

Creating New Businesses with Generative AI

Warren Buffett has said many memorable things over the years, but this might be my favorite: “Be fearful when others are greedy and greedy when others are fearful.”

These are wise words coming from probably the greatest counter-cyclical investor of all time, who may underperform the market by 7 points in years when times are good but overperform by 61 points (!!) when times are bad.

The rest of us can’t hope to be Warren Buffett. But I think it’s useful to consider his philosophy and how it applies right now—with generative AI on the rise against a backdrop of macroeconomic uncertainty and higher interest rates.

A Unique Time to Be Bold

Almost a decade ago, BCG initiated its efforts to help clients dive into the work of building digital businesses by creating Digital Ventures, an offering that is now part of [BCG X](#). It was a radically different approach and gave us a powerful, highly [differentiated set of capabilities](#).

Since then, our team has helped clients launch nearly 200 digital businesses. But over time, as companies navigated through the pandemic and the tougher economic environment that followed, they tended to refocus efforts on their core businesses and not want to look too far afield.

But now may not be the time to sit on the sidelines or just stay close to home. The highly disruptive nature of GenAI is opening up new opportunities. The initial focus for most of our clients is how to apply the technology to strengthen the core: adopting new GenAI

tools to support workflow productivity and applying a combination of generative and predictive AI to reshape functions.

But we're also seeing substantial opportunities to invent brand new sources of growth, whether in the form of new products or services—or businesses in completely new spaces.

Opportunities for Innovation and Invention

GenAI comes with high up-front costs and different operating economics, at a time when there is more pressure on earnings and capital allocation. Plus, venture capital, which often creates the seed businesses others can buy, is highly strained. But here's where Warren Buffett's words can be put to work.

Environments rife with volatility and uncertainty can be perfect for investing in substantial new opportunities, including innovation. This held true almost a century ago during the Great Depression, as well as during the dot-com bubble burst of 2001-2002 and the 2008-2009 financial crisis. So the question now is how to use this disruptive technology to create new businesses, when competitive pressures may be reduced but near-term financial pressures are high.

Early movers can build meaningful differentiation, transforming unique data opportunities into competitive advantage and leveraging the exponential learning nature of AI, with more users translating to more feedback and better value propositions.

The opportunities and innovation potential we're seeing are substantial and exciting. Companies are looking at disrupting decades-old business models that are highly complicated and paper-intensive. They're reinventing customer engagement in sectors where customers depend on sales agents. They're creating new methods of aggregating and selling analytics and information in powerful ways. They're opening up new markets and revenue streams.

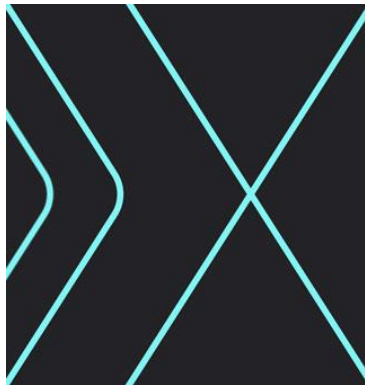
There's no question that GenAI will be a strong productivity tool that can change workflows and, with predictive AI and proprietary data, will reshape functions. Those opportunities should be high on virtually every CEO's agenda. But it's also a great time to think about where you can invent new GenAI-driven businesses, and, to paraphrase Warren Buffet, be bold when others are holding back.

Until next time,



Rich Lesser
Global Chair

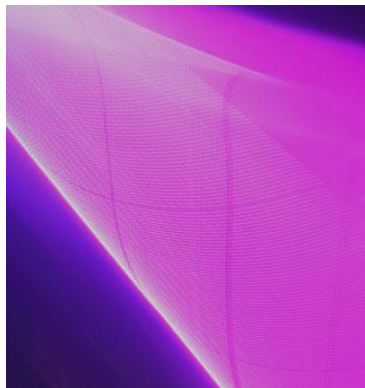
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