



The future of advertising

Pathways to survival
in four scenarios

Introduction	4
Archetypes	6
Scenario thinking	8
The underlying drivers and how we derived them	10
Expert predictions	12
Our four scenarios	14
Scenario 1: The Transactional You	14
Scenario 2: The Creative You	16
Scenario 3: The Entertained Masses	18
Scenario 4: The Fragmented Masses	20
Taking a closer look: Consequences and recommendations	23
Methodology	24
Contacts and authors	26

Introduction

Advertising is facing the dawn of a new era: Online ads proliferate and attract more and more of the advertising budget. Data has evolved into the new advertising gold and is a game changer for processes and targeting, alongside ad tech.

New advertising heavyweights have sprung up, while long-established stakeholders are losing in importance. This transition is structural and looks set to continue. The key question is not whether advertising will change, but how radically it will do so. Our scenarios provide answers.

The transformation of the advertising landscape is fully underway. Today, the industry is already vastly different from how it was ten years ago. The changes are complex and multi-faceted, and they affect all areas of the advertising sector:

- Budgets have substantially shifted toward digital. Within ten years, the digital ad share has more than doubled. Online ad budgets have already surpassed TV, and the gap is likely to become larger in the coming years.

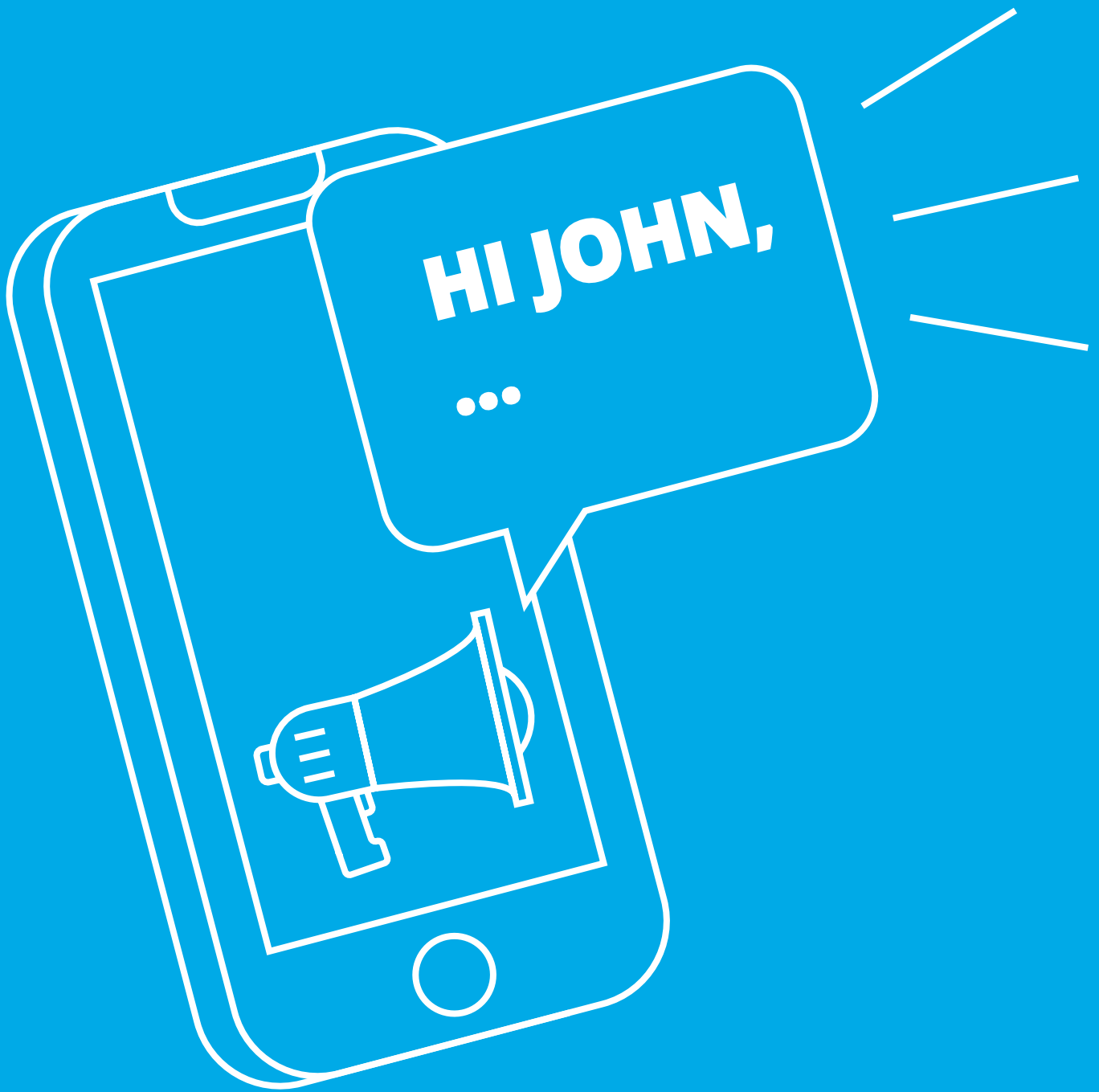
- Programmatic prevails: Automated processes increasingly replace human skill in advertising placement. According to Zenith, 65 percent of global digital ad spend will be traded programmatically in 2019. Consequently, the formerly indispensable role played by media agencies is coming under pressure.
- With the rise of ad tech, advertising is moving more and more toward technology. Deloitte estimates that the global ad software market reached US\$16 billion in 2018. Ad giants like Google or Criteo have emerged from this segment, although it is still complex and fragmented at present.
- Enabled by additional data and digital consumer insights, advertising is becoming more and more targeted and consequently promises greater returns. Deloitte experts assess that targeted ads are almost twice as effective as generic ads. Smart analytics makes ads even more relevant and personal.

- Consumers are becoming more demanding and less patient with regard to advertising. They want ads to offer a clear added value – to be either highly relevant or entertaining. If not, they skip, avoid, or circumvent them.

This is a dynamic market landscape and it does not lend itself to precise predictions. We have therefore utilized our proven scenario approach, which does not focus on forecasting the most likely outcome. Rather, it illustrates plausible futures in the global advertising market and shows how today's market players might adapt to meet the many changes and uncertainties along the way.

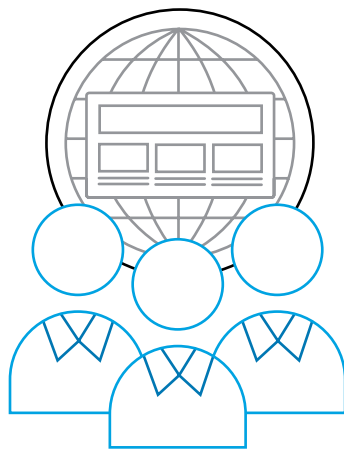
Let's look at the advertising market in 2030 and how it is impacted by the four scenarios.

