

Applied AI Services 2024 Market Insights™ Excerpt

Rising enterprise adoption of Gen
AI across the business value chain

April 2024

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- Avasant recognizes 22 top-tier providers supporting the enterprise adoption of applied AI services

Demand-side trends (Pages 8-16)

- More than half of AI projects are still in the pilot and POC stages, primarily due to security and privacy concerns in Gen AI.
- The heightened concerns around data privacy and safety have spurred global regulations, aiming to establish guardrails around the use of Gen AI.
- Banking, retail, and healthcare lead AI adoption for enhanced efficiency, personalized services, and transformative impact across respective sectors.
- Gen AI presents a massive opportunity across sectors, impacting productivity and creating a competitive advantage.
- Gen AI could be the biggest lever for reducing effort and gaining productivity in customer service, app development, and managed services.
- Organizations of all sizes are pursuing productivity gains and higher revenue growth through Gen AI.
- Growing demand for edge-based Gen AI capabilities will broaden the market and drive innovation in end-user adoption.

Key contacts (Page 17)



Key enterprise applied AI service trends shaping the market

Over half of AI projects remain in the pilot and POC stages due to security and privacy concerns, delaying the transition into production

- In three years, pandemic pressures had advanced 70%-80% of applied AI projects to production. However, in 2023, an uptick in Gen AI projects stalling at the pilot and POC stages lowered the rate of applied AI projects progressing to production to 49%, a significant decrease from the earlier levels.
- Concerns over security and privacy are major obstacles preventing Gen AI POCs from advancing to production, prompting stricter global regulations. For instance, the EU's AI Act, which will be enforced in April 2024, regulates AI model development and deployment.

Enterprises adopt Gen AI for revenue and operational gains in customer service, IT, and sales and marketing

- About 52% of enterprises use Gen AI to improve productivity, focusing on knowledge base search, data summarization, and content creation. Others are exploring revenue growth by offering proprietary LLM-backed services and launching new product features.
- BFSI and retail are at the forefront of AI adoption. The top three priorities for Gen AI integration are customer service, IT, and sales and marketing, with applications spanning customer Q&A, product recommendation, code generation, IT ticket resolution, and marketing material generation.

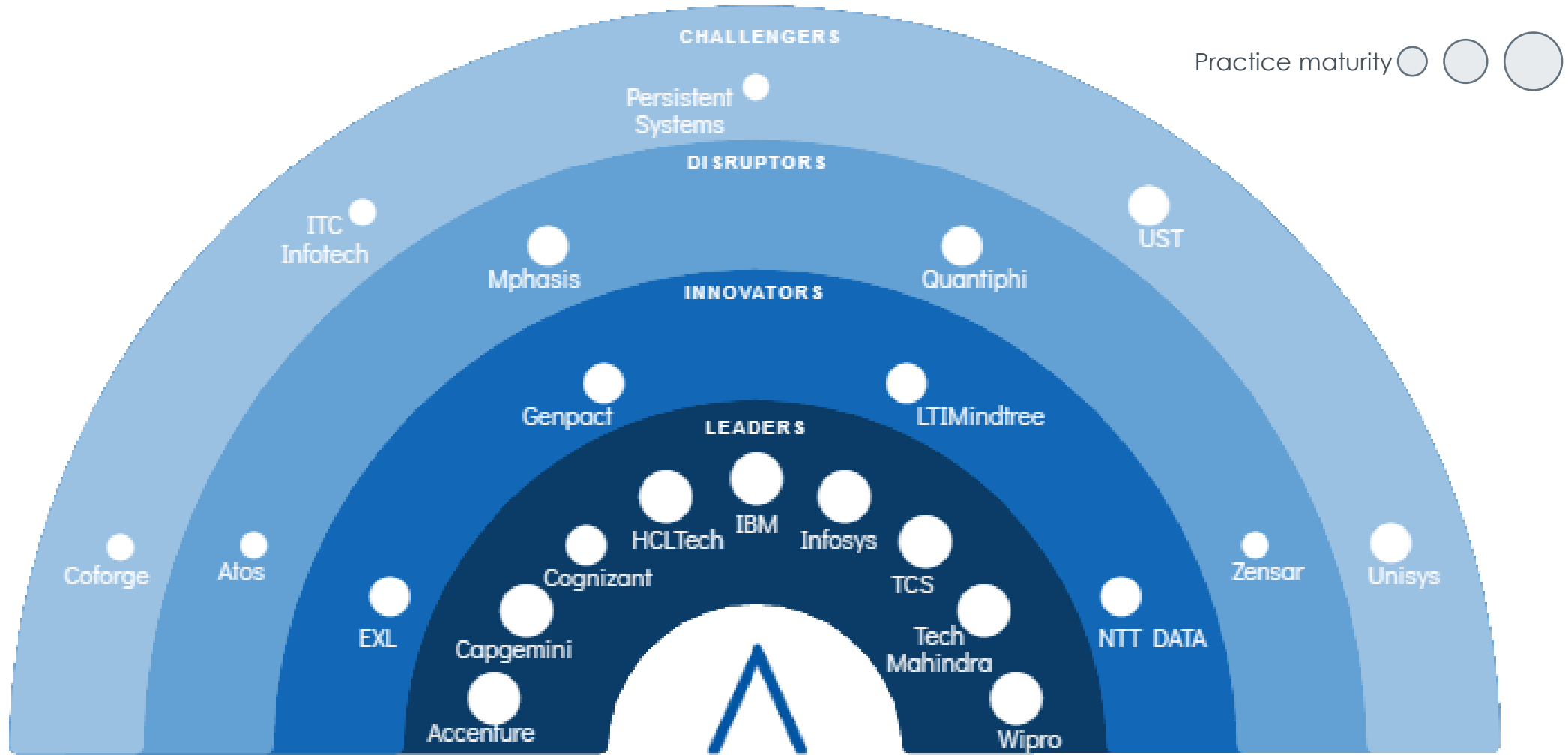
Gen AI could significantly boost productivity in customer service, application development, and managed services

