Gartner for Marketers

Predicts 2017: Marketers, Expect the Unexpected

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What technologies will marketing leaders see accelerate change? Find out inside!

Predicts 2017: Marketers, Expect the Unexpected

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Marketing leaders are now accustomed to changes involving how brands engage with customers. However, by 2020, five technology shifts will catalyze transitions in both marketing strategies and organizations.

Key Findings

- Many brands are finding that their mobile applications are not delivering the level of adoption and customer engagement that underpinned these companies' decision to invest in an app.
- Research shows that increasing customers' control of their data reduces privacy concerns. Gone are the days of serving advertising to passive audiences as they roam the internet, consuming content. Instead, companies are using privacy settings as a differentiator.
- Retailers and brand marketers are deploying augmented reality (AR) applications to enhance the shopping experience. These include allowing a customer to virtually try a product or employing location-based intelligence to bring items of interest to the customer's attention at the right time and place.
- Conversational artificial intelligence (AI) platforms targeting consumers and marketers set up conditions for conversational agents to interact with each other as proxies for their end users.
- Gartner finds marketing organizations taking on primary or substantial responsibility for driving company growth, delivering on customer experience goals and leading innovation projects, all of which increasingly depend on technology.

Recommendations

- Evaluate emerging solutions, such as mobile wallet cards, progressive web apps and instant apps, to determine if they offer a level of functionality that merits investment.
- Segment your audience according to their privacy preferences.
- Approach AR implementations with an eye to scenarios where information will help shoppers and employees overcome hurdles or make key decisions at moments of truth.

- Direct your digital marketing center of excellence or other innovation group to focus on AI agent and proxy web scenarios.
- Review the marketing technology stack, governance and operations relative to the corporate IT stack, governance and operations. Determine the degree of overlap and difference between these two spheres as a measure of compatibility.

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What You Need to Know

The force of technology change has pushed marketers and their customers to adapt and evolve. Yet, it is not uncommon for the path of these changes to diverge significantly from accepted wisdom. For example, TiVo's introduction of the DVR into the market wrought the obituary of TV advertising; yet, the medium still commands a significant share of marketing budgets, and some inventory, such as Fox's American Idol, emerged as must-have for brands seeking broad exposure.

Gartner has identified a number of technology-driven changes to the marketing environment that will lead to an outcome other than what many expect today. In some cases, such as AR, the change will accelerate quickly and alter the retail industry. In others, such as consumers' adoption of ad-blocking software, today's caterpillar eating away at the advertising industry will pupate and increase the value of advertising — but only for marketers who choose the correct path. Organizations themselves will feel the strain of technology change as once-disparate disciplines coalesce. Marketing leaders must tune their antennas to the signals of change and resist accepted wisdom if they aim to benefit from what technology transformation has in store for them.

Strategic Planning Assumptions

Strategic Planning Assumption: By 2019, 20% of brands will abandon their mobile apps.

Analysis by: Charles S. Golvin

Key Findings:

- Many brands are finding that their mobile applications are not paying off. These apps are not delivering the level of adoption and customer engagement companies expected.
- The number of apps available in the Apple/Android app stores is so high — at least 2 million in each store — that discovery is a huge impediment to adoption.[1]
- The cost of application support — not only in maintenance, upgrades and customer care, but also in marketing to drive downloads — throws into disarray the original ROI calculations.
- Alternative approaches lower the barriers to discovery and installation while offering application-like levels of engagement at a fraction of the total cost. Examples include "live" mobile wallet cards and, in particular, progressive web apps, which provide brands with greater leverage from their existing investments in web presence.
- Brands are investing to build presence in consumer messaging apps, such as Facebook Messenger and WeChat, to reach customers in the apps where they spend a high percentage of their time.

Near-Term Flags:

- By year-end 2017, the number of branded applications realizing growth in average monthly usage will decline from year-end 2016; this decline will continue in subsequent years.
- By year-end 2018, the cost of marketing a nongame application as a function of the number of downloads will at least double.
- By year-end 2018, the average number of applications installed and used regularly by an adult smartphone owner will cease to increase and, subsequently, remain flat.

Market Implications:

Since 2010, executives at Fortune 2000 companies, witnessing the unprecedented growth in smartphone adoption and the subsequent explosion of the application market, have declaimed "we need an app." Smartphone applications have birthed multibillion dollar companies, such as Uber, but the application market has not been an unmitigated success. Some brands have invested heavily to develop and market one or more applications only to discover that their anticipated level of customer engagement failed to materialize. These companies then face the choice of abandoning their investment — as well as the likely wrath of customers who did download and use their app — or doubling down on their investment in the hope of realizing their desired results.

From 2010 to mid-2016, Gartner received a significant number of inquiries along the lines of, "Should we have an app?" and "What is the role of an app versus our mobile website?" New smartphone features and attendant marketing techniques, such as Bluetooth beacons and mobile wallets, prompt related requests as marketers seek to leverage these new techniques. We also fielded numerous inquiries from companies that were disappointed with the results of their application investment. They wanted to learn from the experience of companies that hit the app jackpot. In many of these latter cases, it is clear that the company's expectations were overinflated and their investment will never pay off.