Continuing our series of studies, which began with “The future of the telco business model” and “The future of the TV and video landscape”, this is the third report in which Deloitte combines its technology, media, and telecoms expertise with the unique methodology developed by the Deloitte Center for the Long View.



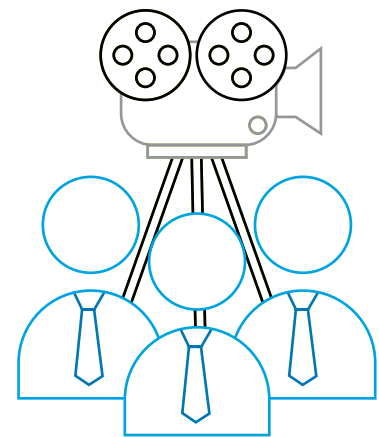
Archetypes

The future of advertising affects very different stakeholder groups. Apart from traditional advertising world players, the transition is also fundamental for numerous new market entrants, most of whom have/utilize technology and data stacks. To provide you with a simple overview in this complex ecosystem, we have defined five archetypal stakeholders who will strongly shape the future advertising landscape. They are the protagonists in our four scenarios, each facing completely different challenges and opportunities in the different worlds.



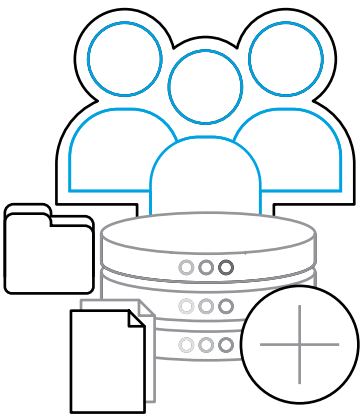
Digital platform companies

- Digital platform companies (DPCs) facilitate online interactions between suppliers and consumers and act as content aggregators with often high reach and direct customer access.
- Large DPCs like Google or Facebook are important actors, in particular in the advertising space.
- They benefit from their technological competencies and data ownership, which together forms the basis for strong analytics capabilities.



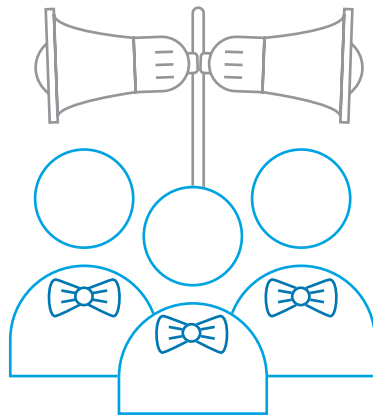
Media companies

- Media companies create relevant content and therefore provide an attractive advertising environment.
- They have gone through a massive transformation process and adapted offerings, distribution, and business models towards digital. As a result, new concepts like video on demand or music streaming prevail.
- Advertising is an important revenue stream for media companies, alongside paid content.



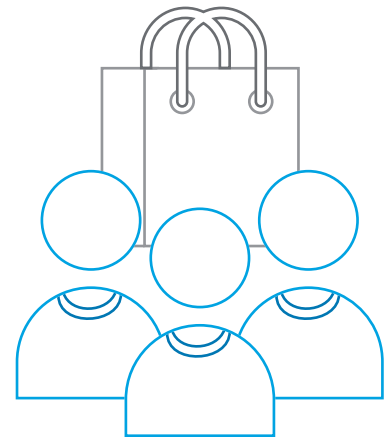
Agencies

- Agencies and agency networks create, plan, and manage all aspects of advertising. Their generic competencies range from creativity to media space transactions.
- Agencies are the key traditional pillars of the advertising market.
- In the digital advertising world, new competitors with comprehensive tech skills arise and tackle the traditional business models of agencies.



Advertisers

- Advertisers are the payers in the ad ecosystem, either to strengthen their brand or to drive sales conversions.
- They increasingly internalize advertising skills, especially in technology.
- In a digital and tech-focused ad environment, advertisers become more independent of formerly indispensable partners.



Consumers

- Consumers are the recipients of advertising.
- Their expectations toward attractive advertising have risen sharply.
- Consumers expect advertising that is equally entertaining, informative, and proactive.

