

AI: The Next Generation Of Marketing

Driving Competitive Advantage
Throughout The Customer Life Cycle

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Executive Summary

Artificial intelligence (AI), an emerging force rapidly becoming instrumental to driving the insights that empower businesses in today's connected world, is poised to elevate the power of marketers' data capabilities and enable powerful contextual marketing programs. Machine learning, advanced analytics, natural language programming (NLP), and deep learning techniques will enable marketers to optimize core processes ranging from targeting to personalization to pricing to customer service.¹ Yet as it enters into a category that is still emerging, AI-driven marketing is not well understood by marketers today, and organizations that don't set the stage for catching up risk further widening the competitive gap with their more advanced peers.

In October 2016, Adgorithms, creator of Albert™ commissioned Forrester Consulting to evaluate market perceptions around AI-driven marketing. In order to further explore this topic, Forrester developed a hypothesis that AI-driven marketing holds significant promise to marketers in driving efficiency and efficacy of their marketing programs, yet AI-driven marketing is often misunderstood or not well known today.

This study found that many marketers are operating with a very limited conception of contextual marketing and marketing optimization, to say nothing of next-generation capabilities like AI-driven marketing.

In conducting in-depth surveys with 150 marketing executives, Forrester found that confusion and misunderstanding of AI-driven marketing is quite prevalent today. Indeed, many marketers in our study have a very narrow view of current advanced contextual marketing capabilities, much less around AI-driven marketing tools that can make these contextual programs considerably more efficient and effective, while reducing the complexities marketers face in executing and orchestrating digital interactions. However, when the benefits of AI-driven marketing were proposed to them, they were overwhelmingly likely to find these benefits appealing.

KEY FINDINGS

Forrester's study yielded four key findings:

- › **Marketers overestimate their contextual marketing prowess.** Marketers in our study appeared to conflate targeting or programmatic media buying with contextual marketing focused solely on customer acquisition. Truly working with customer context requires that marketers think beyond the top of the funnel and deliver valuable, relevant interactions throughout their customers' life cycle.
- › **AI-driven marketing promises to simplify, not complicate, contextual efforts.** Marketers are being barraged by technological and data complexity. AI-driven marketing's promise is not to add yet one more technology to the heap, but to simplify the process of stitching together disparate data and sources, and reducing time and complexity in turning them into actionable insights.
- › **AI-driven marketing needs to overcome misperceptions in the marketplace.** Marketers must be led to understand how AI-driven marketing tools are different than what marketers are currently experiencing with targeting and programmatic media buying. AI-driven marketing's promise of autonomy and ongoing improvement throughout the customer journey, and delivering powerful insights with less manual time and bandwidth, can be a significant game-changer for marketers who told us they struggle with these very things in their marketing today.
- › **Marketers anticipate that current approaches will drive incremental efficiencies at best.** Most marketers in our study said they are expecting incremental efficiency gains at best using current approaches. Eighty-one percent of marketers in our study said they expected efficiency gains of 10% or less using current tools and processes for marketing optimization.

Marketers Have Only Scratched The Surface Of Contextual Marketing And Optimization

Over the past several years, the capabilities available to marketers to gather and manage consumer data and turn this data into insights and action have expanded tremendously. Technologies like email marketing platforms, demand-side platforms (DSPs), advanced attribution tools, and marketing mix modeling have shifted from bleeding-edge competitive differentiators to essential pieces of the marketing and business toolkit.

CONTEXT IS KING

Marketers have embraced these capabilities as consumers have upped their expectations for how they want brands to interact with them. Marketing's job is shifting away from campaign execution to a role centered on identifying and using context to create a repeatable cycle of interactions, drive deeper engagement, and learn more about the customer in the process. Forrester describes the execution of this vision as contextual marketing.² It represents the next stage in marketing's development to automated, intelligent campaign execution.

Contextual marketing: Delivering relevant and personalized marketing messages based on insights derived from customer profiles, relationship history, and situational context to deliver value and guide customers to the next best interaction.

The companies in our study told us they believed they were executing contextual marketing, but they really appeared to be reflecting confusion around where targeted campaigns end and true contextual marketing begins. For example, 38% of firms in our study replied that they were executing across online and offline channels today (see Figure 1).

