Adtech ascendancy

The next wave of digitalisation in marketing

BARCLAYS

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The digital imperative: innovate, collaborate, disrupt

The radical restructuring taking place at WPP, until recently the world's largest advertising company, epitomises the disruption, realignment and consolidation pressures facing the digital marketing services sector in the current tough economic and trading climate, aggravated by political uncertainty.

To help businesses understand, anticipate and respond to the challenges facing the dynamic world of marketing services, we've canvassed the views of client companies who are innovative leaders in the sector and at the forefront of shaping the future of the industry. Their insights form the basis of this paper.

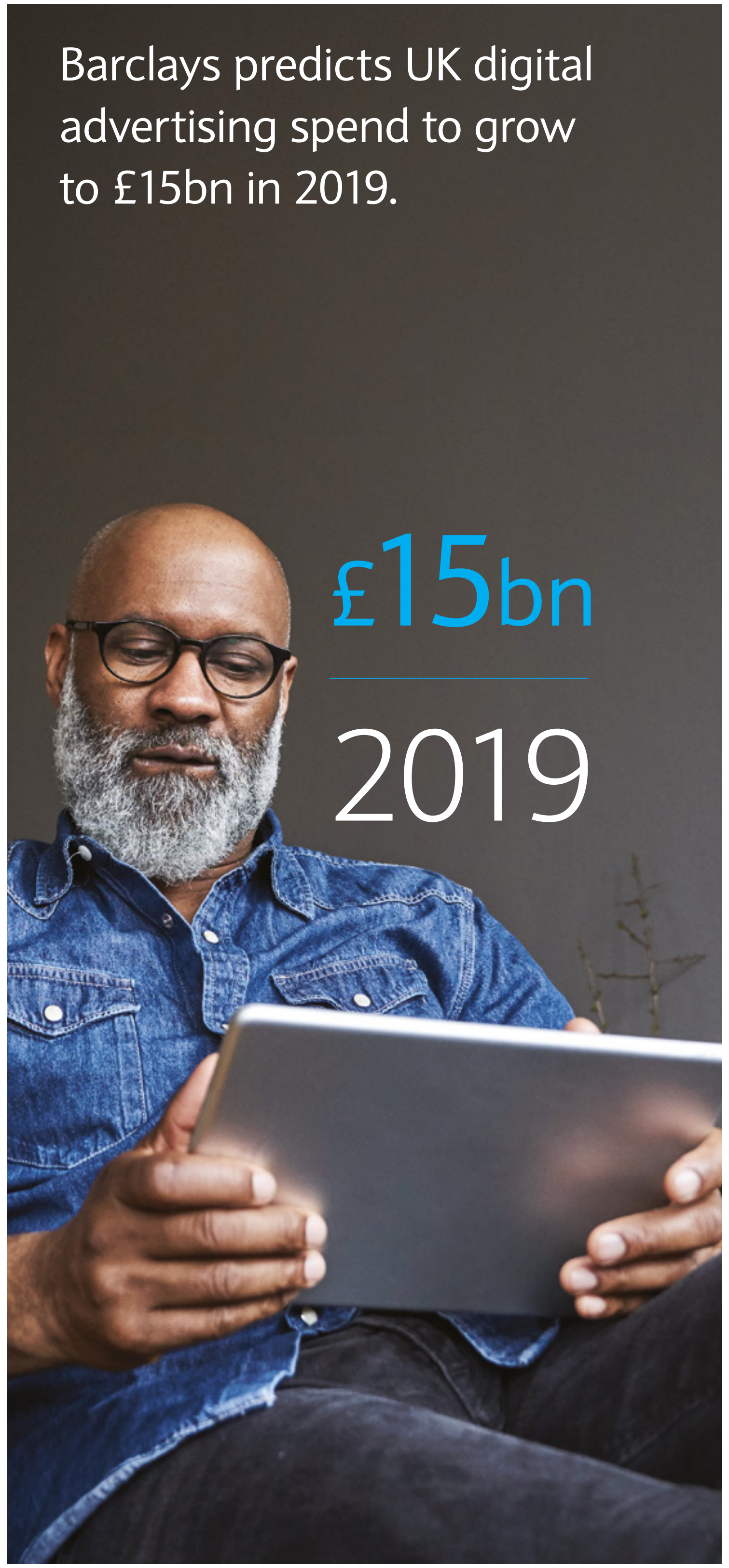
WPP is seeking to turn itself into a creative transformation agency having admitted it had become unwieldy with too much duplication. Much of its new strategy is common to the prevailing trend in marketing services: collaborative working (placing staff in client offices), seeking millennial talent and getting closer to the FAANGs. The strategy is about providing an end-to-end digital offering for clients. Structures will be far less hierarchical, more technology-based and future-focused.