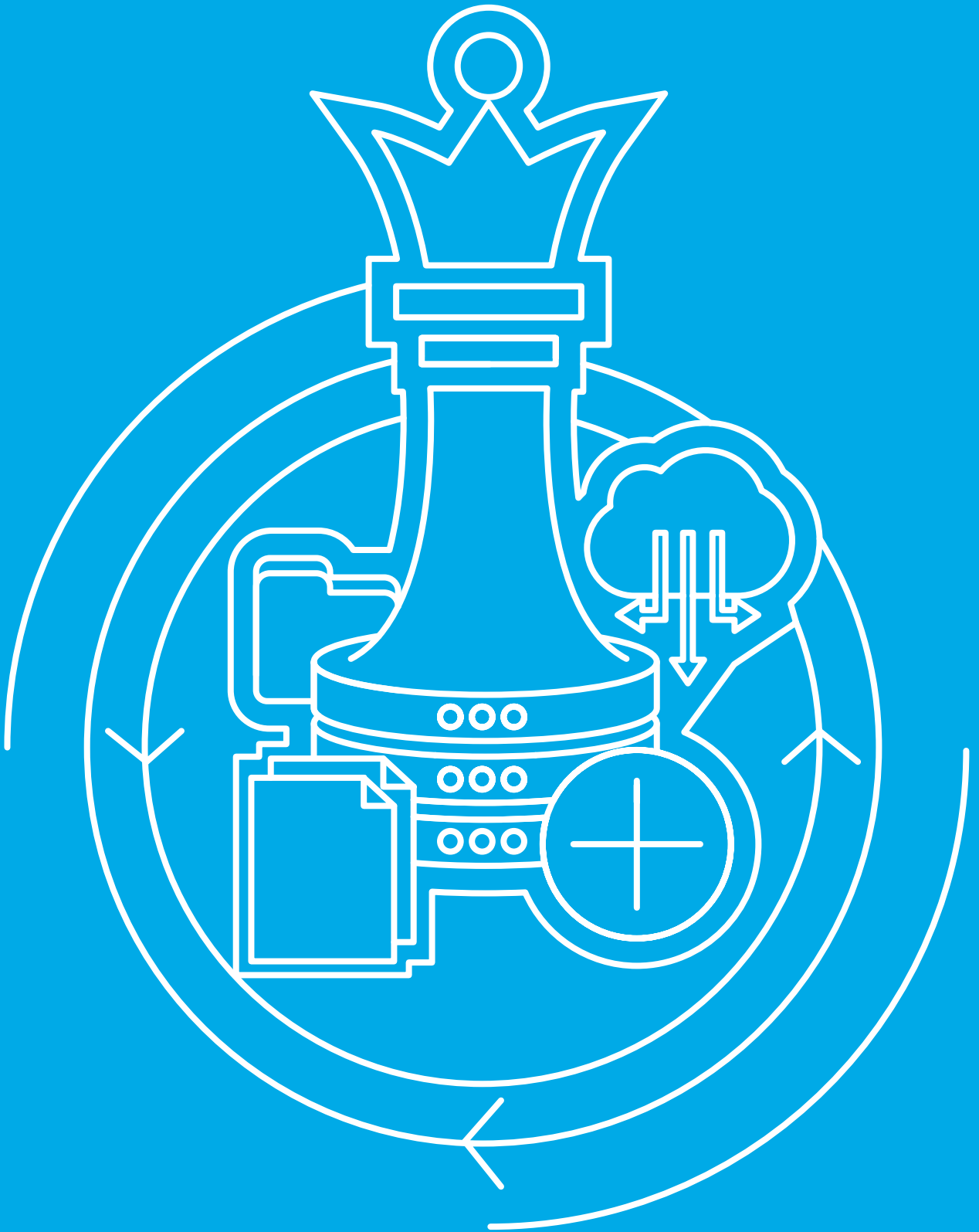
Scenario thinking

Groundbreaking data-based ad technologies, increasingly personal ways of advertising, the massive reallocation of budgets, and a significant shift of power between stakeholder groups: The advertising landscape has become an uncertain environment.

The future market landscape will be strongly influenced by the strategic steps that relevant parties take. The decisions they make today will massively impact methods of advertising going forward, as well as market structures and technological standards.

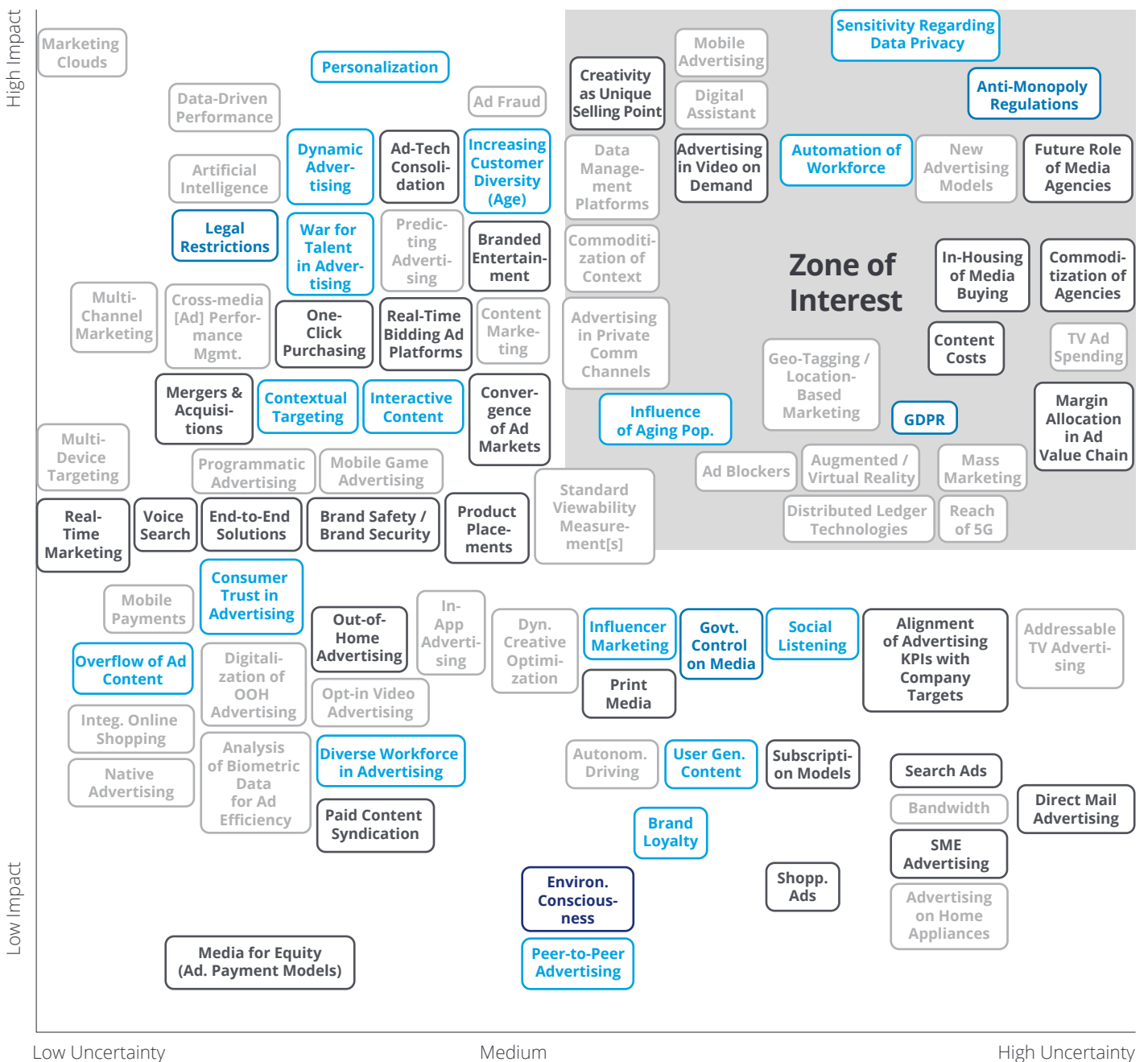
Conventional strategic analysis is not best suited to a highly uncertain environment such as this. By contrast, scenario design is an approach that offers perspectives beyond the usual planning horizon of three to five years. While it is not capable of predicting the future per se, scenario design can look in detail at the risks and opportunities of specific strategic options, which helps develop

robust responses with good outcomes in different potential futures. To give context to these responses, we generate a set of scenarios, each of which describes one plausible future that is distinct from the others. These are arranged to illustrate relevant but opposing forces, rather than specific events in the future. Scenarios are narratives set in alternative future environments in which today's decisions might play out. Because they make the driving forces visible, they help planners consider the impact on their strategies and adapt them accordingly.



The underlying drivers and how we derived them

Fig. 2 - Driver evaluation by degree of impact and uncertainty



Our scenarios are based on a comprehensive set of underlying drivers that will potentially shape the future of the advertising industry. We generated these by interviewing experts and utilizing our unique external environment analysis, which is based on Natural Language Processing algorithms.

