

Global Innovation

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The AI Revolution: bringing joy to your daily commute

Have you noticed a difference in your daily commute? The Global Innovation team have. Instead of laboriously scrolling through our libraries of outdated playlists to find that particular song to kickstart our days, Spotify is doing a pretty good job at predicting what that song might be. I can even type in my mood and a playlist emerges, tailored to the artists I often listen to.

Although we don't often think about it, this is AI touching our every-day lives. And what's more, we can all experience first-hand the improvements in AI unfolding (rewind two years and for some unfathomable reason, Discover Weekly was convinced all I wanted to listen to was Swedish rock.) What is going on beneath the surface is that when the prediction accuracy of Spotify's machine learning system reached a certain threshold, the company was able to take a quantum leap forward in rethinking its business model: the vision switched from providing customers with the toolkit to create playlists themselves to one premised on the idea that you and I should never have to create playlists again.

Netflix, another direct-to-consumer business, is also enhancing its customer experience through AI deployment. Not only are the movies personally recommended to us powered by AI algorithms, but the actual production of Netflix Original shows is optimised using AI. What this means is a lower cost of content production and shorter time to market, both of which flow through to the benefit of the customer. Put very simply, these are two companies using AI to drive automation and create genuine customer value in the process – the cornerstone of what the Global Innovation team looks for in our companies.

However, possessing AI capabilities by itself is not enough to give a company an edge, and not every great innovation is a great investment. Indeed, part of the AI revolution we are currently witnessing revolves around the democratisation of this technology – all companies can (or soon will be able) to create magical experiences for customers using large language models and machine learning. Those companies who can do this while simultaneously creating value for shareholders need to have complimentary strong barriers to competition.

In the direct-to-consumer cases of Spotify and Netflix, these barriers come in the form of scale economies and network effects. It is hard to overstate the importance of owning the data on a large base of sticky customers when it comes to winning on the AI battleground – it's this data that trains the AI model and then constantly improves it. The more customers that feed the model, the more accurate it becomes: recommendations strike a

chord more frequently; efficiencies are further enhanced. With 515 million monthly active users in the case of Spotify, and 160 million customers using Netflix, the treasure troves of proprietary data these companies have at their disposal is a unique advantage.

Both of these companies are primed to be beneficiaries of the AI revolution we are in the early innings of, yet neither is a technology company. To access the gains from AI driven automation, you do not have to be confined to investing in the companies creating the infrastructure of Chat-GPT-esque products. AI is a 'General-Purpose-Technology' spanning all industries, with the potential to enable vastly more productive products, services and organisational design. We believe the emerging winners from this AI transition will be those with the most innovative cultures, who are nimbly adapting to create customer value.

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