- Gen AI drives significant transformation in contact center operations, application development, and infrastructure managed services, increasing productivity up to 19%, 28%, and 17% respectively, exceeding current automation levels ranging between 45% to 70%.
- This transformation is fueled by the need to provide hyper-personalized customer support, modernize legacy systems and automate IT service and network management. Additionally, copilots dedicated to customer service, code generation, and workplace collaboration further contribute to this transformation.

The next wave of AI democratization will be led by AI wearables, accessories, and devices, including mobiles and laptops supporting LLMs

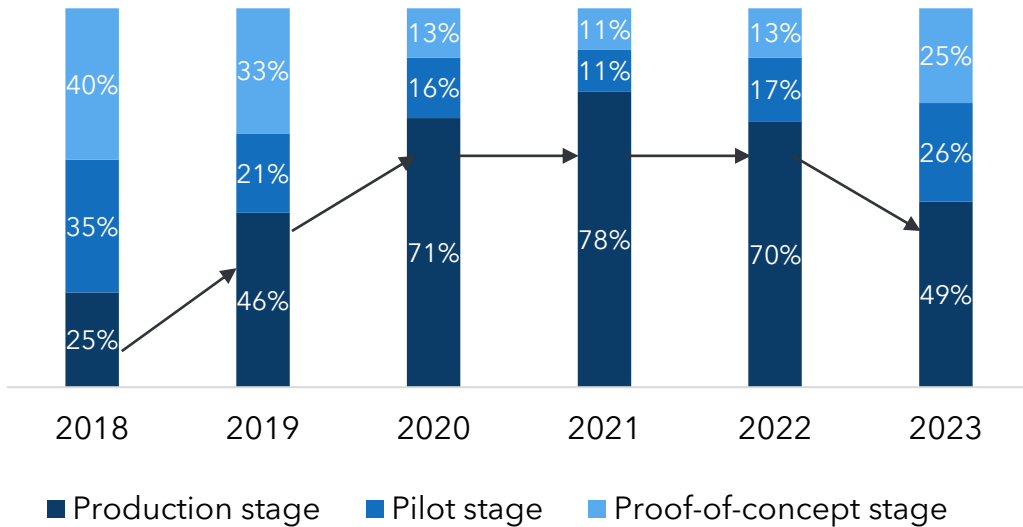
- Driven by the increasing demand for edge-based AI capabilities, particularly with the emergence of Gen AI, there is a surge in the development of AI-focused devices across multiple device form factors.
- Over the past year, there has been an increase in Gen AI-enabled smart devices, including AI companions, smartphones, laptops, wearables, and advanced driver-assistance systems (ADAS). These devices benefit from low-latency AI processing, facilitating smooth and instant interactions such as email composition and real-time language translation.