We then clustered the resulting drivers into social, technological, economic, environmental, and political (STEEP) factors, and rated them in terms of their relative uncertainty and impact on the advertising industry (see figure 2).

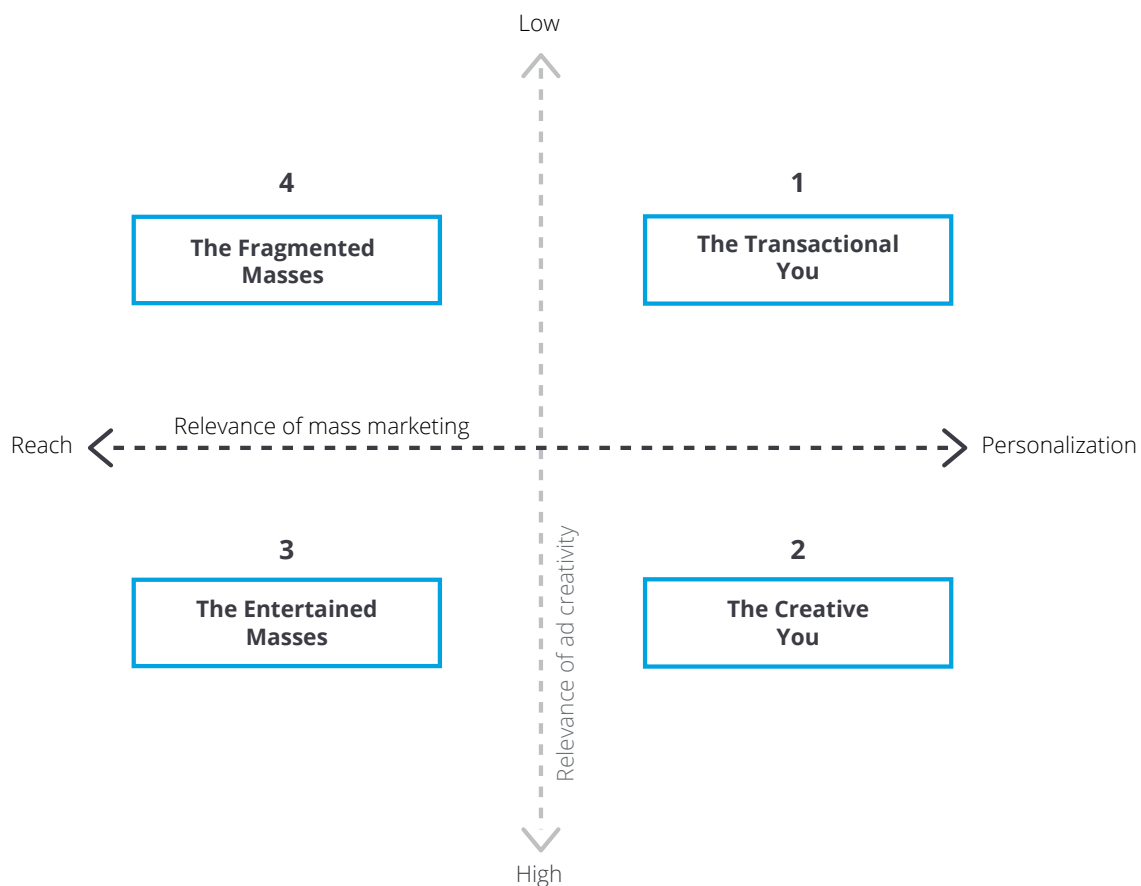
We identified two types of relevant driving forces for our scenarios:

- Drivers with high impact and a predictable evolution, which are described in the section on Expert Predictions
- Drivers with high uncertainty and high impact on the advertising industry

The second type of drivers, highly uncertain and highly relevant, are in the 'zone of interest', and it is on this area that subsequent analysis focuses. For the advertising industry, the zone of interest contains 26 driving forces, which we tested by measuring their interdependence with and relevance to each other, then clustered them according to their relatedness. At the end of this process, we chose a combination of critical uncertainties that would generate the most challenging, divergent, and relevant scenarios, and placed them in a matrix as a basis for scenario analysis.

The two axes defining the matrix address the critical uncertainties by raising two questions, "What is the future relevance of creativity?" and "What is the future relevance of mass marketing?", as illustrated in figure 3.

Fig. 3 – Scenario overview for the future of advertising in 2030



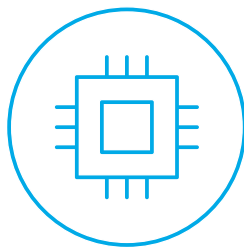
Expert predictions

Of the two types of relevant driving forces mentioned above, the first group differs from the second in that it is possible for our experts to predict a distinct evolution for them. Like the 'critical uncertainties' in the matrix, their impact on the future of advertising is high, and these drivers are relevant in all four scenarios. Seven statements outline key developments in the advertising industry that we can clearly foresee:



Marketing clouds prevail

Marketing clouds are indispensable elements of advertising processes. They steer the creation and management of marketing relationships and manage campaigns with customers. It will become standard to integrate solutions for customer journey management, email, mobile, social, web personalization, advertising, content handling, and analytics.



Artificial Intelligence is imperative

Artificial Intelligence is ubiquitous in the advertising space. AI supports decision-making and analyzes consumer behavior. Enriched with data about how consumers interact with advertising, it substantially optimizes campaigns to perform better. Implemented consistently and to its full extent, AI understands consumers better than they do themselves.



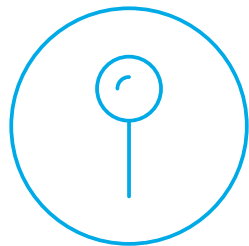
Programmatic becomes universal

Programmatic is the standard for digital advertising. Processes in the context of purchasing and selling ad space and dynamically placing digital ads are fully automated. Transactions take place in real time. Programmatic is an essential enabler for targeted advertising. Traditional processes involving RFPs, human negotiations, and manual insertion orders will vanish from the digital advertising space.



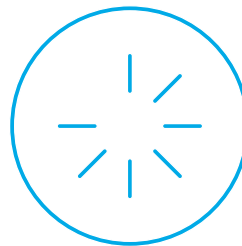
Ad tech consolidates

The once fragmented and heterogeneous supplier landscape within the ad tech segment will consolidate. Large ad tech players will acquire almost all their smaller but highly specialized competitors. The desire for improved services, additional scale, and more data is the main driver behind vigorous M&A activity.



Context is king

Digital advertisement is predominantly contextual. Ads are selected and placed by automated systems, based on the ever more detailed user profiles and the content displayed. The increase in mobile and location-based advertising strengthens this trend.



