Has the generative AI pricing collapse already started?

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OpenAI just announced pricing for businesses seeking to integrate its ChatGPT service into their own products, and it looks an awful lot like a 90 percent off sale.

It all starts with OpenAI, a former nonprofit that’s now gunning for riches as lustily as any Silicon Valley unicorn. The company has built a dazzling array of products, including the DALL-E image generator and the renowned ChatGPT service.

ChatGPT is powered by a system known as a large language model (or LLM), and it’s one of several LLM lines that OpenAI sells commercially. Buyers of LLM output are mostly companies that integrate language-related services like chat, composition, summarization, software generation, online search, sentiment analysis, and much more into their websites, services, and products.

For instance, dozens of startups use LLMs to help their own customers churn out corporate blogs, marketing emails, and click-seeking SEO articles with radically less effort than before. This may add little to our cultural heritage but quite a bit to the bottom lines of these companies’ cannier users. As I write this, at least 65 different startups are peddling

these sorts of copywriting services, with new ones launching weekly.

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Most are basically thin wrappers seeking to arbitrage LLM pricing, with virtually no differentiation or competitive moat. Some of them—most notably Jasper, which recently raised money at a $1.5 billion valuation—are building value-added services around the LLM output they retrieve and reformat, which may let them differentiate and prosper over time.

OpenAI is currently the biggest LLM provider, though there is growing competition from Cohere, AI21, Anthropic, Hugging Face, and others. These companies generally sell their output on a “per-token” basis, with a token representing approximately three-quarters of a word.

To give you an example, the baseline price of a very powerful OpenAI model called Davinci is 2 cents for a thousand tokens—which is to say about 750 words. This means it would cost Jasper about 8 cents to get Davinci to write six 500-word blog posts for you.

Prosperity for Jasper lies in pricing plans and subscription models that let the company charge you more than 8 cents for those posts. Prosperity for you lies in getting more value from those posts in the form of clicks, customer leads, sales, and donations than you paid Jasper to pay Davinci to write them. For good or ill, this dynamic will plainly lead to a tsunami of new “content” flooding the Internet in very short order.

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