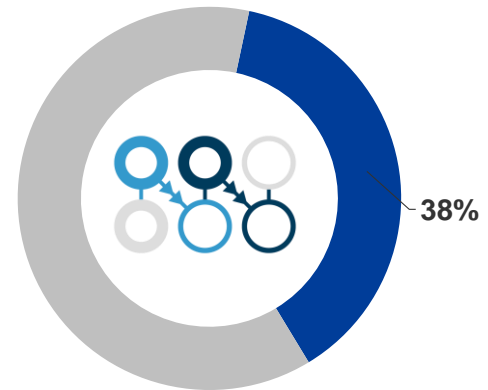
ARE MARKETERS' EFFORTS REALLY CONTEXTUAL?

Why call this claim into question? For one, this would be an extraordinarily mature group of companies. Contextual marketing is certainly a reality, but effectively delivering it across online and offline touchpoints remains a major challenge for even the most sophisticated marketing organizations today. But more concretely, examining these

FIGURE 1

Firms Overestimate Their Contextual Capabilities

"We are currently delivering contextual marketing across digital and offline channels."



Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness
Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

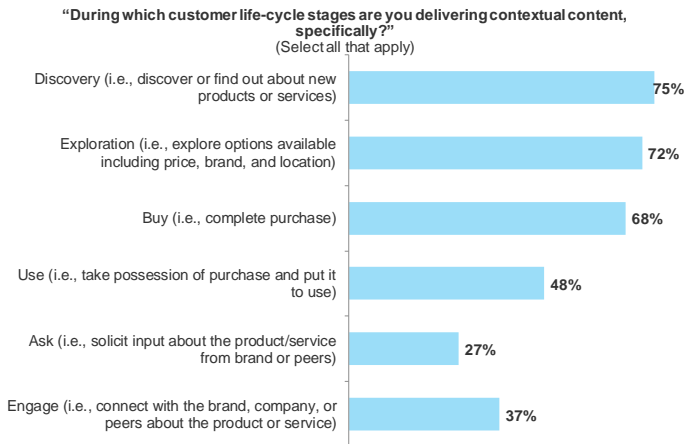
companies' objectives, tactics, and channel focuses indicates that they are conflating targeted campaigns for contextual marketing.

For example, we asked our marketers what objectives they were looking to accomplish with their contextual marketing programs, and they were more likely to respond with upper-funnel objectives like driving customer acquisition (61% of marketers) or awareness (53% of marketers). This is telling — generally speaking, the higher in the funnel you're aiming, the less context you have to work with. Keeping with this theme, marketers were far more likely to say they focused their contextual marketing efforts on early stages of the customer life cycle, discovery or awareness, than on later stages where context comes even more heavily into play (see Figure 2).

These are fine objectives and areas of focus, of course, but they reflect a campaign-centric approach that would be enhanced by targeting, rather than an ongoing and evolving program of relevant and personalized customer touchpoints driven by customer insights.

FIGURE 2

Firms Focus Efforts On Early Life Cycle Stages



Base: 95 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness
Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

The final piece of the "targeting = contextual" puzzle is in how social media factors in. Seventy-two percent of the marketers in our study indicated they were currently delivering contextual marketing via social channels, which, given the nature of the walled gardens and kinds of interactions possible, is again unlikely. Targeted advertising, however, is a common tactic and meets a light definition of contextual marketing in some ways.

BREAK OUT OF THE STATUS QUO

First and foremost, the market has work to do in defining an accessible vision for true contextual marketing and delineating it from the targeted campaign efforts that are becoming commonplace today. Marketing technology is an ongoing arms race — programmatic targeting lays the foundation for contextual marketing, which will turn to AI-driven marketing to help make sense of and drive increasingly complicated, multivariate programs.

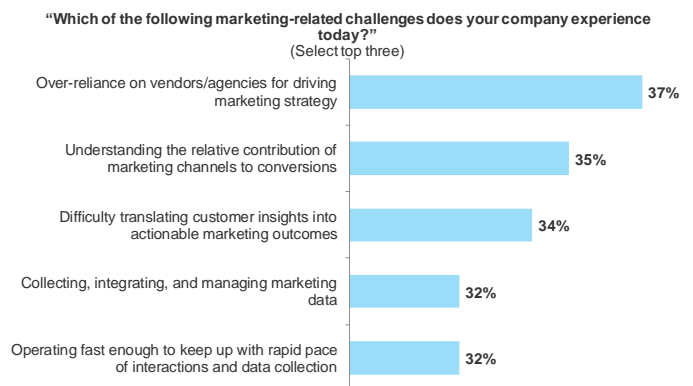
Marketers Struggle With Complexity, Implications Of AI