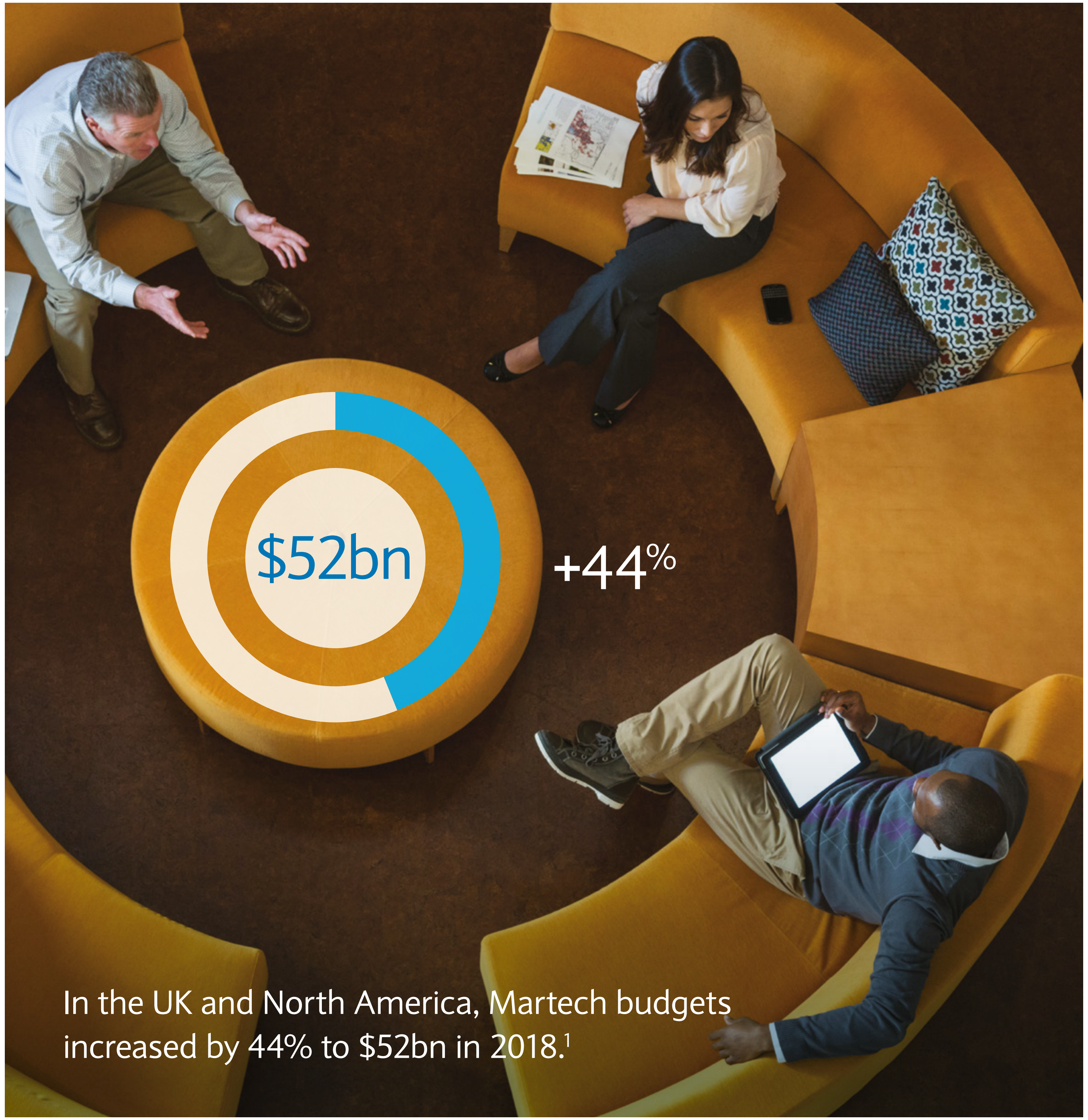
The marketing services landscape in the UK has always been defined by a certain amount of over-supply and fierce competition but the relatively low barriers to entry mean ambitious independents can win significant work from international brands if they have a compelling offer. This trend was already evident during the challenging trading conditions of 2018, when the major independents were the only sector to achieve double digit growth in gross income. This remains the biggest opportunity and threat.

Generic, undifferentiated creative businesses will continue to struggle as business is won by those who have a compelling value proposition, can adapt to the changing environment and deliver what clients need.

While the outlook for the marketing services sector and the wider UK economy has rarely been so difficult to predict, research from Kingston Smith, the corporate finance firm specialising in marketing services, suggests that many agencies are still very optimistic about their prospects for the coming year. However, given the sector's traditional role as the canary down the mine for the wider economy, any significant dip in consumer confidence is likely to result in further pressure on revenues and margins.

There is no sign yet of a slow-down this year in the healthy level of merger and acquisition activity that characterised 2018. Private equity firms are also maintaining their interest in finding promising targets. While the major Big 6 international marketing holding companies have been less active, consultancies such as Deloitte, IBM and Accenture continue to expand their footprint in the sector.





In the UK and North America, Martech budgets increased by 44% to $52bn in 2018.[1]

> "GDPR has been both positive and negative. GDPR forced companies to have a single view of each customer which they hadn't done before. If you have a single view you understand your customer much better."
> Ben Rudman, COO, Be Heard.

