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AI Tokens Explained: What Business and Government Leaders Need to Know About Cost, Value and Control



John Binks, PMP®, AWS-CCP, AMA-CPM
Award-Winning / Best-Selling Author | Federal Growth & Business Development Executive | Federal Systems Integrator...



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AI Has a Meter. Most Leaders Are Only Beginning to Read It

Every time someone asks an AI assistant to summarize a report, analyze a proposal, write code, search the web or coordinate an agent, the system processes tokens. Those tokens influence cost, speed, capacity and, increasingly, the economics of the work itself.

For individual users, tokens may remain largely invisible behind a subscription. For enterprises, software teams and government programs, they are becoming a measurable operating expense. That changes the leadership conversation. The question is no longer, "Are our people using AI?" It is, "Are we buying useful intelligence, and can we connect that consumption to a result?"

That distinction matters because low token use is not automatically efficient, and high token use is not automatically wasteful. A short, cheap response that requires three hours of human correction may be more expensive than a higher-priced model that produces an acceptable result on the first attempt.

What Is an AI Token, in Plain English?

A token is a chunk of data that an AI model reads or generates. In text, a token may be a whole word, part of a word, punctuation, or even a space. OpenAI notes that tokens can range from a single character to parts of longer words, and that token counts vary by language and context.

Tokens are not the same as words. A familiar sentence may break into several pieces before the model processes it. Code, numbers, structured data, and languages other than English may tokenize differently. This is why two documents with similar word counts can produce different token counts and different costs.

The basic idea is straightforward: input tokens are what the model reads, while output tokens are what it generates. More advanced systems may also use reasoning, retrieval, tool calls, image processing, and repeated agent steps. Pricing varies by provider and model, and output is often priced differently from input.

Why AI Tokens Matter to Business and Government

Tokens connect technical design to financial management. They affect API bills, user quotas, response times, infrastructure requirements, and the ability to scale an AI workflow across a workforce.

They also expose a problem familiar to federal programs and large enterprises: unit price alone does not reveal total cost. GAO reported that selected federal agencies increased reported generative AI use cases from 32 in 2023 to 282 in 2024. GAO has also highlighted that agencies can underestimate AI costs when they overlook infrastructure, maintenance, and long-term support. As adoption expands, token usage becomes one part of a broader total cost picture that includes security, data preparation, integration, testing, oversight, and workforce training.

For government contractors, this has direct implications for solution design and proposals. An AI capability should not be priced only as software access. Leaders need to understand expected workload volume, context size, model choice, human review, data controls, availability requirements, and the cost of maintaining the capability after deployment.

Five Insights Leaders Should Understand

1. Tokens are a meter, not a business outcome: A token dashboard shows activity. It does not prove that the activity created value. The FinOps Foundation recommends connecting token consumption to measurable outcomes and treating cost per useful result as a core unit economics metric.

2. The cheapest model can cost more: A lower price per million tokens may look attractive, but a weaker model can require longer prompts, more retries, and more human correction. The relevant comparison is the full cost of reaching an accepted result at the required quality level.

3. Long conversations quietly compound: AI systems frequently resend or reprocess conversation history and supporting context. As a session grows, each new request may carry more material. Current provider guidance recommends controlling context size, using compactions where appropriate, and caching repeated content. Anthropic, for example, prices

cache reads below standard input tokens, while AWS identifies prompt length, caching, and routing as cost optimization levers.

4. Agents multiply both value and consumption: An agent may plan, call tools, review intermediate results, retry failed steps, and validate its own work. That can be appropriate for complex research, coding, or operational workflows. It can also create silent waste when loops are poorly bounded, schedules are too frequent, or nobody uses the output.

5. Experimentation is not waste: Organizations still learning how to apply AI need a controlled room to test models, prompts, workflows, and human review patterns. Cutting every unsuccessful experiment can freeze adoption at low-value tasks. The goal is disciplined learning with defined budgets, evaluation criteria, and stop conditions.

A Better Framework: Teach, Produce and Spin

A useful operating model includes separate tokens that teach, tokens that produce, and tokens that spin. I find this more practical than telling employees to use fewer tokens.

Tokens that teach support experimentation, model evaluation, reusable instructions, curated organizational context, and workforce learning. Tokens that produce create an accepted deliverable or mission result. Tokens that spin consume resources without sufficient value, such as idle agents, unread reports, oversized retrieval sets, repeated retries, and automations that continue after the need has disappeared.

What Leaders Should Do Next

1. Measure cost per accepted task: Select representative workflows such as proposal research, software development, customer support, policy analysis, or document review; track total model cost, elapsed time, retries, human correction, and acceptance rate.

2. Create a model routing policy: Define which models are appropriate for routine drafting, analysis, sensitive work, research, and complex reasoning. Allow escalation when quality requirements justify it. Review the routing policy frequently because models and prices change.

3. Assign ownership to every automation: Every agent or scheduled workflow should have an owner, purpose, approved data sources, spending limit, success measure, and review date. Automations without an active owner should not run indefinitely.

4. Control context deliberately: Retrieve only the files, messages, database rows, or policy sections needed for the task. Start a new session when the objective changes. Maintain concise, authoritative context rather than repeatedly sending a digital filing cabinet.

5. Use budgets and alerts, not fear: Set thresholds by team, application, and workload. Alert on unexpected changes, weekend activity, sharp input-to-output imbalances, or growing spend without a corresponding increase in completed work. Avoid one-size-fits-all limits that punish advanced users and reward low ambition.

6. Include token economics in acquisition and governance: For federal and regulated environments, require vendors to explain metering, caching,

data retention, routing, audit logs, rate limits, model changes and cost allocation. NIST's Generative AI Profile emphasizes managing risks in alignment with organizational goals, legal requirements and available resources. Cost governance belongs beside security, privacy and performance governance.

Risks and Watch Points

Token optimization can become counterproductive when it is treated as a race to the lowest possible usage. Excessive restrictions may drive employees back to manual work, encourage shadow AI, or prevent teams from testing higher-value use cases.

Cost reporting can also be incomplete. Token charges may exclude retrieval services, vector databases, storage, networking, observability, orchestration, security controls, and human review. FinOps guidance increasingly stresses that AI costs compound across the full stack, not only at the model endpoint.

Another concern is volatility. Model names, context limits, pricing, caching rules, and reasoning controls can change quickly. Any business case built on a single price sheet should include sensitivity ranges and an update cycle.

Finally, efficiency does not replace responsibility. A low-cost AI answer can still be wrong, insecure, biased, or inappropriate for the decision. Leaders should maintain clear human accountability and quality controls, especially in mission, legal, safety, personnel, and public-facing contexts.

The Final Takeaway

AI tokens are becoming the language of machine consumption, but they should not become the definition of AI success.

The organizations that lead will not be the ones that spend the fewest tokens or the most tokens. They will be the ones that understand what their tokens are buying. They will protect learning, improve productive work, stop silent waste, and connect every scaled AI investment to a business or mission outcome.

That is the real shift. AI strategy is moving from access and adoption to operating discipline. Tokens are where technology strategy, financial management, and leadership accountability now meet.

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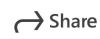
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Federal Systems Integrator (FSI) | AI & Emerging Technology | Public Speaker / Podcaster |
Former FEMA Technology Executive