Founder's playbook for building in Vertical AI

Why Vertical AI matters now

- 10x larger opportunity than vertical SaaS – taps into labor budgets (13% of US GDP) vs. IT budgets (1% of GDP)
- First vertical AI IPO expected within 2-3 years
- LLMs unlock language-intensive workflows previously impossible to automate (e.g., legal discovery, clinical documentation, tax preparation)
- Companies reaching $100M+ ARR in historic timeframes with ~65% gross margins and ~400% YoY growth

How to select your product idea with four key frameworks

Find your "magical feature" – an advancement in how work gets done in a specific industry.

#1 - Clear ROI + technical feasibility

- Target precisely-defined, repeatable processes customers have mastered
- Ensure AI can execute safely without compliance/security risks
- Seek workflows where AI introduces superhuman capabilities (e.g., analyzing 1000x more data, operating 24/7)

#2 - Insider vs. outsider advantage

- Insiders: faster initially, but risk conformist thinking
- Outsiders: must pair technical expertise with deep customer empathy
- What matters most: intimate understanding of industry challenges and clear ROI

#3 - Strategic entry points

- Tertiary workflows (safer wedge): less resistance, faster sales, but must expand to core workflows
- Adjacent-to-core: closer to critical operations, deeper moat once proven
- Core workflows (Toast playbook): requires undeniable value and requires missionary zeal from team
- Speed matters more than ever – plan your "Second Act" immediately

#4 - Progressive delegation vs. complete replacement

- Start by automating manageable chunks, keep humans in loop initially
- Gradually automate additional steps as you prove reliability
- Creates expansion revenue opportunities

Three critical tests for use cases

✓ Enablement ROI – unlocks entirely new capabilities, not just productivity gains

✓ Standardized & repeatable processes – avoid constant improvisation

✓ Low risk initially – mistakes are recoverable, no compliance violations

Business model selection

- Copilots: AI sits side-by-side with users in workflows; prices per-seat, similar to SaaS
- Agents: Fully automate workflows with minimal human intervention; prices on output or headcount replacement value

- AI-enabled services: Deliver faster, cheaper services than legacy providers; price is anchored to existing service pricing, often undercuts competitors

Consideration → Hybrid pricing often wins: Base subscription + usage tiers = predictability + upside capture

10 key principles for building defensibility

Functional value

1. Build only what customers want to automate (not just what can be automated)
2. Avoid commoditized features – differentiate on capabilities, not just execution quality
3. Prioritize AI doing work impossible for humans (e.g., analyzing 1000x more data)

Economic value

1. Unlock revenue > cost savings – directly boost profit margins through new revenue or retention savings
2. Novel business models access previously untapped verticals with insufficient SaaS TAM

Competitive dynamics

1. Target overlooked, high-ROI niches where incumbents are stretched thin
2. Serve customers with nuanced needs (compliance, security) that create barriers

Technical moats

1. Multimodality creates defensibility – models alone won't protect you; combine data types (text + voice + vision)
2. Build modular, adaptable systems – flexibly combine open-source, fine-tuned, and proprietary models
3. Quality over quantity for data – high-quality data compounds in value; don't compromise execution for scale

What to avoid

✕ Mundane tasks with no meaningful value

✕ High-risk workflows where mistakes compromise relationships/compliance

✕ Processes requiring constant judgment calls that haven't been codified

✕ Technology-first approach without obsessive workflow integration

✕ Over-indexing on data volume in early stages

Execution priorities

- Speed is everything: Model capabilities evolve weekly; window for category leadership measured in quarters, not years
- Start narrow, expand fast: Prove your "magic" in one workflow, then immediately layer on adjacent capabilities before competitors respond
- Customer-centric automation: Your customer's guidance on where/how they want AI should be your North Star
- Prove ROI quickly: Quantifiable revenue gains or cost reductions drive adoption and retention

The bottom line? The best Vertical AI products don't start with a technology thesis—they start by solving specific workflow problems in industries desperate for better tools. Find your wedge, demonstrate something miraculous, then use that credibility to expand before the window closes.