Client relationships continue to evolve. The direction of travel is towards a two-way collaborative approach that combines in-housing with outsourcing in a flexible hybrid model. The touchpoints with clients are also shifting. Whereas in the recent past the CMO would have been the main client, marketing services agencies must now engage with the client at many levels from CIO to procurement and customer service.

Brands are likely to continue bringing at least some of their marketing activities back in-house. Any significant downturn in the marketplace is likely to see a retreat to excellence by major brands as they gravitate towards specialists capable of delivering specific services to world class standards. Specialists in the growth areas of programmatic, brand safety, data-driven creative and innovative digital out-of-home strategies will be in demand. A shortage of top-level creative talent has been identified as an emerging issue by Kingston Smith. Increased pressures in attracting and retaining specialist talent are driving up staff costs and are likely to adversely affect profit margins in future.

Martech (marketing technology) is emerging as a force, like fintech in the financial services industry, enabling data-led creativity. Global brands are spending heavily in this area. In the UK and North America alone, brands spent $52bn on Martech last year, a 44% increase on the previous year.[1]

Artificial intelligence and machine learning continue to expand, playing an increasingly important role, although they will rapidly become standard tools. Augmented and virtual reality have a strong niche although they require further development before they are integrated into the mainstream media mix.

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Ways of working 2.0

Several core factors will determine success in the marketing services sector in the coming year. The key issues are the right talent, the right organisational structure, the right strategy and the right technology.

The rate of change in marketing services is such that key players are engaging in creative destruction, changing their business models and market proposition regularly. It is almost a Moore's Law of digital marketing.

Transparency in charging for services is becoming normalised as traditional retainers are replaced by project-based working. Previously opaque practices around rebates and margins are disappearing as the approach becomes customer-first. That transparency is seen as the key to building long-term relationships.

Those agencies that position themselves at the forefront of delivering seamless personalised customer engagement across multiple channels and platforms will have a competitive advantage. This may favour agencies that deliver end-to-end solutions as multiple agency approaches are less flexible and responsive in terms of strategy and execution.

Going global

The marketing giants are facing increasing competition, not just from Google and Facebook but from consultancies like Deloitte, PwC, Accenture and IBM who are also entering the space. This will result in their pursuit of digital marketing agencies to enhance their offering and proposition.

The concept of the global boutique is gaining traction. These digital marketing agencies have the scale to engage with global brands – their core target strategy – but retain sufficient focus to have a single view of the customer's needs. This lean and agile approach to full-service offering across data, creative and programmatic /media is the wave of the future and will disrupt the hegemony of the Big 6 agencies.

Data-led creativity will be high on the agenda. Campaign budgets will become more fluid as customers' behaviour, and interpretation of it through data analytics, can change rapidly.

> "The future is platform-agnostic."
>
> "To achieve the goal of a 360 degree, global, digital proposition you have to have a joined-up approach blending data, creative and media-buying. You need a culture that is collaborative. With a single provider, it's fluid and organic. It allows you to provide the right message in the right place at the right time."
>
> Rob Pierre, CEO, Jellyfish.

Retaining separate providers of services such as PPC, paid social and programmatic creates inertia as no individual provider wishes to sacrifice their budget. Single provider relationships can be agile and flexible, allowing the targeting of the right media in the right place at the right time. Strategically, digital marketing companies are increasingly moving towards targeting global brands with a single compelling solution, but tailoring it to take account of the social and cultural connotations of each individual market. The independents are having success in going direct to major brands without going through the Big 6 agencies.

Indeed, in terms of client relationships, the successful companies will be those who move beyond the concept of agency. They seek to understand the client's challenges and capabilities, and to help clients' senior management teams understand the changing

> "Every three years we redefine ourselves in terms of what we are and what we do. It will continue to transform at that three-year pace as the market and technology evolve."
>
> Ben Rudman, COO, Be Heard.

media landscape. A hybrid relationship model is emerging, blurring the traditional boundaries between brand and media company.

Successful digital marketing companies will take a pro-active approach to upskilling their client's in-house team, providing secondments and deploying marketing technology on the client's behalf. Clients, however, will seek to retain control of all CRM and third-party data.

The battle for talent

Size does matter. At this stage in the evolution of Martech and digital transformation, it now looks very difficult for new entrants and start-ups to disrupt the existing landscape and reach the level where they can offer a global proposition. Agencies that emerged at the outset of the digital revolution have now scaled to substantial and experienced teams with proven reputations. This suggests that the only route into the market now is through consolidation and acquisition.

Attracting and retaining talented people with the right skillsets and mindsets will be one of the crucial differentiators as will achieving the right mix of both permanent and freelance staff. A premium will be placed on being able to integrate data, creativity and accountability into the marketing mix.

In the battle for talent, the best people want to work in flexible, disruptive work environments characterised by creativity, flattened hierarchies, in-house incubators, social culture and novel career paths. Traditional workplaces with long hours, rigid command and control hierarchies, and prescribed career paths will lose out.

Technology is a vital piece of the equation for success but, given previous industry experience with obsolescent legacy IT, proprietary systems will be chosen carefully with a view to future-proofing and sustainability.