Avasant recognizes 22 top-tier providers supporting the enterprise adoption of applied AI services



More than half of AI projects are still in the pilot and POC stages, primarily due to security and privacy concerns in Gen AI

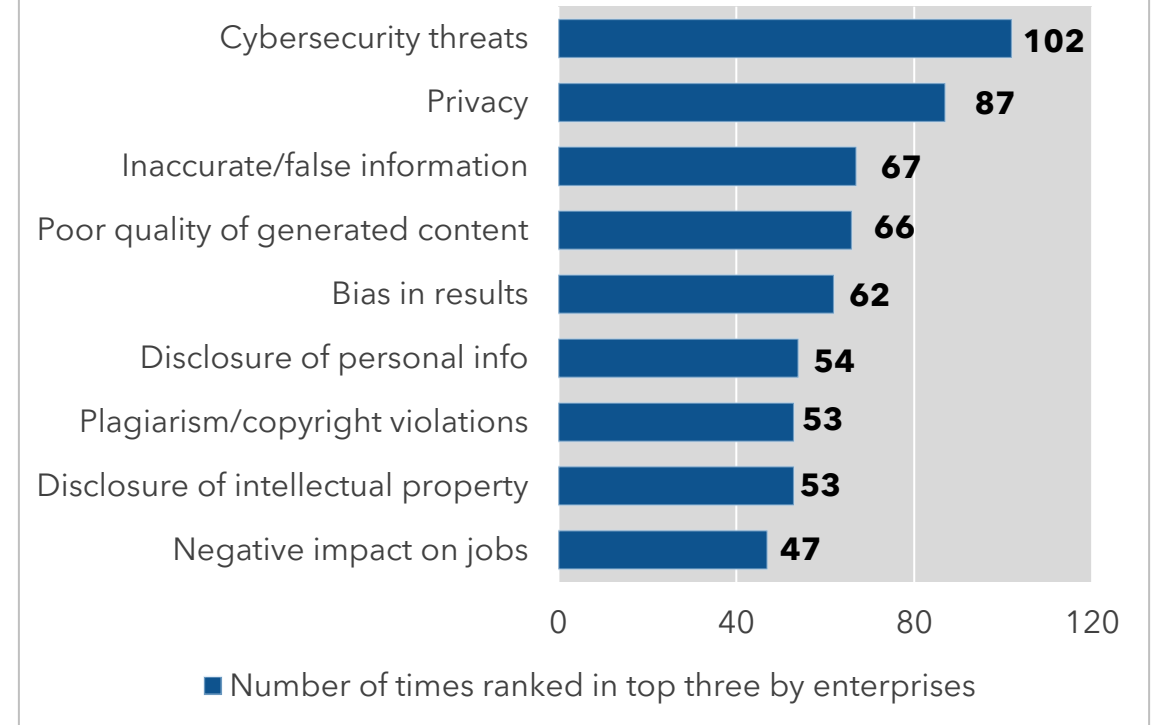
Adoption of AI across project phases



- Over the past three years, a significant number of applied AI projects transitioned into the production stage, primarily driven by the pandemic. The proportion of AI projects in production consistently ranged between 70% and 80%. This trend is attributed to the expanding availability of data, the heightened sophistication of AI algorithms, and a growing enterprise interest in leveraging AI for enhanced productivity and decision-making.
- However, the landscape saw a notable shift in November 2022 with the introduction of Gen AI. Enterprises have exhibited a strong inclination to experiment with Gen AI, leading to a surge in POCs in the AI domain.

Despite the significant productivity improvements Gen AI facilitates, enterprises continue to grapple with concerns about its adoption when transitioning from POCs to full-scale production

Top enterprise concerns in Gen AI implementations



Sources: Avasant Research; Avasant Applied AI Services RadarView Survey, November 2023–January 2024; Computer Economics Generative AI Report

The heightened concerns around data privacy and safety have spurred global regulations, aiming to establish guardrails around the use of Gen AI



European Parliament



The US's executive order for federal agencies to form rules to regulate the use of AI lays down the following:

- The Department of Commerce will develop a watermarking system to verify AI-generated content.
- The Defense Production Act will ensure that firms building risky AI models notify the federal government and share safety test results before public release.