MARKETERS FACE SERIOUS COMPLEXITY

Contextual marketing represents tremendous opportunity for marketers to deepen and personalize customer relationships, but it also represents considerable complexity that must be managed in order to deliver personalized, relevant experiences to thousands of customers in near real time. As a result, it becomes increasingly difficult to maintain control over execution and strategy. Marketers in our study were clearly struggling with the complexity involved in running modern marketing campaigns. They were experiencing challenges with attribution and difficulty translating customer insights into action. Reflecting these concerns, nearly four in 10 marketers in our study said that relying too much on their vendors or agencies for driving their marketing strategy was one of their top three marketing challenges (see Figure 3).

FIGURE 3

Firms Face A Number Of Marketing Challenges



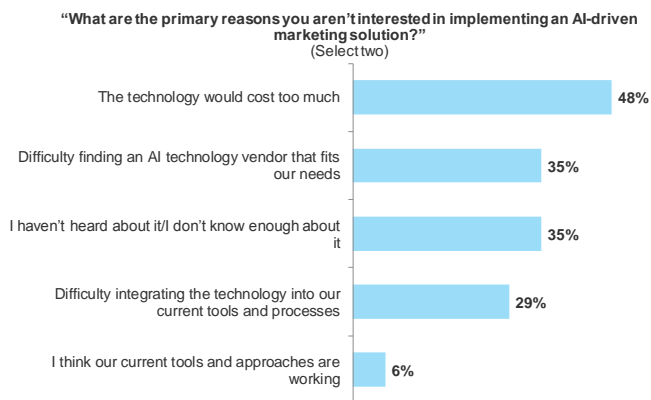
Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness
Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

Managing complexity and regaining control over strategy requires powerful tools to reduce tactical decision-making burdens and allow marketers to access the crucial information they need, when they need it. In this light, AI-driven tools represent a development in the market aimed at reducing complexity, not increasing it.

AI ADOPTION HINDERED BY VARIOUS CONCERNS

Study participants who expressed misgivings about adopting AI-driven marketing expressed a range of concerns, including cost, technology selection and integration challenges, and not knowing enough about how it works to make an informed decision. Interestingly, marketers weren't reluctant to adopt AI-driven marketing because they were satisfied with their current approach — only 6% stated they believed their current tools and approaches were working sufficiently well (see Figure 4).

FIGURE 4
Concerns Holding Back AI Adoption



Base: 31 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness
Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

The overall group of marketers in our study, even those who expressed more openness to AI-driven marketing, also had a series of concerns about AI-driven marketing tools, ranging from customer privacy (67% said it was a concern) to a lack of transparency (62%). Fifty-nine percent said they would be held back by the technological complexity involved, and 58% were concerned that adopting an AI-driven solution would lead to a loss of control over marketing decisions and strategy.

These concerns arise in part from a technology that is not yet well understood, or even fully defined, but they do illustrate how AI-driven marketing can best be utilized for marketers as it comes online. Solutions must have robust privacy controls and help declutter and streamline tool sets and data sets to support more responsive customer interactions.

Marketers See The Promise Of AI, But The Stage Must Be Set For Adoption

The primary issue standing in the way of AI-driven marketing adoption is the perception of what AI-driven marketing really is and what it isn't. Over 40% of marketers in our study told us they thought they had adopted AI-driven marketing today, reflecting a belief that their targeting capabilities and automation meant that AI was operating behind the scenes. Programmatic media buying, which leverages DSPs and runs in part on machine learning, can serve as a good introduction to some of the capabilities that AI-driven marketing will be ushering in over the next few years. However, it doesn't exhibit the full promise of what it can truly deliver across the customer life cycle.