TV loses its dominance

After print, traditional linear TV also loses in importance. Large digital platform companies generate similar reach through video on demand, social, or messaging functionalities.



War for ad talent continues

The continuing digitalization of advertising with new market players, changing job profiles, and a shift of power within the industry causes an enormous war for talent. Employers compete for experts with scarce, specialized skill sets. Demand for data scientists, analytics experts, and creative minds is huge at present and will remain high.

Our four scenarios

Scenario 1: The Transactional You

In our first scenario, data is the dominant factor. Data makes it possible to predictively target consumers with highly relevant ads on the right channel at the right time, so that shopping transactions become convenient and effortless. Transactional marketing prevails over brand communication. Advertising content is designed to be informative rather than appealing. Customer contacts and data are the new currency. Data ownership is the key to this scenario, since it determines the winners and losers along the advertising value chain.

Technology is a competitive prerequisite in this scenario. Analytics drives predictive targeting, making data scale and savviness key factors. Sophisticated data management for creating personalized campaigns has become mainstream along the whole value chain. In general, the use of data is not restricted by regulations or privacy concerns.

Large digital platform companies are the winners in this scenario. With their vast user bases, data pools, and holistic ad tech stacks, they generate precise audience segments and target these with customized campaigns. AI-based real-time message personalization hits consumers at the right time, place, and context. Since digital platform companies provide trading solutions and marketplaces for digital advertising, they control money flows and access to consumers for both product sales and advertisement.

Advertisers face new challenges and must rely on the large platform players for data and technology. Transactional advertising strategies dominate. Brands battle for attention and suffer from decreasing consumer brand loyalty.

Media companies come under pressure as advertising largely decouples from media. Mass-appeal inventory is no longer crucial

for driving marketing success. Media companies are forced to focus on hybrid and pure-pay models to compensate for vanishing ad revenues. From the consumers' perspective, paid content is the only way to protect themselves from being targeted intensely in this data-driven media world.

Agencies disappear as creativity and content, their old home turf, massively lose significance. What's more, data and technology completely eclipse the role previously played by agencies.



The Transactional You

Scenario 2: The Creative You

In this world, human creativity is the source of highly efficient campaigns that perfectly meet individual consumer preferences. Advertising has evolved into personalized entertainment that uses emotional advertising formats, enables direct-to-consumer advertising, and creates strong relationships between consumers and brands. As a result, a new creative sector is emerging.

Campaigns are at peak relevance because they are both personalized and creative. Customers find well-tailored ad experiences exciting. In this context, real-time AI-based adaptation of communication plays an important role. By defining very fragmented customer cohorts, messages are tailored to consumers' needs and therefore resonate with them.

Advertisers are the beneficiaries in this scenario. Their access to in-house customer data allows them to initiate personalized campaigns. Placing ads in the right context guarantees reach and relevance. Brand building is largely on a par with transactional advertising. Even

more importantly, advertisers can distribute individual products directly, which decreases the distance between advertisers and customers and generates brand loyalty.

In this content-oriented world, media is largely fragmented. Media companies have shifted their focus from aggregation to production. They remain in a comfortable position because advertisers rely on them for high-quality content. Creative skills are what secure the media companies' competitive edge, supplemented by the analytics competencies they have also gained.

Despite media fragmentation, agencies are no longer relevant. For targeting purposes, digital platform companies have become advertisers' primary partners. With their enormous technological capabilities, platform companies run a selection of media and creative individualizations on behalf of brands, based on deep data analytics. Media companies take on the creative role.



The Creative You

Scenario 3: The Entertained Masses

In our third scenario, creativity is the foundation of high-quality campaigns with extensive reach and attractiveness. Consumers enjoy exciting ad experiences that are worth talking about even outside of advertising spaces and despite low personalization.

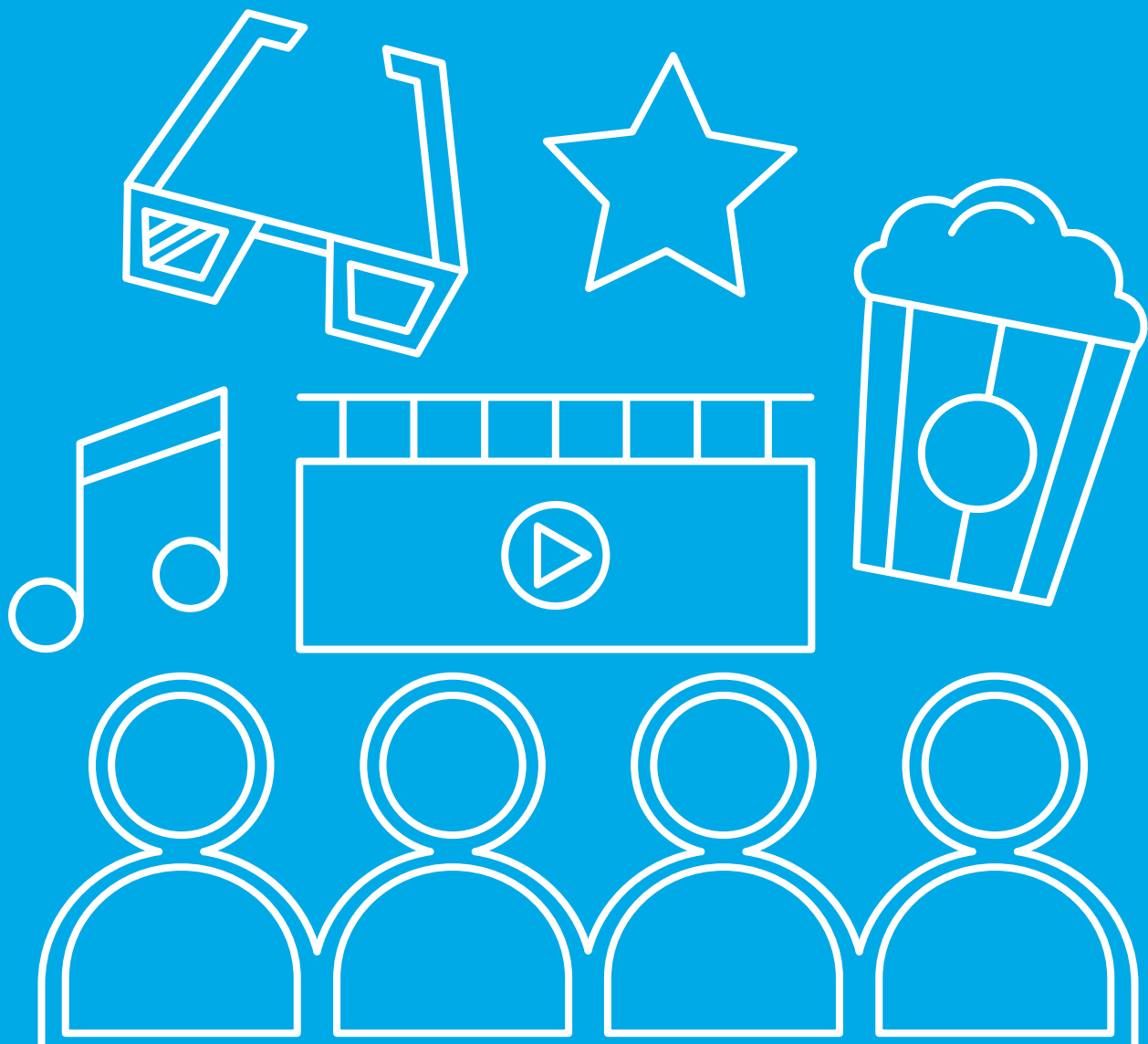
The focus on creativity and reach is not by choice: Its cause is the lack of usable consumer data. Targeting is severely limited. Strict regulatory frameworks inhibit the collection, aggregation, and exploitation of consumer data. In addition, consumers prefer not to share their data in the wake of serious data privacy scandals. Consequently, advertising players are unable to build up data lakes or utilize data analytics.