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The following are some important aspects of China's generative AI-specific regulations:

- It offers provisions around regulating recommendation algorithms.
- It lays down regulations around utilizing deep synthesis technologies, a subset of Gen AI technologies.

Rest of the world

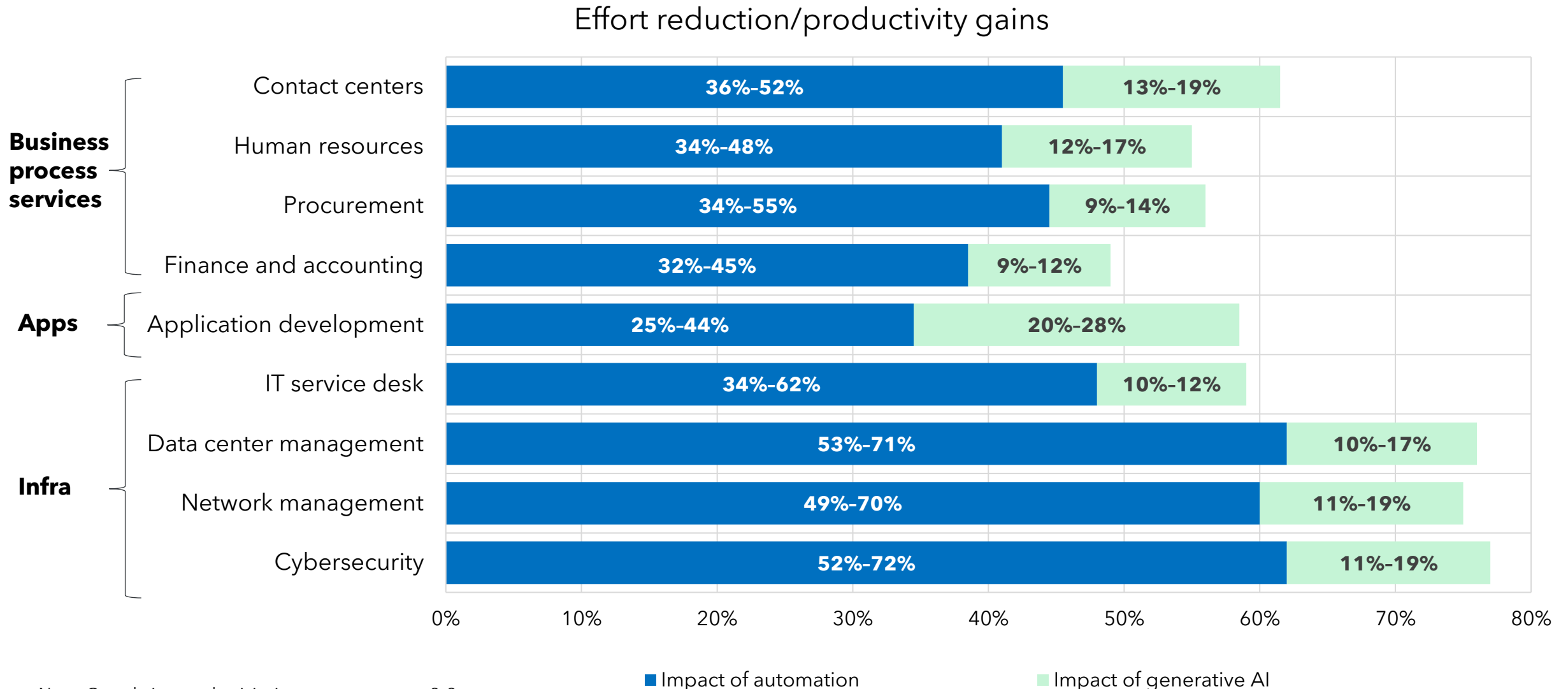
- The UK organized the first AI Safety Summit in November 2023. It also plans to launch a series of tests to decide whether to introduce AI and Gen AI rules.
- The Government of India will modify the IT Act to add provisions around the use of AI.
- Brazil's government has proposed an AI law focused on transparency and private data protection.