> "In client relationships, the idea of an agency will vanish. There will be a spectrum from fully managing to fully in-housing and you must be able to operate anywhere on the spectrum. In future client/ brand formations it can be all ours, all theirs or a hybrid.
>
> "With in-housing, people don't want to own all the tech and manage the talent. They want to own the data. The hybrid model allows that. Clients who try to do it all in-house have no broader frame of reference."
>
> Rob Pierre, CEO, Jellyfish.

The revolution will be digitised

The digital revolution continues apace and the speed of change is accelerating. The upside lies in harnessing the transformative power of new technology to differentiate and innovate. Meanwhile protection from emerging brand safety risks will be paramount.

Marketing companies are gearing up to exploit the strategic opportunities created by fibre and 5G in terms of superfast mobile data, website loading and HD film, enabling brands to be more creative and impactful with mobile content.

New technologies such as artificial intelligence, augmented reality and voice search/recognition continue to excite although these remain in the early stages of commercial application and, with a few honourable exceptions, have yet to demonstrate compelling value to the customer.

Personalisation of marketing experience and single view of the customer will be driven by technological innovation. Customer experience marketing (CXM) will be huge although this must be caveated by the difficulties in delivery and the fact that it can be considered intrusive. But one of the roadblocks to achieving this goal is the challenge of legacy IT systems, some of which date back to the early 1980s, which segregate data in silos.

> "With VR and AR we are still deciding whether it is practicality or novelty. With Pokemon Go, for example, you had engagement and purpose but it's so nascent that we don't have advertising mechanisms in place yet, let alone ways of understanding its impact. Longer term though, the opportunities for these platforms seem limitless."
>
> Luke Smith, CEO, Croud.

Rise of the robots

The increasing use of automation and robotics will make processes simpler and easier. Ensuring ethical data collection and customer trust will be paramount and a key differentiator, especially in the age of GDPR and increased sensitivity over use of personal data.

Voice and virtual assistants will become increasingly prevalent, enabled by advances in natural language processing, conversation interfaces, automation and machine learning. An estimated 50% of all searches will be voice searches by 2020.[2]

Chatbots and artificial intelligence will become more widespread, helping brands to improve customer experience and personalisation while reducing budgets. In the next five years, approximately 80% of business communications with customers will be performed through bot messengers.[3]

> "We've been developing AI for four years but have seen the benefits of it commercially in the last 12 months with a chatbot called Toby that we built for Vodafone on the IBM Watson platform. With Toby, conversion rates on SIM purchase improved 100%, there was a 50% reduction in completion time and a 90 out of 100 usability rating."
>
> Ben Rudman, COO, Be Heard.

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Safety first

Brand safety is a major concern along with transparency. With digital advertising and programmatic media-buying growing in influence, brands are more concerned than ever about protecting themselves from the reputational and financial damage that results from being associated with specific types of inappropriate content or criminal activity. The lessons of the YouTube controversy – when major brands pulled their advertising after discovering that it was placed alongside extremist and terrorist videos – continue to reverberate. Concerns are also growing over ad visibility and the prevalence of bot activity rather than human engagement.

