From Bubble to Brands: What Happens After the AI Hype?

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Introduction

In public conversation, the phrase “AI bubble” has become shorthand for an industry that feels overcrowded, with thousands of tools, heavy venture funding, and marketing that promises extreme productivity gains. Historically, bubbles often end in dramatic collapse. However, the most likely long-term outcome for general-purpose AI is that a small number of companies will control the core models, while users choose between products mostly based on preference rather than tiny performance differences. Instead of a world where technical superiority alone determines the winners, AI may start to resemble industries like automobiles or luxury goods, where only a few firms supply the underlying technology, and most competition happens through user experience.

This shift is driven by several structural features of the AI market, especially the rise of foundation models, which are large, general-purpose AI systems that many tools are built on top of. The Stanford-led foundation model report explains that these systems become “foundations” because the same model can be adapted across many tasks, which encourages a kind of homogenization where lots of products depend on similar underlying technology.

1) What the “AI bubble” narrative gets right, and what it misses

Skepticism is not irrational. Generative AI lowered the barrier to launching quick “AI wrappers,” so the market is now packed with tools that look different on the surface but often do similar things underneath. If investment slows and the market becomes more selective, many startups, especially those without unique data, distribution, or a clear niche, will struggle.

But the word “bubble” can also mislead because it suggests AI itself will fade away after the hype; this seems unlikely. Stanford’s AI Index 2025 reports that organizational AI use has grown sharply, with 78% of organizations reporting AI use in 2024, up from 55% the year before. In other words, even if some companies disappear, the demand for language interfaces, automation, and decision support is still spreading across the economy.

A better historical comparison is the dot-com era. Many companies rushed in, many collapsed, and a smaller set of platforms eventually shaped how the internet economy worked. Research on that period highlights how “get big fast” strategies and investor herding affected funding decisions and market entry, even though the internet continued to transform industries over time.

2) 상향표준화(= upward standardization): when “good enough” changes what people compete on

A key reason the post-hype phase can become preference-driven is the idea you described as 상향표준화, or upward standardization in English. This is what happens when baseline quality rises so much that the question stops being “Which one is technically best?” and becomes “Which one fits me best?”

We can already see a version of this in general-purpose AI. The AI Index 2025 reports that performance gaps among top systems are shrinking, including a drop in the gap between the top and 10th-ranked models on a widely discussed leaderboard measure. When the differences between top tools get smaller, it becomes harder for normal users to feel those differences in daily life.

For most people, AI is not about solving advanced science or building superintelligence. It is used for writing, summarizing, tutoring, brainstorming, and helping with everyday workflows. If multiple tools can already do these tasks “well enough,” then factors like clarity, safety, and convenience start to matter more than small benchmark improvements.

The OECD’s 2025 analysis of AI markets supports this logic from an economic angle. It tracks model characteristics and prices and finds evidence of fast-changing markets, including declining quality-adjusted prices, while also warning about limits like compute, data, and skills. That combination pushes a lot of users toward practical choices: what is affordable, reliable, and easy to integrate, not necessarily what is at the absolute frontier.

3) Why the “core technology” layer tends to shrink to a few big players

Training and deploying foundation models requires extremely high fixed costs, meaning companies must spend huge amounts upfront on computing power, data, and expert engineers. Once a model exists, serving additional users can be relatively cheap compared to the original training cost. That cost structure naturally favors companies that can scale globally, because the cost per user drops as more users pile in. The foundation model report describes how these models become central infrastructure for many downstream applications, which can concentrate influence in the firms that control them.

So a realistic long-term structure is a split:

- Foundation layer (top-heavy): a limited number of major model providers.
- Application layer (diverse): many tools built on top, competing through design, features, and communities.

This is where the car and luxury analogy starts to fit: a few “manufacturers” supplying the core engine, and many “brands” competing for loyalty.

4) If AI becomes preference-driven, what will actually differentiate products?

When baseline capability becomes standard, differentiation shifts to things that look surprisingly human:

User experience and "personality."

Two tools can be similarly capable but still feel totally different. Tone, interface design, memory features, safety defaults, and how consistently a system behaves when it is confused all shape whether users feel comfortable using it every day.

Trust, governance, and values.