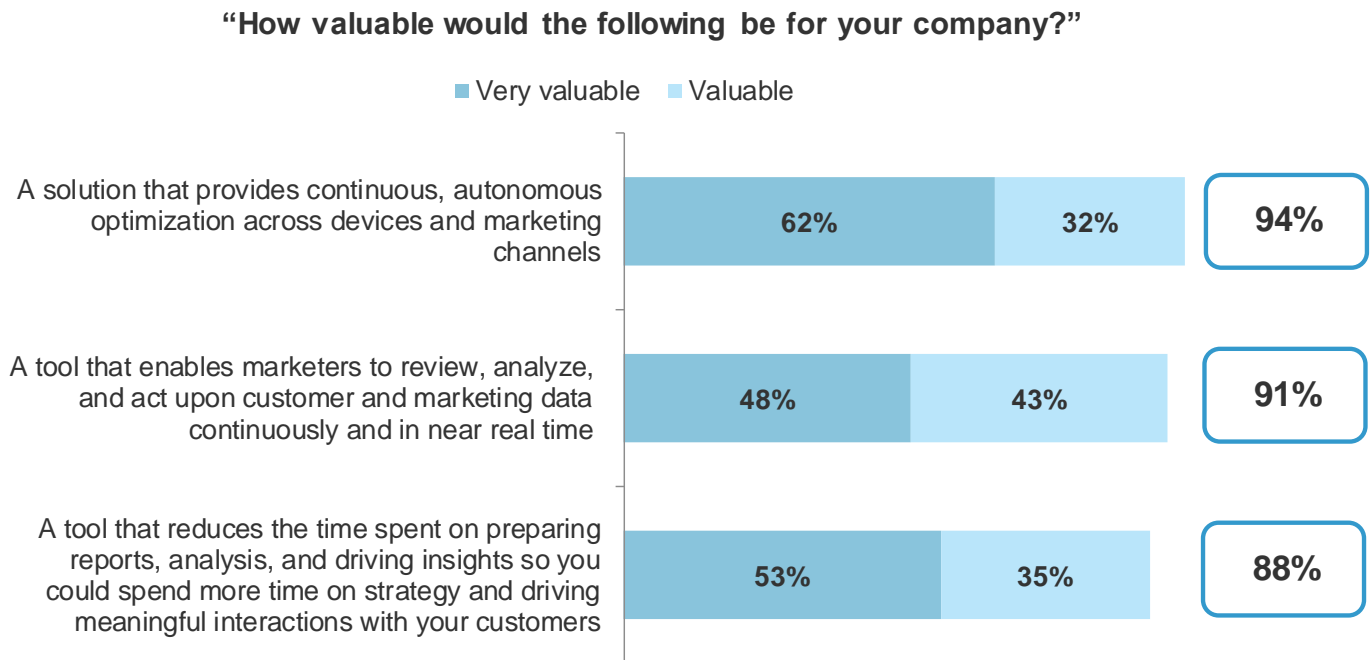
As we've discussed, AI adoption means more than targeting and automation. It also means having autonomy, making ongoing improvements, and delivering powerful insights while using less manual time and bandwidth. That marketers still struggle with technological complexity, murky insights, and a loss of control to agencies and vendors indicates they haven't come close to arriving yet.

That said, the benefits that AI-driven marketing promise are extremely attractive to marketers. Ninety-four percent of marketers in our study said a tool that provides continuous, autonomous optimization across channels would be appealing to them, while 91% said a tool that enables their teams to review, analyze, and act upon customer and marketing data in a continuous and real-time fashion would be valuable for their organization. Furthermore, 88% said that reducing the time spent on preparing reports and analysis, thereby granting more time for strategy and focusing on customer interactions, would be valuable (see Figure 5 on next page).

Marketers were concerned with the potential costs or return on investment (ROI) of an AI solution, but over half indicated they would be willing to do a trial of such a solution to test its effectiveness. This indicates that in a low-risk situation, marketers are open to solutions that can help them address the challenges we've discussed in this report — so long as they can clearly understand the results that would arise from their investment.

FIGURE 5

Core Promises Of AI-Driven Marketing Are Very Valuable To Marketers



Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness

Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

CURRENT PRACTICES WILL START TO YIELD DIMINISHING EFFICIENCY RETURNS

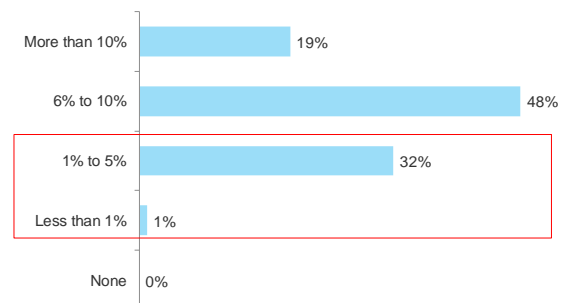
Marketers often justify marketing technology expenses by placing efficiency as a major contributor to the return part of their ROI calculations, but most marketers in our study are expecting, at best, incremental efficiency gains with their current approaches. One-third of marketers in our study said that using current tools and processes for marketing optimization, they expect efficiency gains of 5% or less in the coming year, while 48% anticipated gains of 6% to 10% (see Figure 6).