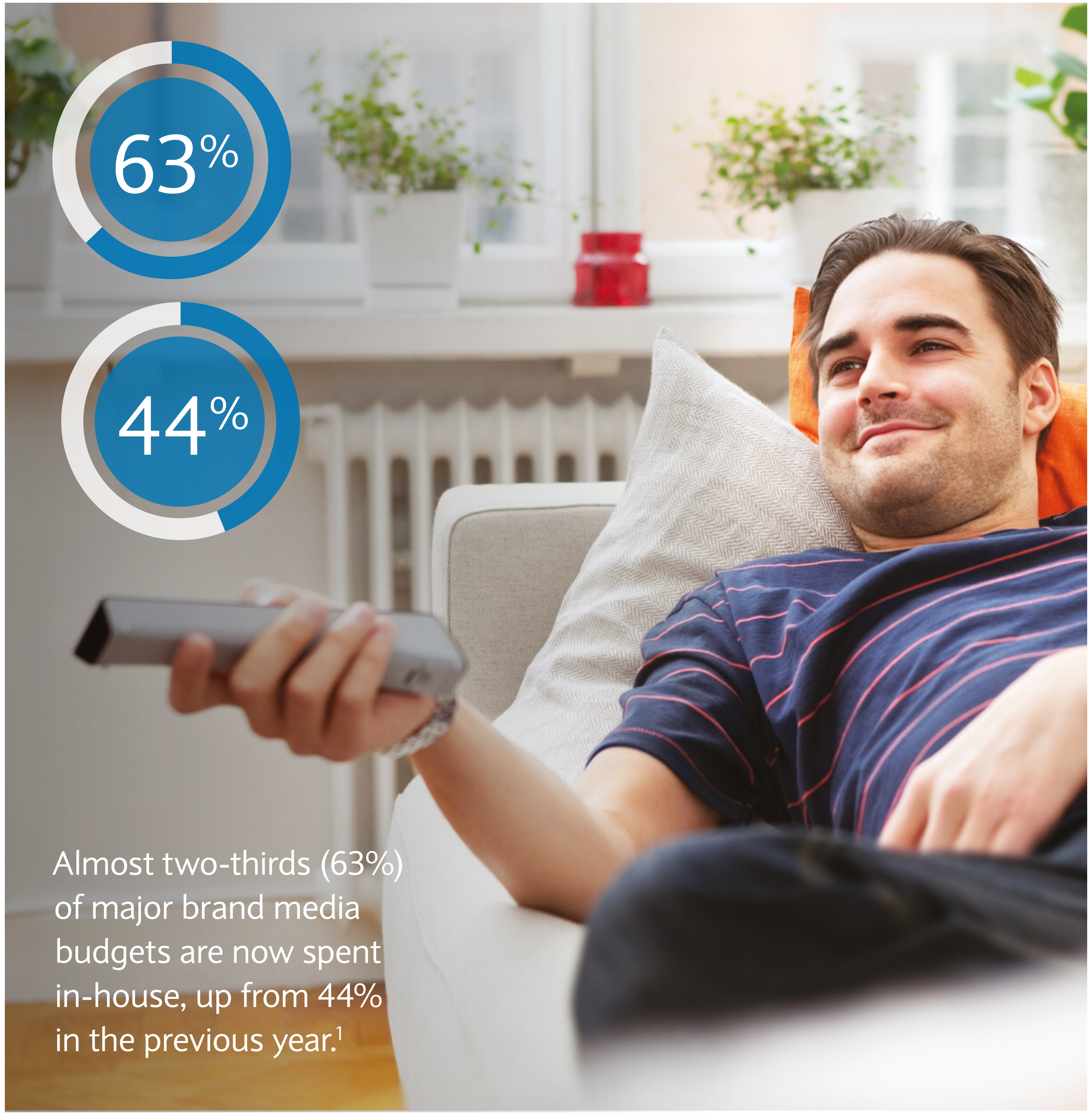
> "Transparency is at the core of brand safety. Some agencies resist giving clients the full transparent picture for programmatic trading. Our anomaly detection system has been designed to trap fraudulent activity in real time. We can switch this on to follow campaigns delivered by the main, market-leading systems – it is alarming how much anomalous activity can pass through unchecked."
> James Booth, CEO, Scoota.

Those media companies that can provide meaningful metrics and data to clients will gain a huge competitive edge as brands demand the dividends of programmatic in terms of measuring the performance of their advertising spend to improve campaign effectiveness.

Whereas digital marketing has concentrated on click-based metrics, there is a growing demand for more traditional media planning-style metrics – such as reach, brand lift and frequency – to be made available in the digital space. Google and Facebook have recently launched such tools and the trend will continue.

A window on transparency

Greater campaign transparency through improved Adtech will emerge as the core of brand safety. This movement is being driven by independent digital marketing companies and consultancy firms such as Deloitte and PwC who eschew the opaque short-term practices of rebates and kickbacks that still dog the industry and undermine performance. Even today, many clients do not have access to real-time tracking and performance data about their campaign. Pressure will intensify to remove the client-hostile practices that bedevil the industry.



"There is a considerable element of Adtech that is largely built on vapourware, and/or exists with the help of fraudulent transactions remaining in the mix, and backhanders keeping interest in the offering alive. Programmatic can be presented as deliberately complex and opaque. As such, brands can struggle to get access to full transparency and robust real-time brand safety; they have little control unless they bring technology in house."
James Booth, CEO, Scoota.

This will be given fresh impetus by the fact that brands are increasingly investing in in-house marketing technology in order to enhance programmatic for transparency and brand safety purposes. According to the latest data, almost two-thirds (63%) of major brand media budgets are now spent in-house, up from 44% in the previous year.[1]

Continuing concerns over brand safety are likely to be addressed by collaboration between advertisers, media agencies, Adtech companies and publishers. Collaboration should also help create industry consensus on best practice, standards, self-regulation and sanctions.

Artificial intelligence is being deployed on online platforms to prevent the placement of ads next to inappropriate content. This will help address the crisis but will require constant evolution of algorithms to mask disturbing content.

TV gets smarter

The next big move in programmatic will be into television which creates huge opportunities in addressable TV advertising. Automated ad serving is already a reality but real-time buying and bidding is generating excitement. This will offer the scale and reach of television with the media-buying and planning flexibility of digital media allowing brands to target segmented audiences while optimising campaigns with real-time data. It also opens up the reach of high penetration television to opportunistic campaigns around event viewership spikes to marketeers in ways which were previously inaccessible due to long lead times.

March of the giants

The FAANGs continue to dominate the digital ecosystem in marketing services. Getting close but not too close is the key to growth for ambitious independent agencies.