As AI tools handle sensitive information and influence decisions, people care about privacy, accountability, and whether a company's rules feel fair. This is not just a technical issue and it is also about how institutions communicate trust.

Ecosystem integration.

A tool becomes harder to replace when it is incorporated into everything else you use, like your documents, messaging, school workflow, or workplace systems. Research on platform competition emphasizes how network effects and complements (extra tools built around a platform) can intensify competitive dynamics and shape which platforms dominate.

Over time, that means competition starts to look less like "who has the smartest model" and more like "who has the product that feels easiest and safest to live with."

5) "But it's software, so switching is easy"… is it really?

A strong counterargument is that AI is software, and if another tool is better, you can just switch tomorrow. That is partly true, and it is why AI markets can feel fast and chaotic right now.

However, research on online services shows that switching costs are real even when switching is technically simple. Chen and Hitt's classic study in *Information Systems Research* explains how switching costs and brand loyalty can exist in internet-enabled markets, shaped by learning curves, habit, and the friction of moving accounts and behaviors.

In AI, switching can mean relearning a new interface, rebuilding workflows, losing personalization, moving data, and coordinating with friends or teams who all use one platform. Even if downloading is easy, leaving can still feel annoying enough that many people stay, especially once a platform becomes the default in their daily life.

6) Embodied AI makes design and the uncanny valley even more important

The role of preference and comfort becomes even more important once AI moves into physical form, like robots, voice-first assistants, or humanoid agents. At that point, AI design directly affects whether people feel safe interacting with a machine, especially when a robot looks almost human but still feels "off," which is the uncanny valley effect.

There is real research backing the uncanny valley effect as an adoption barrier: For example, a 2024 study in the *International Journal of Hospitality Management* found a nonlinear relationship between robots' human-likeness and employee fear, and it linked fear to stronger turnover intentions. In simple terms, making robots "more human" does not always make them more accepted, and sometimes it makes reactions worse.

A separate ACM (Association for Computing Machinery, which is one of the biggest and most well-known professional organizations in computer science) review also treats the uncanny valley as a measurable factor that can hinder comfortable, trust-based interactions with human-looking artificial entities.

So if embodied AI becomes mainstream, companies will compete intensely on the design choices that minimize discomfort and maximize emotional comfort; this resembles a lot like cars and luxury goods, where feel and identity are major parts of value.

7) What happens to startups, and does "coevolution" survive?

This is the part that can feel unfair, especially for smaller companies trying to compete. In theory, innovation ecosystems benefit when small companies can experiment and challenge established companies. In practice, the economics of foundation models push the core toward consolidation.

Still, that does not mean startups disappear → it means many startups will stop trying to compete directly at the foundation layer and instead survive by becoming specialized. The likely pattern is:

- general-purpose chatbot wrappers struggle because they are easy to replicate,
- niche tools with domain depth (education, law, healthcare, creative workflows), proprietary data, or strong distribution can survive and even succeed,
- platforms remain powerful, but a surrounding ecosystem still exists, similar to how app developers grew on top of smartphone platforms.

The OECD's work on AI markets highlights both rapid change and risks, which fit this mixed outcome: consolidation pressures at the core, plus room for downstream innovation where differentiation is real.

Conclusion: a bubble that hardens into a market structure

So, is AI in a bubble? Yes, in the sense that many tools will not survive; however, the more important story is what happens after the hype decreases. A realistic long-term outcome is consolidation at the foundation layer, paired with brand-like differentiation at the user layer, where the competition shifts from “Who is smartest?” to “Who feels right to use?”

If the industry fails to protect a diverse market through interoperability (the ability for different systems to work together), portability, and pro-competition rules (policies that prevent unfair dominance and keep markets open to new and smaller competitors), it could drift toward a near-monopoly. However, if multiple major platforms coexist and the ecosystem stays open enough for specialized entrants, AI may end up looking like a familiar modern industry: a few dominant manufacturers, many differentiated products, and consumer choice driven by preference, trust, and design.

In that sense, the “AI bubble” may not explode and disappear. With proper sustainable guidance and connection of economy, sociology, and AI’s inherent nature, it may settle into something more permanent: an economy where intelligence becomes the baseline, and only identity, or the emotional “touch”, becomes the differentiator.

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