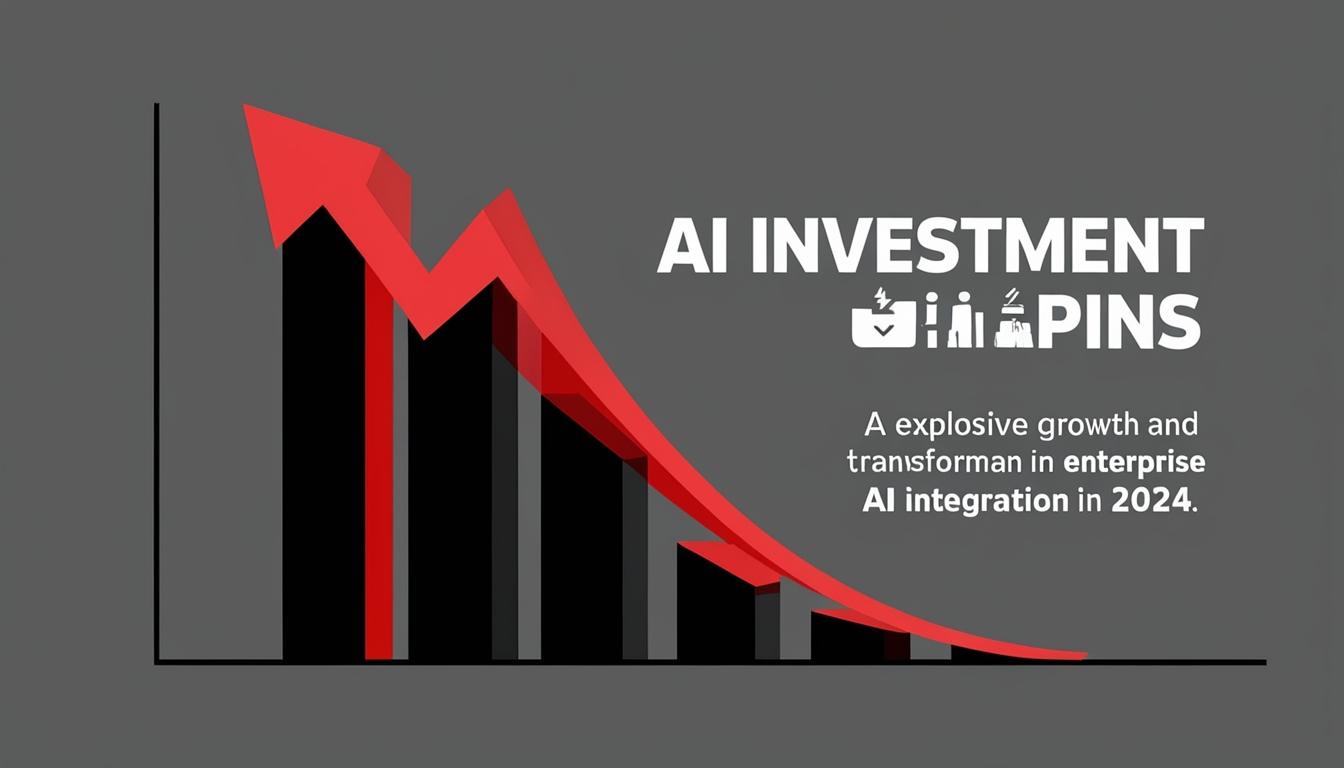
# Enterprise spending on generative AI surges sixfold in 2024



Enterprise spending on generative artificial intelligence (AI) has witnessed a remarkable surge in 2024, with investment increasing by over six times from the previous year. The latest figures released by Menlo Ventures, a prominent venture capital firm based in Menlo Park, California, indicate that total spending on generative AI reached $13.8 billion this year, up from just $2.3 billion in 2023. This significant shift marks a transition from initial experimentation with AI technologies towards their practical implementation within organisational strategies.

The report, which is part of Menlo Ventures’ second annual State of Generative AI in the Enterprise, draws upon a survey of 600 enterprise IT decision-makers from companies employing 50 or more workers. It reveals widespread optimism about the future of generative AI, with 72% of respondents expecting broader adoption in the near term. However, the research also points out that enterprises are still in the process of identifying high-value use cases for this technology, suggesting that the journey towards large-scale transformation has only just begun.

Joff Redfern, a partner at Menlo Ventures, commented, “2024 marks the year that generative AI became a mission-critical imperative for the enterprise.” He noted that businesses are moving beyond pilot projects to integrate AI solutions deeply into their core operations, creating substantial opportunities for startups in the AI sector.

Among the key findings of the report, investment in AI-native applications saw dramatic growth, amounting to $4.6 billion—a nearly eightfold increase from the previous year's $600 million. Enterprises are now deploying multiple AI solutions across various departments. The healthcare sector emerged as the leading vertical for generative AI spending, with $500 million allocated, followed by legal services at $350 million, and both financial services and media/entertainment at $100 million each.

The analysis also highlighted a shift in market share among major AI players. OpenAI, once dominating the enterprise AI landscape with a 50% market share, has seen its share decline to 34%. In contrast, competitor Anthropic has doubled its presence from 12% to 24%, indicating a dynamic and competitive environment for AI adoption. Many organisations reported using three or more foundation models, reflecting a strategic multi-model approach to leverage the strengths of various AI capabilities.

Spending patterns across departments showed that technical teams lead in expenditure, with IT accounting for 22%, followed closely by product development at 19%, and data science at 8%. Customer-facing functions, including support, sales, and marketing, have also embraced generative AI, with each department representing 7-9% of the total spending.

The infrastructure necessary to support these AI initiatives is evolving, with notable adoption of retrieval-augmented generation (RAG) techniques climbing to 51% from 31% in the previous year. New vector database solutions, such as Pinecone, are gaining traction, boasting an 18% market share, compared to traditional databases like Postgres (15%) and MongoDB (14%).

Tim Tully, also a partner at Menlo Ventures, remarked on the shifting dynamics among leading language models, stating that while debates persist over the merits of open versus closed-source models, the data reflects a significant preference for closed-source offerings, which now account for 81% of usage. He highlighted that with foundational infrastructure now established, enterprises can pivot their attention to the application layer, potentially propelling innovation and competition across various industries.

The report underscores the competitive landscape within the AI sector, positing that the emergence of superior AI-powered solutions from startups could disrupt established incumbents in numerous domains, including healthcare and financial services. Derek Xiao, an investor at Menlo Ventures, noted that substantial market shifts have already begun, citing examples of companies experiencing drastic declines in market valuations due to the adoption of generative AI by competitors.

Overall, the comprehensive insights from Menlo Ventures' report illustrate a transformative period for enterprises as they increasingly embed AI technologies into their operational frameworks, prompting significant market responses and positioning the sector for future growth.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

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