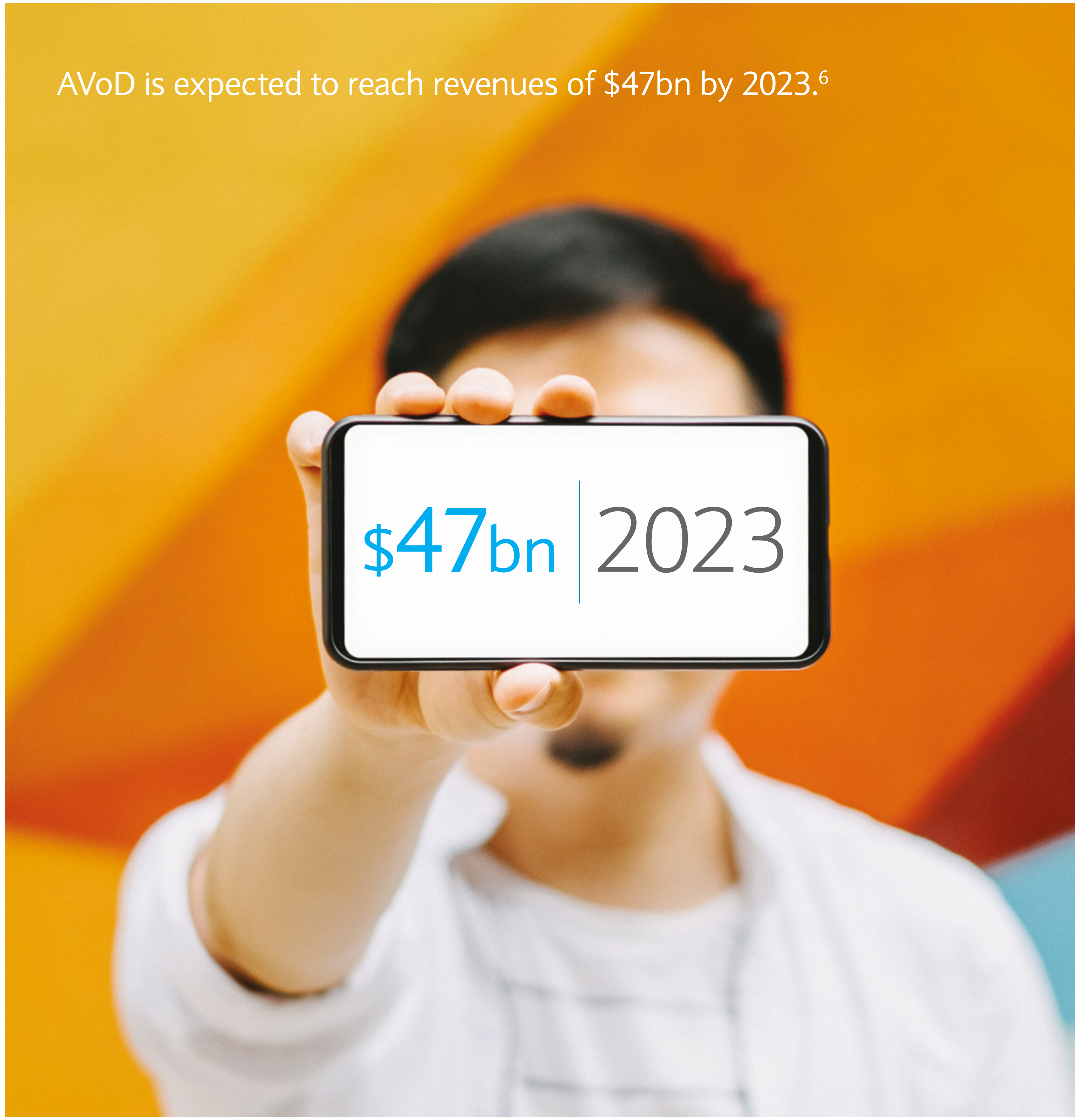
The irresistible rise of the FAANGs is fuelling voracious demand for content. Apple and Amazon both reached market valuations of over $1trn last summer[4] before market correction set in. However, predictions about the decline and fall of the US tech giants are likely to be premature.

"It's imperative to be very close partners with a FAANG. That relationship is essential. As a tier one partner of Google, we get early access to the alpha and beta rollouts of the latest technologies. It allows us to develop our capabilities and gives us and our customers the inside edge on emerging features."
Rob Pierre, CEO of Jellyfish.

With a collective capitalisation greater than that of the entire FTSE 100,[5] these five major players are ramping up their commissioning of SVoD (streaming video-on-demand) content as the migration from simply acquiring rights to existing shows continues.

Netflix' recent Oscar success for its original film content indicates the direction of travel and the company is already responsible for the UK's biggest budget drama, The Crown.

However, AVoD (advertising-funded video-on-demand) is growing rapidly and is forecast to reach revenues of $47bn by 2023.[6] It already has around 5% share of global advertising expenditure. Given the opportunities to combine rich consumer data with micro-targeting of messages during the viewing of content, it is clear why Amazon is looking at moving into the sector.



London calling

Amazon, Apple and Google have all set up content arms in London, taking advantage of the UK capital's compelling offering in terms of language, digital infrastructure and creative talent. Facebook is also buying and commissioning work for its new Watch platform.

The FAANGs are hungry for UK talent, as many of their hires indicate: Apple's appointment of former Channel programming chief, Jay Hunt, as its Creative Director for Europe was indicative of the direction of travel.

Netflix remains the leader in original content creation with recently announced plans to double its catalogue of original programming. However, Facebook, Apple and Google-owned YouTube are greatly increasing original content production on their platforms.

