

Doubts circulate about how long the AI startup fanfare will last

Article

The trend: AI is still buzzing, but doubts are circulating about the sector's startups' longevity.

- **Index Ventures** partner **Mark Goldberg** said **ChatGPT's** viral debut led some investors to overestimate consumer interest, per [The Wall Street Journal](#).

- OpenAI's ChatGPT traffic dropped **9.7%** from May to June and another **12%** from June to July, according to Similarweb data, sending [bankruptcy rumors](#) swirling.
- ChatGPT wasn't alone. Similarweb data also showed **Midjourney's** monthly visits declined for three consecutive months ending in July, while **Synthesia** saw declining user growth for six straight months, per The Journal.
- Despite raising **\$125 million** last fall, **Jasper** laid off staff after a four-consecutive-month user drop that ended in July.

AI frenzy still going strong: **Nvidia** is serving as a kind of bellwether for AI demand. Its [blockbuster Q2 earnings report](#) indicates that the AI sector's pulse is still strong.

- Although overall US VC funding dropped by nearly **50%** in Q2, investment in generative AI startups increased **65%** to **\$3.3 billion**, according to PitchBook, per The Journal.
- OpenAI rival **AI21 Labs** just grabbed **\$155 million** in Series C funding, sending its valuation soaring well into unicorn territory.
- Despite the perceived financial woes, OpenAI is on track to gain **\$1 billion** in revenues over the next year, or around **\$80 million** a month, per [The Information](#).
- Synthesia CEO **Victor Riparbelli** said the company just completed its best sales month ever, per Wall Street Journal reporting.

Similarweb data isn't supplying a complete picture of these startups' financial performance.

- Revenues from APIs are likely a significant factor.
- Users might be willing to continue paying monthly AI tool subscription fees even if their number of site visits waxes and wanes.

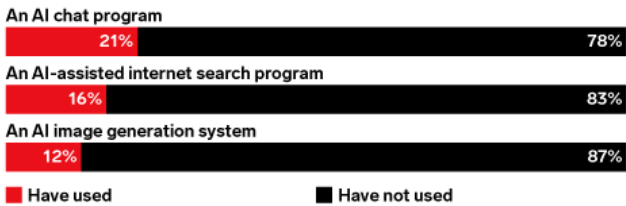
AI will stick, some startups won't: The AI sector has unique challenges that will continue making it difficult for some startups to gain traction.

- Getting a foothold requires access to high-powered chips, which are in short supply.
- **Steep development costs paired with uncertain consumer interest for a given product mean shaky business models.**
- Even if some startups mint a compelling AI product or service, deep-pocketed Big Tech companies like **Google** and **Microsoft** could replicate it.

- The most successful startups will be ones that can effectively attract robust investor attention while also leveraging their scrappy, streamlined structures to **make technical breakthroughs on the AI front that translate into competitive products that are hard for Big Tech to match.**

US Adults Who Have Used Select AI Applications, June 2023

% of respondents



Note: ages 18+; in the past 6 months; numbers may not add up to 100% due to percentages for skipped responses not shown (1% or less per item)
Source: Ipsos, "Tech and Society Survey," July 27, 2023

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