

AI Arbitrage Is The Next Frontier Of Value Creation

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Businesses can unleash innovation as AI “eats” IT services

AI offers technology and business leaders the biggest disruption in the [\\$1.4 trillion IT services industry](#) since the invention of the Internet.

Every technology worker—contact center agents, coders, test engineers, data analysts, IT support and more—will get 20% to 50% more when enhanced by AI bots (freeing up capital to fuel innovation, grow faster, improve agility and improve countless worker and consumer experiences).

Economies of scale, platforms and wage arbitrage have delivered massive amounts of service value since the 1960s, and they will remain relevant, but new-gen AI bots are bringing us to the next inflection point in tech value via AI arbitrage as work gets moved to software.

Oh, and this will take years, not decades.

Disrupting The Trillion-Dollar IT Services Industry Is Good For Business

On November 30, 2022, OpenAI released a free demo version of ChatGPT. In 60 days, it had 100 million users, and viral growth has continued since.

That starting gun set off a mad dash of optimism, opinions, panic and early-stage innovation, signaling a disruption in how value is created in nearly every enterprise. Unless you were around when electricity became common, you’ve never seen anything like this.

Anthropic, Amazon, Microsoft, OpenAI, Google and others have—rightfully—captured our imaginations with developments, opportunities and challenges offered by generative AI.

Yet every leader should recognize a critical truth CIOs already know: GenAI will give you a pancake recipe written in rhymed couplets, but that won’t help your bank or healthcare company unlock value from technology.

Why? Because none of these amazing bots work like magic out of the box at the enterprise level. GenAI doesn’t turbocharge value without being integrated into existing technologies, compliance requirements, data systems and workflows that have often been cobbled together over decades.

Service teams—internal groups and external partners—have to do this work in a way that activates three value levers with a cumulative economic impact (aka savings) that can accelerate innovation and growth.

Economies Of Scale And Expertise: Do quality work better and cheaper at scale.

Wage Arbitrage: Find the right talent at the right cost.

AI Arbitrage: Unleash the true potential of your workforce at a lower cost.

(Estimates are illustrative, but they are based on multiple sources and give a sense of what is coming.)



Five Tactics To Unlock AI Arbitrage

Regardless of whether services come from inside or outside the company, the economics of AI arbitrage change the economics of IT as the generative AI bots “eat” IT services.

The journey won’t happen overnight, but every leader can get started. Here are five no-regrets steps to leverage AI arbitrage.

Demand AI innovation from partners. CIOs should require service partners to stay ahead. That’s their job now. Assess potential partners through questions like “Who is pushing the GenAI envelope? Who can help keep us ahead of the game? Who will help us innovate?” Keep an eye on the future and assess partners today on how credibly they are pushing toward generative AI deployment.

Enhance your people with AI. Taking humans out of processes entirely is immensely difficult (and causes backlash). It might sound seductive (cheaper!), but don’t hold your breath. Instead, identify where AI can give your team superpowers. Elevate customer service reps with intelligent assistants. Augment analysts with data insights. The goal is human-AI collaboration, not automation. Enhance your worker and consumer experiences to get value next quarter (rather than sometime in the next decade.)

Start with software and data. After several years of digital transformation, enterprise software engineering and data management are low-hanging fruit. You likely already have the technical capabilities and contracts to embed AI here first. Quick wins build internal confidence and capabilities before expanding AI more broadly across the business. Yes, ultimately, GenAI will be applied to friction points along every value chain within nearly every company, but to start building GenAI muscles, the best first stop is the office of the CIO.

Measure productivity that matters. “You can see computers everywhere but in the [productivity statistics](#),” wrote Nobel-Prize-winning economist Robert Solow back in 1987. New research from my company Ascendion and HFS Research found that about 85% of early adopter enterprise innovators are (finally) starting to see [productivity improvement](#) driven by generative AI! Ensure your GenAI investments impact key performance indicators upfront, then monitor rigorously. If projects aren’t moving the needle on productivity, Cost of Goods Sold, or revenue per employee, go back to the drawing board.

Get your CFO to power GenAI innovation. Internal skunk works projects can be great, but only if they deliver returns. AI-fueled productivity—AI arbitrage—needs to show up in internal financials and partner contracts quarter over quarter, year over year. We look at AI as “an IT thing,” and it is, but finance, procurement and legal also play essential roles in managing risk and return. Transformational CFOs are every bit as important in driving this change as CIOs, CTOs and business line leaders.

Executives taking decisive action to harness AI’s potential will gain a sustained competitive advantage. Laggards risk being left behind. The time to develop your AI strategy is now. Start by following these five moves to lead your organization confidently into the new era of enhanced productivity.



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