Amazon and Netflix are leading the way in personalised content, with the aim of providing maximum enjoyment with minimal investment of time for the customer.

Given the FAANGs' continued dominance – Google and Facebook together account for 58% of the $111bn global digital advertising market[7] – close partnerships between digital agencies and the major platforms are becoming paramount.

The FAANGs, with the exception of the organically growing Netflix, completed some 400 M&A deals in the decade from 2007[8] and the trend is set to continue.

The FAANGs' global hegemony should not be taken for granted, however. Amazon, Facebook and Google are facing regulatory pressures as the ongoing storm around data privacy and data protection continues. Part of the privacy storm is the use by some of the platforms of user generated content that is not subject to the same editorial standards as professional content.

> "Getting too close to the FAANGs takes away your objectivity and discretion – it's important to take a pragmatic view of the relationship. We have the expectation to build solutions seamlessly across all platforms."
> Luke Smith, CEO of Croud.

BATs versus FAANGs

The increasing trade friction and rising protectionism between the US and China, has turned a spotlight on FAANGs and their rapidly growing Chinese competitors, the BATs (Baidu, Alibaba and Tencent). This trio of technology giants – almost a parallel universe to the US digital giants – already dominate digital and social marketing in the world's second largest economy.

Alibaba's position as China's leading online retailer makes it akin to Amazon and the company invests heavily in innovation, cloud computing and streaming video. It is expanding into south-east Asia and is going up against Amazon in markets such as India and Australia. The growth of the BATs may provide as many opportunities for UK digital and content companies as the FAANGs do currently.

> "While it is essential to be close to the FAANGs, to exploit their platforms in smart ways and to participate in co-funded projects in areas such as machine learning, it is also vital to retain objectivity and discretion. We are ingrained with our customers much more than Google or Microsoft are. We know our customers better."
> Luke Smith, CEO of Croud.

Poster child for growth

Digital innovation and mobile commerce have given a new lease of life to the out-of-home sector. Its unique combination of mass reach and micro-targeting is creating exciting opportunities.

Out-of-home (OOH) advertising, as outdoor is now widely known, is reaching a singularity as technology, data and infrastructure come together seamlessly.

The advent of digital OOH has almost doubled the effectiveness of the medium and capitalises further on OOH's unique reach. 2018 marked a tipping point for the industry, with digital OOH advertising surpassing traditional outdoor for the first time.

Billboards have unparalleled reach in the fragmenting digital era with the classic version still reaching 98% of the potential UK audience,[9] while heavy investment means digital panels now reach 65%[9] of that audience as OOH networks are expanding digital signage as fast as they can.

Radio group Global's triple acquisition of OOH companies – Exterion Media, Primesight and Outdoor Plus – demonstrates the continuing relevance and opportunity in what some still perceive as a traditional sector. The deal will galvanise other leading players who will need to scale up through new alliances and mergers to remain competitive.

Even digital tech giants such as Netflix and Google are investing in digital billboards in key locations. Netflix, for example, paid $150m in the US for 32 billboards on Hollywood's sunset strip.[10] Indeed, four of the FAANG companies rank among the top ten largest spenders on billboards in the US. Meanwhile, Google is said to be exploring the potential of programmatic OOH, bringing its knowledge of algorithms and data wealth to the sector.

> "Creativity remains at the heart of any outdoor campaign. There is a danger in being seduced by technology. Technology works if it is an enabler but beware of it as a fad."
> Justin Cochrane, CEO,
> Clear Channel UK.