As targeting is so limited, advertisers use low-volume premium content with mass appeal that is creative and has high production values. Blockbuster productions and major sports events are the context in which advertisers secure a tremendous reach. The significance of brand building clearly exceeds transactional marketing. Appetite for premium content leads to extreme demand for creative talent.

Large media companies are the winners in this scenario. They are the most important interface with consumers and deliver reach to advertisers by creating highly attractive content. Ad revenues fund this content, even the expensive productions. Because reach and size matter, the media landscape consolidates, and smaller media companies gradually vanish.

Agencies remain strong. They are necessary for navigating the multiplicity of media and managing the creatives. Agencies develop brand messages and control money flows.

Digital platform companies have lost their competitive edge in terms of data and technology but continue to be relevant as sales and distribution channels. However, brands frequently access consumers directly.



The Entertained Masses

Scenario 4: The Fragmented Masses

In our final scenario, buying decisions are triggered by brand power. Brand is the differentiating factor, so a broad range of brand adverts is essential. Since privacy regulations limit personalized campaigns, aggregating specific niches is key to achieving reach and relevance. Human creativity is less important, because data and Artificial Intelligence dominate the creative process.

Ad messages are distributed in a fragmented media world. Relevant content is just as important as access to social media and messaging platforms. Advertisers target specific microsegments by using a large set of niche formats to address their consumers with relevant brand messages.

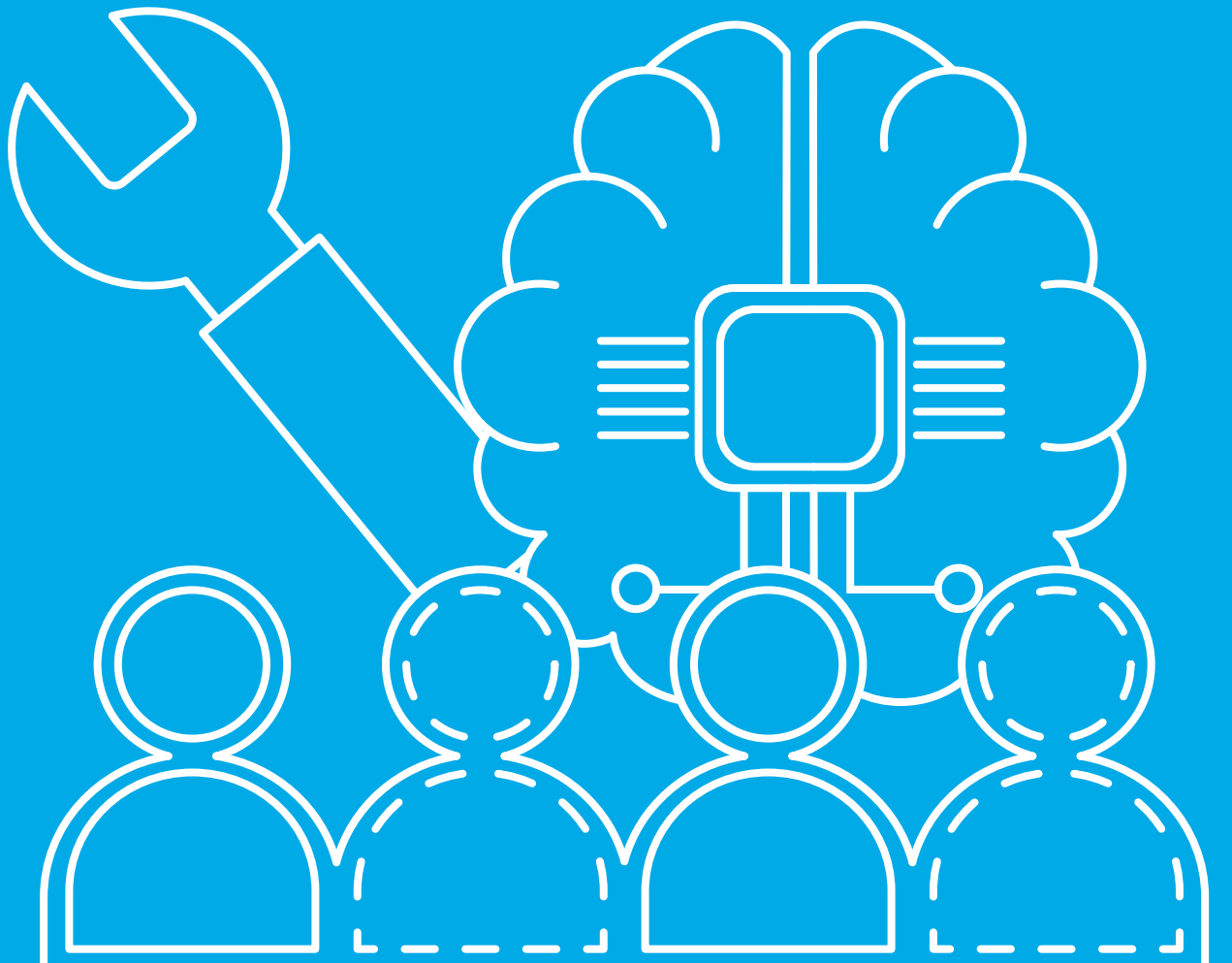
Advertisers are the winners in this scenario. They have established strong brands by creating brand messages for specific segments. These brand messages are leveraged by Artificial Intelligence, so advertisers benefit from relatively low creation costs despite the multitude of different messages. Advertisers still count on digital platform companies whose tech

stack is necessary to address messages to the right microsegments.