Marketers are primed to expect this level of improvement, based on what's been possible up to today. However, leveraging solutions that bring more automation and autonomy to decisioning and data management can help optimization move at a faster pace than what's been possible before and therefore have the potential to dramatically expand the efficiencies marketers can experience by leveraging the next generation of marketing.

FIGURE 6

Current Practices Yield Diminishing Efficiency Gains

“Assuming you continued to use the same tools and processes for optimization as you do today, approximately how much more efficiency (i.e., improvements in cost and performance) do you expect to gain on your marketing spend next year?”



Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness

Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

Key Recommendations

Forrester's in-depth surveys with marketing executives yielded several important recommendations:

- › **Expand your definition of contextual marketing beyond just the campaign.** A marketer's job is shifting from managing campaigns to supporting interactions across the full customer journey. Marketers must move beyond campaigns aimed at customer acquisition and understand that every single interaction with your brand provides an opportunity to learn what your customer is trying to accomplish at that moment. You must build a mechanism that allows you to act on that insight in the moment, propelling the customer to the next best interaction. This is what Forrester refers to as the interaction cycle.³
- › **Start setting the stage for AI adoption today.** In order to better understand the potential impact of AI-driven marketing on your company, begin to identify areas where efficiency gains in data management, execution (time-to-market and results), or responsiveness could improve the customer experience. Then, use those focus areas as test cases for AI-supported technology.
- › **Understand that marketing is constantly changing and evolving; what you think is good today isn't what's going to be enough tomorrow.** Seek tools that can help you not just keep up, but drive more power and agency within your team. Tools like AI can help reduce dependency on agencies and vendors, but preparing the ground for AI also requires shifts in measurement strategy, as well as investments in staff and technology that can support and drive it.
- › **Get a better understanding of all the customer insights at your company — not just data points that help you target.** Targeting is certainly worthwhile, as it can drive more efficient acquisition and purchase. But successful targeting will still lead to failure if you don't adequately plan to support your customers after they've become your customers. Each interaction with brands teaches marketers what a customer is trying to accomplish at that moment. It's incumbent on marketers to develop a mechanism that allows them to act on that insight in the moment, propelling the customer to the next best interaction.