As global AI regulations target source-level data control for LLMs, more data privacy laws will emerge, empowering enterprises to oversee their arrangements with data vendors.

- State of California's New Delete Act (implemented in January 2024)
- Digital Personal Data Protection Act, 2023

Sources: Avasant Research

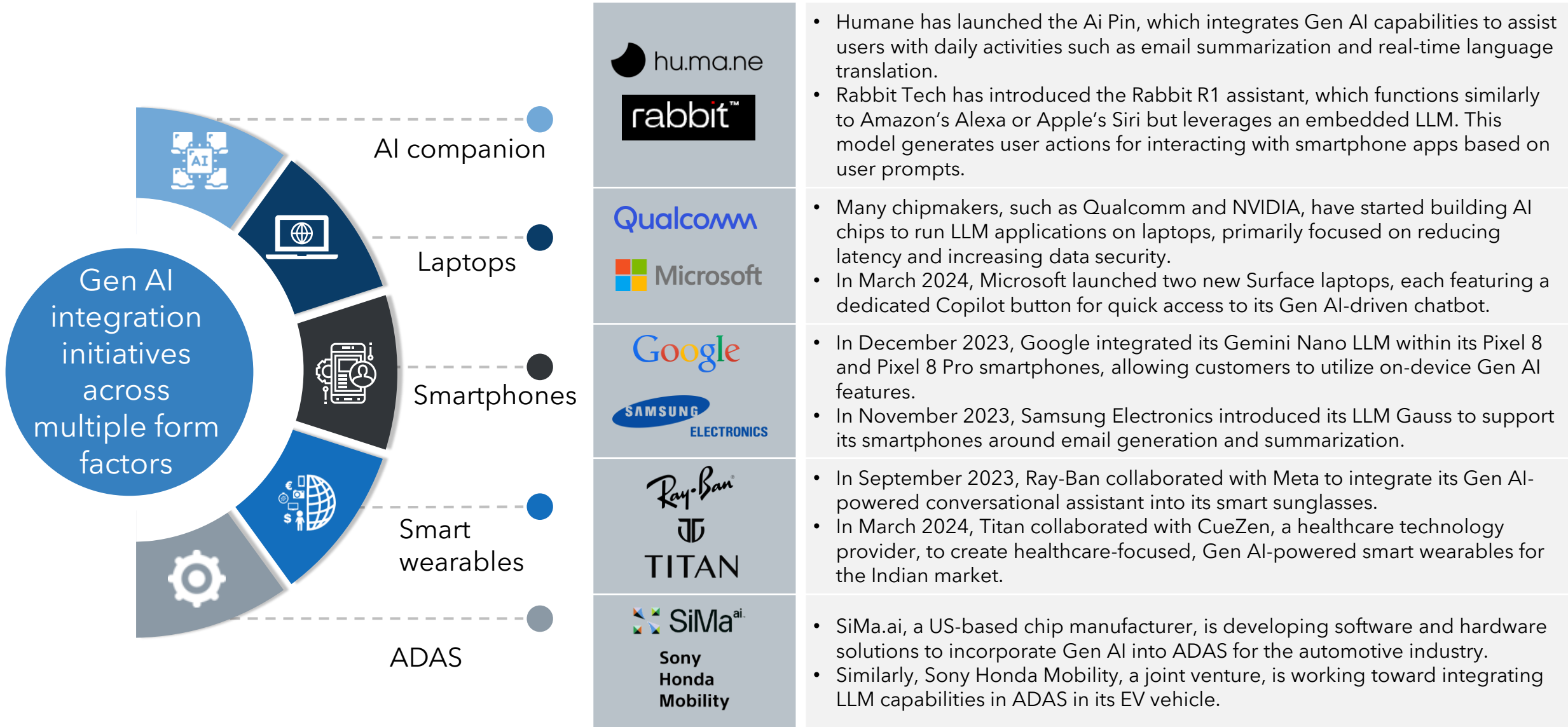
Gen AI could be the biggest lever for reducing effort and gaining productivity in customer service, app development, and managed services



Note: Cumulative productivity improvements over 2-3 years

Source: Industry interviews, Avasant Research

Growing demand for edge-based Gen AI capabilities will broaden the market and drive innovation in end-user adoption



Source: Avasant Research

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