Digital platform companies are gateways to consumers and leverage their technological capabilities to help advertisers play ads to the appropriate consumer microsegments. However, this technology is little more than a commodity.

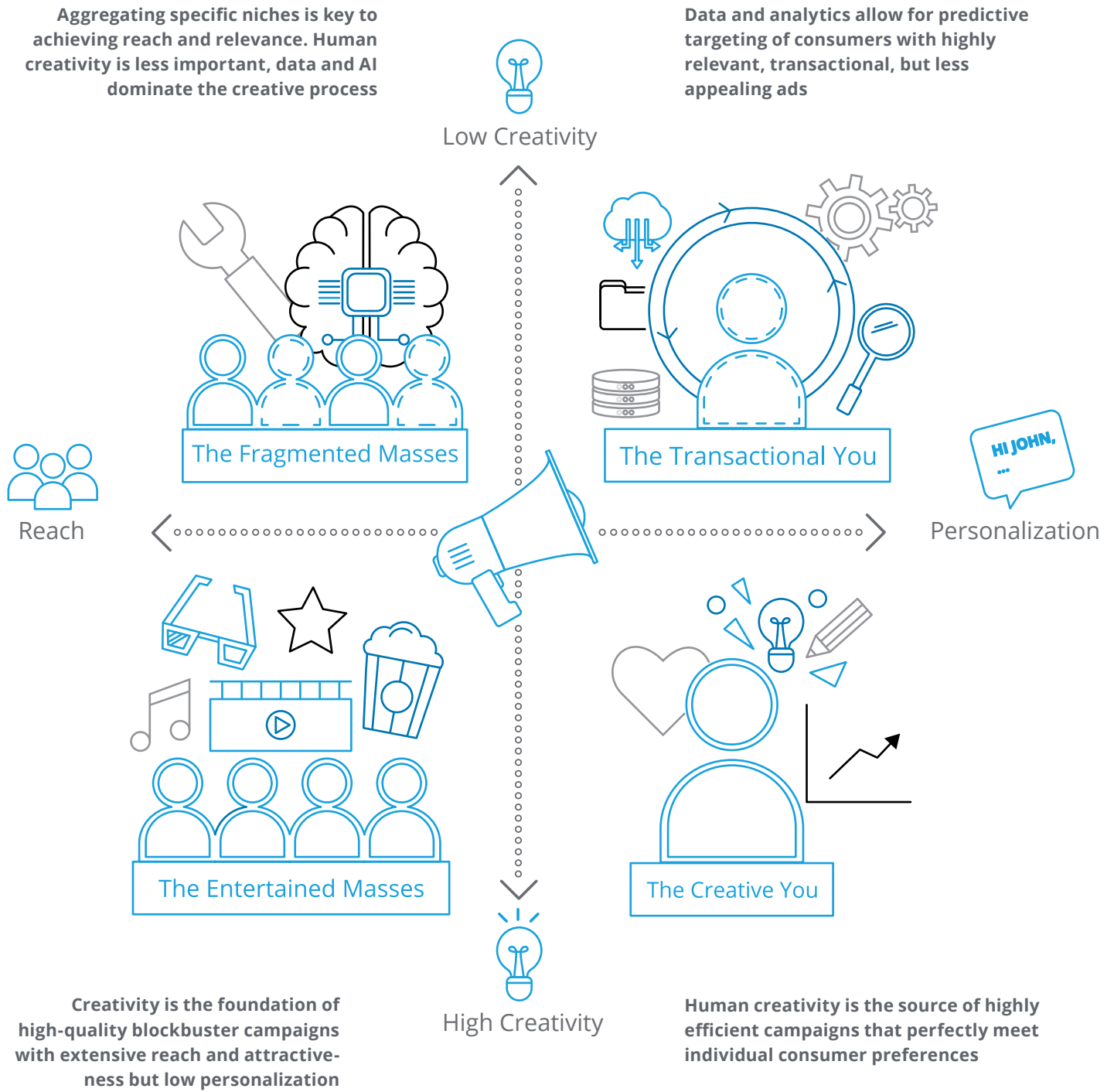
Media companies remain in a comfortable position. Like digital platforms, they are relevant customer interfaces and indispensable for circulating brand messages to the vast range of niche segments.

As advertisers value data over human creativity for producing brand messages, agencies find themselves in stormy waters. Digital agencies cannot match the data inventories and tech skills of digital platform companies. Advertisers are increasingly internalizing Artificial Intelligence as a commodity, which means the agencies' intermediary role diminishes.



The Fragmented Masses

Fig. 4 - Scenario overview



Taking a closer look: Consequences and recommendations

Our four scenarios are extreme points of the potential advertising market evolution. They outline greatly varying market situations and shifting power between the stakeholder groups, but a closer look shows some overarching imperatives for advertising market players. These also reflect the seven key industry developments we can clearly foresee, as outlined above. Overall, our scenario exercise reveals three strategic playing fields: Alliances, technology, and creativity.

Alliances answer the need for scale in different contexts. Market players must aggregate or be swallowed themselves. As an example, a closer look at media companies illustrates the overall pressure to join alliances. Depending on the scenario, they are forced to aggregate advertising space, need scale to fund expensive blockbuster productions or sports rights, or must generate broad reach via aggregated platforms. Agencies also face similar pressure to scale. Many smaller agencies cannot design and implement huge or highly personalized campaigns on their own. Unsurprisingly, large global digital platform companies are best positioned in this context, but even they must partner with other stakeholders, especially in scenarios where their superior skillset in terms of data and technology is not the key factor.

Technology will be ubiquitous in the future advertising world. It is just as indispensable for market players with a traditional focus on creativity: Media companies and agencies need to build up or strengthen their tech expertise, especially in the

transaction-based scenarios. In those worlds, advertisers also need profound tech expertise to keep pace with the increasingly technological advertising environment. Analytics and Artificial Intelligence are essential fields of action. In this context, cooperation with digital platform companies is a viable way forward. DPCs not only have a broadly developed tech stack and access to data, they also act as ad tech service providers across the complete workflow.

However, there is also good news for agencies: Creativity remains a distinctive factor. Data and Artificial Intelligence will by no means completely replace human imagination. On the contrary, at times it makes the crucial difference. In the less transactional scenarios, digital platform companies and advertisers are advised to strengthen their creative skills. The result is an increasing war for creative talent. In the same scenarios, agencies and media companies benefit from their profound creative expertise. To take advantage of this, they should strictly emphasize their creative competencies.

Methodology

The methodology of this study is based on the proven scenario approach first employed by Shell and perfected by Monitor Deloitte. A seven-step scenario development approach applies the guiding scientific principles of objectivity, reliability, and validity. The study is the outcome of a series of interviews, questionnaires, and workshops involving Technology, Media & Telecommunications (TMT) experts from the Deloitte Global network and industry professionals as well as experienced scenario practitioners from Deloitte's Center for the Long View (CLV).