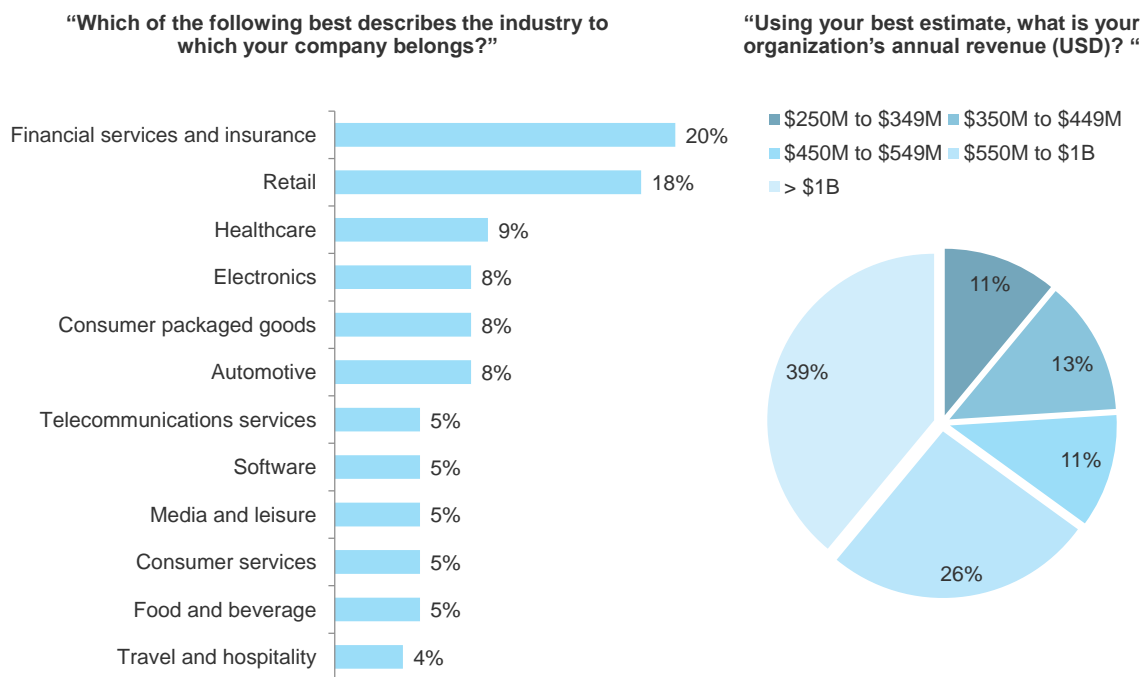
Appendix A: Methodology

In this study, Forrester conducted an online survey of 152 retail organizations in the US to evaluate perceptions around AI-driven marketing. Survey participants included decision-makers in a marketing or eBusiness role. Questions provided to the participants asked about their current contextual marketing efforts and challenges, as well as their perceptions of AI-driven marketing. Respondents were offered a small monetary incentive as a thank you for time spent on the survey. The study began in October 2016 and was completed in January 2017.

Appendix B: Respondent Demographics

FIGURE 7

Industry And Revenue Breakdown Of Respondents

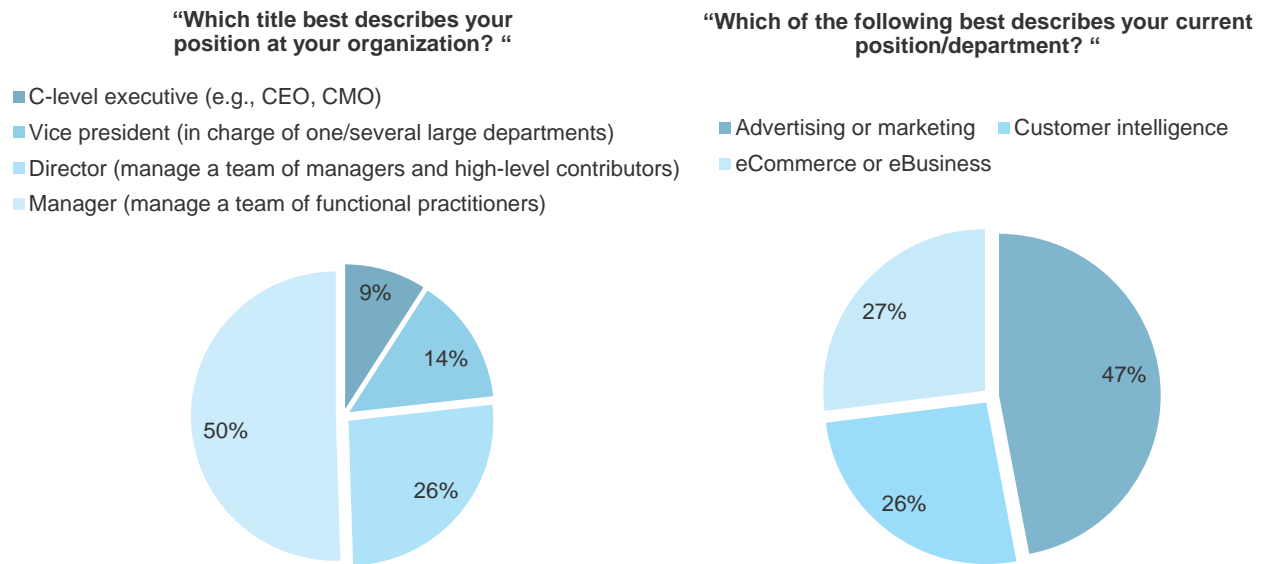


Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness

Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

FIGURE 8

Title And Role Breakdown Of Respondents



Base: 152 professionals at the manager level and above at B2C organizations with responsibility for customer intelligence or eBusiness (percentages may not total 100 because of rounding)

Source: A commissioned study conducted by Forrester Consulting on behalf of Adgorithms, February 2017

Appendix C: Endnotes

¹ Source: “Predictions 2017: The Dawn Of ‘Less Is More’ In Marketing,” Forrester Research, Inc., November 3, 2016.

² Source: “The Power Of Customer Context,” Forrester Research, Inc., March 31, 2016.

³ Source: “The Power Of Customer Context,” Forrester Research, Inc., March 31, 2016.