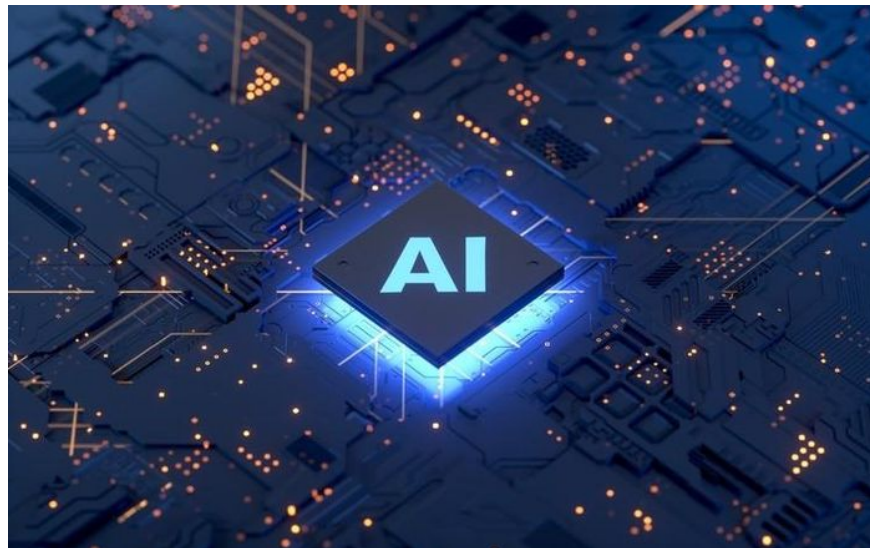


# The generative AI craze is driving Big Tech to invest billions of dollars in startups

Technology corporations today do not carry out many M&A activities, mainly due to the unfavorable legal environment. But, they are looking for other ways to spend billions of dollars on the next big project.



Amazon's \$2.75 billion investment in artificial intelligence startup Anthropic is Amazon's biggest venture yet and the latest example of the AI ??gold rush that is fueling tech's biggest companies Open your wallet.

Anthropic is the developer behind the Claude AI model, which competes with ChatGPT from Microsoft-backed OpenAI. Along with Meta and Apple, they are all racing to integrate generative AI into their vast product and feature portfolios to ensure they do not fall behind in a market that is predicted to reach Revenue of 1,000 billion USD within a decade.

According to PitchBook, in 2023, investors pumped a total of \$29.1 billion into nearly 700 generative AI deals, an increase of more than 260% in value compared to the previous year.

A significant portion of that money is strategic, with it coming from technology companies rather than venture capitalists or other institutions.

Fear of missing out is a factor driving their decisions, says Fred Havemeyer, head of software and AI research at Macquarie. 'They definitely don't want to miss out on the opportunity to be part of the AI ??ecosystem. I definitely think there is FOMO in this market,' he said.

Huge investments are needed because building and training AI models is notoriously expensive, requiring thousands of specialized chips, which until now have largely come from Nvidia.

Meta - which is developing its own model called Llama - said it is spending billions of dollars on Nvidia's graphics processors, one of many companies that helped the chipmaker increase revenue last year. increased by more than 250%.

Whether going the self-development route or investing, there are only a finite number of companies that can afford to participate in the market. In addition to chip development, Nvidia has also emerged as one of the leading investors in Silicon Valley having taken stakes in several emerging AI companies, partly as a way to ensure their technology is deployed widely. Similarly, Microsoft, Google, and Amazon sometimes offer cloud credits as part of their investments.

This past week, an agreement between Amazon and Anthropic was announced that said they would work closely together in a variety of ways. Anthropic will use Amazon Web Services for its computing needs as well as Amazon chips. Anthropic's models will be distributed by Amazon to Amazon customers.

Microsoft got into the business of investing in generative AI earlier through investing \$1 billion in OpenAI in 2019. Microsoft's investment scale has since increased to about \$13 billion. Microsoft uses many of OpenAI's models and offers open source models on their Azure cloud.

Alphabet is acting as a builder and investor. The company has refocused much of its product development on General AI and the Gemini model to add features to search, documents, maps. Last year, Google committed to investing 2 billion into Anthropic, after previously confirming that it took a 10% stake in the startup along with a major cloud deal between the two companies.

## **Shaping the next decade**

In recent earnings reports, tech executives reiterated their focus on generative AI.

Amy Hood, Microsoft's Chief Financial Officer, said that the company is adjusting 'the workforce towards the AI-first work we're doing without adding more people to the workforce'. Microsoft will continue to prioritize investments in AI as 'they will shape the next decade'.

The leaders of Google, Apple and Amazon have also suggested to investors that they are willing to cut costs across divisions to redirect more funding toward AI efforts.

Amazon's biggest bet is Anthropic, which has invested a total of \$4 billion to date. The company has also invested in open source AI platform developer Hugging Face.

Meanwhile, many Big Tech companies continue to spend internally to develop their own models.

Microsoft has invested in many of the techniques that underpin AI through Microsoft Research. Amazon reportedly plans to train a larger, more data-hungry model than OpenAI's GPT-4.

Apple researchers recently published details of their work on MM1 - a small group of AI models that can input both text and images. Apple is in a different position than other tech companies in that it doesn't sell cloud services. However, Apple is said to be looking for AI partners, including Google and Baidu.

On the other hand, regulators globally are tightening regulations on Big Tech, making it more difficult to carry out large-scale M&A deals. Even investments are attracting scrutiny.

In January, the US Federal Trade Commission (FTC) announced it would conduct an extensive investigation into the largest companies in the AI field, including Amazon, Alphabet, Microsoft, Anthropic and OpenAI.

FTC Chairwoman Lina Khan described the probe as 'a market investigation into the investments and partnerships being formed between AI developers and major cloud service providers'. Regulators have the power to require companies to submit specific reports or answer written questions about their business operations.

'We know regulators are increasingly focused on the path to closing a traditional acquisition,' said Daniel Newman, CEO of technology analysis firm Futurum Group.

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