NO. 012

The Struggle of OpenAI

OpenAI has a unique consumer opportunity.

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OpenAI is a deeply mismanaged company. Most recently, a blog post that feels like it has got to have dozens of PR violations, responding to the Apple lawsuit.

More broadly, OpenAI's main problem is that it does not have a real competitive advantage. No real models do; the real differentiation is price; they will become commodities. The need to move upwards in the market in enterprise software is difficult since the current stack should remain the same, since sticking with Salesforce plus its new AI features is much simpler than the cost of switching to an AI-first startup version, which won't be around 3 to 5 years from now. So consumer hardware and trying to become the next Apple could work, except you would likely have to focus on people not in the Apple ecosystem because of the double-sided lock-in Apple has.

The opposite dynamic works in consumer and mobile, really. Apple with AI is a much worse experience than something AI-first built from the ground up. Especially considering the consumer market does not have the switching costs enterprise does. So clearly OpenAI has some kind of opportunity to be a disruptor, just not to Apple, likely a large chunk of Android users, based on what their new device is.

So while at first it may look like OpenAI is doing too much, it is a desperate attempt to create some kind of real, defensible business, and show some proof of such before they IPO. If they do not do so, public market investors will cut their throats, and they will see a valuation drop like no other, regardless of where we are in the capital cycle. If they delay IPO plans, it will become clear they are in shambles. They are far behind in the enterprise game, which is short-term anyway.

Their best bet is hardware; credit to Altman and co for realizing this, although Apple is a roadblock, which I hope, for the sake of competition, is removed. Hardware is interesting, and perhaps somewhat disruptable towards Apple since OpenAI would be vertically integrated in a way Apple cannot since they do not have their own models. The difficulty is whether the burn OpenAI is spending on multiple fronts can be sustained long enough to see some promise. No doubt the consumer app is big, in terms of users, yet there is not enough activity to create a large ad business. The reason for this is Google and AI overviews, which are a far better user experience. So perhaps consumers can be an expensive customer acquisition cost to jumpstart the hardware business in some way? Regardless, OpenAI does have the right strategy in terms of attempting to create something defensible and long-term.

Now, Anthropic having a more coherent strategy in the short term of focusing on enterprise from the start is better; it is still not defensible. Perhaps because of the fact that the cost of paying Anthropic is far too great and outweighs any form of customer captivity. Plus, an enterprise gets maximum leverage by training a model, ideally a cheap one, on its own data so it can get insights tailored to the enterprise specifically, something Anthropic cannot deliver. Anthropic’s fall will likely be in line with the broader capital cycle.

All in all, both companies as it stands today are massively overvalued, even Anthropic with its sky-high revenue, which is not real considering the capital cycle and short-term interest/desperation of enterprises, especially when there is a less expensive, far more valuable way to implement AI through using open-source models and training them on your data. Application layer companies such as BaseTen and OpenRouter should benefit from building on top of these new commodities. OpenAI, as of now, has the only long-term viable strategy, which has a lot of execution risk, yet excites me about the future of OpenAI.

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