation tools (with RPA, Rules engines)
- Digital sovereignty becomes paramount concern

Blood in the Water for Non-Core AI Vendors

What Would an AI Bubble Burst Mean for Most Australian Organisations?

- **AI will become more costly**, but if considered part of an innovation cycle, AI still delivers productivity dividends.
- Possible need to unwind AI vendor investments and replatform.
- AI selection needs to factor in **commercial bias**, narrative control and **local/global legislation**.
- Expansion of technology trade war lead by US.
- AI selection may become **political** but organisations can simply follow national directives (e.g. Deepseek, open source models).
- **Core platforms** and orchestration will be where the action is.
- **Digital Sovereignty** explodes as an issue.
- Cloud and **consumption costs increase**.
- **We'll have bigger budgeting issues worry about!**

Q & A

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Submit an inquiry or *schedule a whiteboard session*

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We help our clients mitigate risk and validate their strategic decisions by providing independent and pragmatic advice while taking the time to understand their specific business issues.

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The Road Ahead

By 2030, more than 90% of **AI service use** will be embedded within, or closely integrated with existing core business platforms.

Most AI will be 'invisible' to users.

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