Scenario design starts by identifying the focal question of the underlying issue. Since we could tell an infinite number of different stories about the future of advertising, we first had to agree on the issue or strategic challenge we wanted to address. This enabled us to appropriately support decision-making for our TMT clients. Scenarios are tools for shedding light on strategic challenges, while the focal question sets the scope of the scenarios. In the present case, we focused on the question, "What will the future of advertising look like in 2030?"

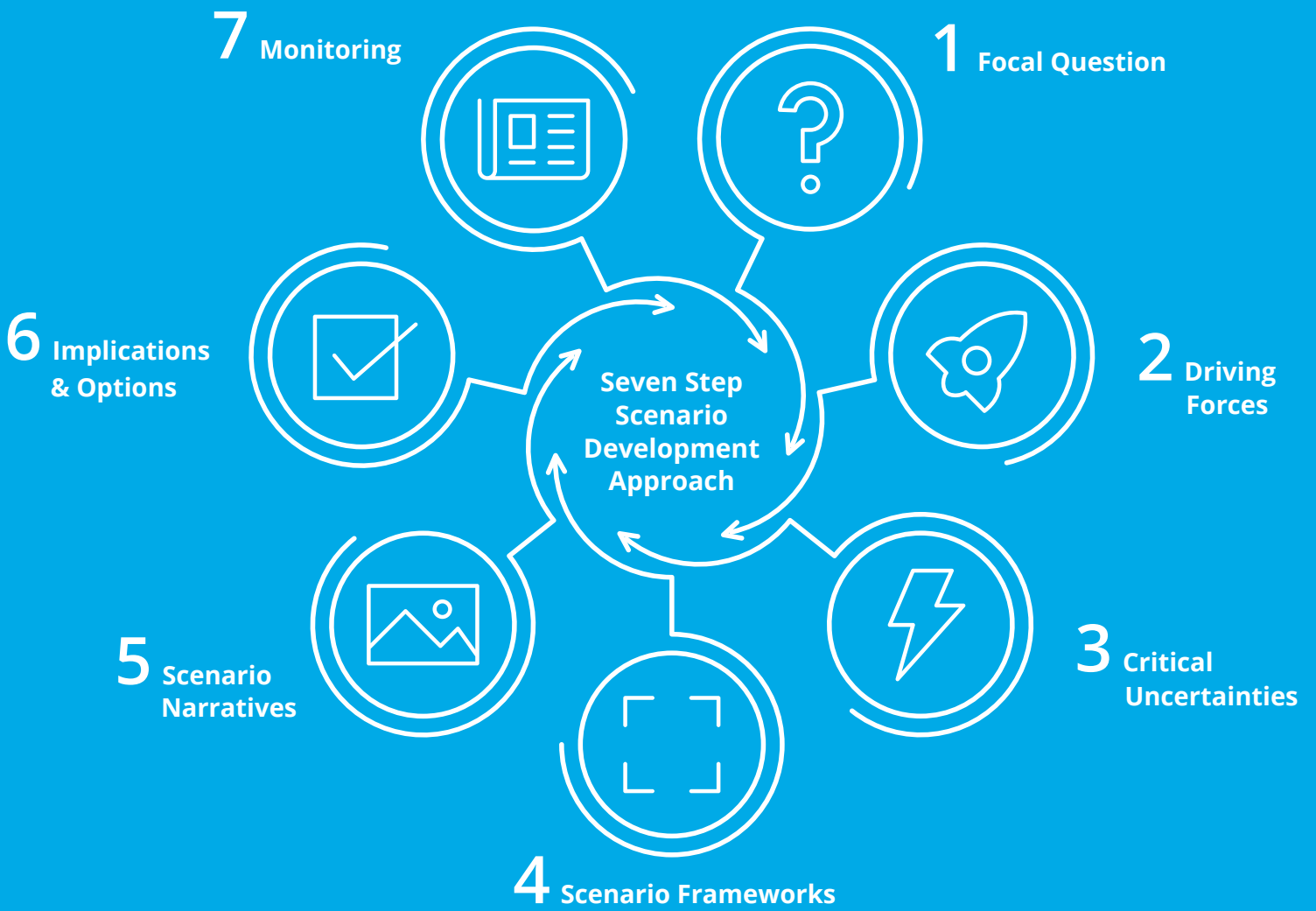
Scenarios are a way of understanding the dynamics that shape the future. Therefore, in a second step, we pinpointed the forces that drive the focal question. Driving forces are fundamental sources of future change. They shape the course of events and history and dramatically enhance our ability to imagine future scenarios. These drivers can be grouped into five categories, known as STEEP forces, as they consist of social, technological, economic,

environmental, and political factors. Since most issues involve more than one of these categories, they are only labels. In order to derive our driver list, we also conducted expert workshops using Deep View, an Artificial Intelligence (AI)-based trend-sensing and analysis machine. Deep View helps to avoid the bias of the traditional approach, which often has a built-in tendency based on the character, mood, or preferences of the scenarists.

As part of the workshop series, in a third step we identified the critical uncertainties for the focal question. Not all driving forces are uncertain, some may be predetermined. These are the trends already in the pipeline, unlikely to vary significantly in any of the scenarios. Critical uncertainties are driving forces with the potential to tip the future in one direction or another. They have two fundamental characteristics: They have an unusually high impact and are uncommonly uncertain or volatile. Initially, all uncertainties appear unique, but by stepping back, we can reduce uncertainties to clusters that serve as the building blocks for creating our scenario sets.

The scenario framework was developed in the next step by focusing the entire list of related uncertainties into two orthogonal axes. We then defined a matrix consisting of crossing and independent axes that allowed us to define four very different quadrants of uncertainty. In the underlying study, we used the relevance of creativity and the relevance of mass marketing as critical uncertainties and developed four distinct, yet plausible future scenarios.

The Center for the Long View (CLV) scenario approach includes two further steps that help enterprises make use of the defined scenarios: Developing strategic options and monitoring the scenarios. We use the scenarios to derive consequences for market stakeholders, in this case creative agencies and media companies, for example. Existing strategies are tested against each scenario and adjusted where necessary. Here, we apply proven Monitor Deloitte methodologies to identify, dissect, and analyze businesses' strategies. At the same time, new strategic options are formulated that are suitable for all or for individual scenarios. As it is important to provide long-term scenario monitoring in order to ensure the validity of defined strategic options, we have developed CLV Gnosis. This is an AI-based modular tool that tracks movements toward individual scenarios in real time and indicates where the future is heading.



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