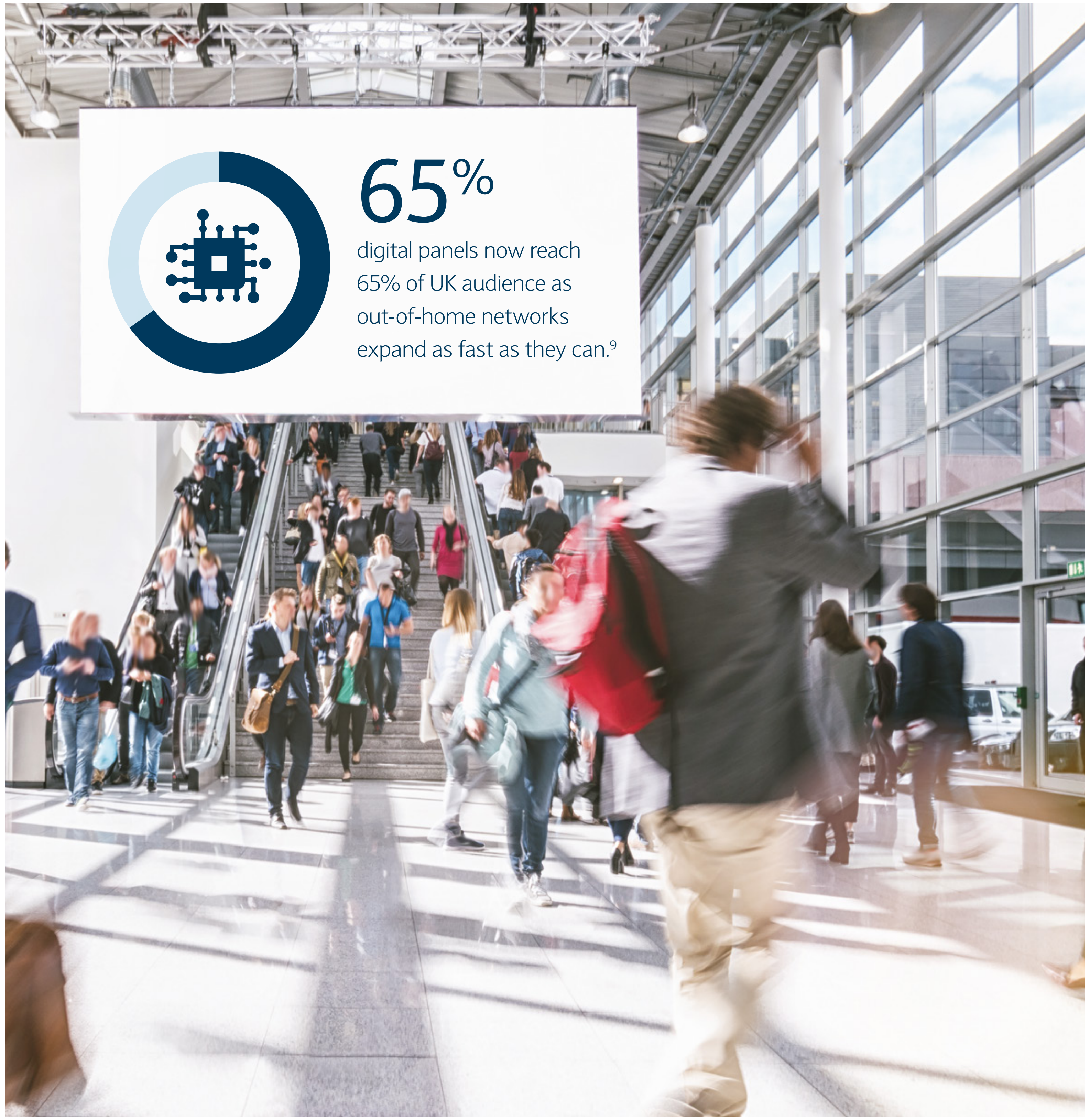
Dynamic tension

The increase in automated trading and booking is a key development which is transforming the traditional OOH planning and buying model. Automation and programmatic allows more flexibility and immediacy in campaign planning. It is now possible to book a single hour on a single day on a single panel for micro-targeted campaigns.

Use of dynamic creative and customer triggers is taking off. Advertisers can now optimise messaging on digital billboards to take account of traffic speed. Shorter messages will be deployed when traffic is fast-moving but more text will be displayed if the traffic is at a standstill.

> "Flexible buying, whereby even a specific ten-second spot on a single billboard can be bought, will be a reality in the near future. It will be almost like a Tetris game to slot in all the spots. That's where programmatic automation comes into its own."
> Justin Cochrane, CEO,
> Clear Channel UK.

In the UK, for example, dynamic billboards are used to stream live images of drive-time radio presenters to motorists during the morning and evening commute. This flexibility and agility in both message and creative is beginning to scale and allows more effective consumer engagement.



Minority Report becomes a reality

Smart utilisation of data by the OOH industry is driving the shift from targeting as many people as possible to targeting as many members of specific audiences as possible. Mobile data – GPS tracking and app data – is being integrated with other data sources allowing granular insights and highly personalised targeting tied to specific locations. By working with third party providers, OOH companies can collect geo-specific information on everything from traffic conditions to weather and use this to target relevant messages in real time.

This more frictionless connection across digital OOH products will see an increasing application of dynamic content and ad-serving to make the most of creative delivery.

Campaign concepts will become more agile with messaging that ties in with what audiences may be thinking, feeling and doing at certain times and certain places. It could be advertising based around weather conditions, pollen counts, royal weddings or sporting events.

If the weather is warm, dynamic billboards can be used to promote cool drinks and even recommend nearby pubs with beer gardens where you could enjoy them, based on anonymised geo-location data and weather information.

This allows much greater targeting of particular audiences by gender, age, income and buying habits – although senior industry players caution that advertising must not appear intrusive or breach data protection laws.

Maximising the potential of digital OOH requires providers to educate clients about the creative and strategic possibilities of outdoor campaigns. In the age of declining attention spans and intense online competition for eyeballs, the new generation of this traditional medium offers unique advantages that will be increasingly exploited by digital creatives.

> "Personalisation has great potential in outdoor, but it must be balanced to avoid alienating consumers. For example, a past advertising campaign that was targeted at Yorkshiremen drilled down to individual towns and even individual streets. While people were proud to be associated with their Yorkshire identity, they found street level personalisation a bit creepy."
>
> Justin Cochrane, CEO,
> Clear Channel UK.

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Before that she spent seven years as a Relationship Director working with large UK- and European-based media clients, which took her regularly to France, the Netherlands and Scandinavia.

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