As the number of applications available in Apple's App Store and the Google Play store continues to rise, companies will face ever greater challenges — and costs — in realizing their desired foothold on customers' devices. Google's efforts to make the mobile web more "applike," using techniques such as instant web apps and progressive web apps, will gain traction with companies because the mobile web is a requisite component of their digital presence — the mechanism with the widest reach in today's ubiquitously connected environment. Many of these companies will evaluate these experiences against their underperforming applications and opt to reduce their losses by allowing their apps to expire.

One clear outcome from this transition will be Apple's reluctant embrace of the mobile web as a vehicle for customer engagement. As brands invest in a more functional and responsive mobile web presence, Apple will add support in Safari for many of Google's mobile web innovations.

Recommendations:

- Assess your mobile marketing strategy against the "mobile-centric" and "mobile-extender" types to evaluate whether your mobile marketing efforts are correctly prioritized (see "Two Types of Mobile Marketers: Which One Are You?").
- Evaluate emerging solutions, such as mobile wallet cards, progressive web apps and instant apps, to determine if they offer a level of functionality that merits investment. Perform a gap analysis between this level of functionality and that offered by your existing application(s).
- Measure overall app performance against the foundational ROI calculations that you developed to justify the launch of your application.

Strategic Planning Assumption: By 2019, ad blocking will increase advertising effectiveness by 50% as consumers use these tools to communicate preferences.

Analysis by: Lizzy Foo Kune

Key Findings:

- We are in the midst of an arms race between ad blockers, tools that automatically remove advertising content from web pages,[2] and publishers, who sell advertising to marketers. An example of this race is the back and forth between Facebook and Adblock Plus, a tool that has 85% of the market share for blocking.[3] Over a couple of weeks in August 2016, Adblock Plus crowdsourced methods to block Facebook ads, prompting Facebook to quickly engineer a work-around.[4]
- Today's ad blockers are not very selective about which ads they block; however, more refinement based on customer preference is clearly possible. One option is to collect ad-blocking data to inform segmentation efforts. Advertisers can assign users to groups according to how privacy-conscious the users are. Privacy researchers hypothesize that audiences are more likely to respond to ads and share their preferences when they can control what information they give to advertisers.[5] Currently, many ad blockers allow users to "whitelist" a specific site to signal their willingness to accept that publisher's ads. Publishers may also pay the ad blocker for inclusion in the ad blocker's whitelist as a provider of "acceptable ads."
- Research shows that increasing customers' control of their data reduces their privacy concerns.[6] Waning are the days of serving advertising to passive audiences as they roam the internet and consume content. Instead, some media platforms are using privacy settings as a differentiator. Users who take advantage of these settings influence what data advertisers collect about them and how they use that data. This forces tools that manage customer data to evolve. Facebook exemplified this approach in a recent blog post in which it underscored how users can control the data brands use to serve them advertising[7] — even going as far as to provide advertisers an audience consisting of ad-blocking users.
- Ad blockers have realized that the audience they've cultivated is valuable to advertisers. Eyeo, the company that makes Adblock Plus, offers a self-service platform that sells inventory to get ads in front of consumers who block them.[8]

Near-Term Flags:

By year-end 2017:

- Publishers will increasingly block access to content when they detect site visitors using ad-blocking software. As a result, 60% of current ad blocker users will forgo use of the software because of its degradation of the quality of their experience and because of their ability to exert control over how advertisers reflect their preferences.
- Ad-block providers will experience a backlash from users and advertisers as a result of extorting payments from publishers for whitelisting their sites.

- Publishers will experiment with new formats and targeting methods to optimize the user experience.
- Instead of relying on users to manually adjust privacy settings, systems will emerge that learn user preferences over time. These tools will supersede ad blocking and its countermeasures. These may stand alone or be built into marketers' ad-serving platforms, data management platforms or digital marketing hubs.

Market Implications:

As a result of customers taking advantage of individual agency, major publishers will offer fewer options for standard display formats while experimenting with new formats, including those related to video advertising, native advertising and sponsored content. An early example of this is The New York Times, which launched its new ad format, Flex Frame Everywhere,[9] aiming to improve site experience by providing ads more aligned with the Times' editorial style. The Interactive Advertising Bureau (IAB) proposed significant changes to industry standard ad sizes,[10] delisting rich media and auto-expanding ads, and marking some veteran ad sizes for replacement by newer formats. The cost of these formats will oscillate wildly as demand and available inventory struggle to find equilibrium.

Faced with declining available inventory and increased costs, marketers will begin to evaluate more transparent and effective targeting methods that account for customer choice. WhatsApp, the messaging startup purchased by Facebook in 2014, now shares its data with its parent company with the goal of allowing businesses to contact customers whose conversations are relevant to the brand.[11] For instance, a message exchange concerning an upcoming business trip could elicit an advertisement from a hotel at the traveler's destination. However, for this system to succeed, it must provide users with transparency around how this personalization works and their ability to control it.

Consequently, ad-blocking usage will decline due to customers taking control over the data advertisers used to optimize users' digital experience and as industry countermeasures make it more difficult for blockers to identify ads. The current cat-and-mouse game between ad-blocking software and publishers is not sustainable because it serves both consumers and publishers poorly. As users seize the opportunities to better express their preferences and advertisers increase their ability to interpret those implicit statements, both parties will benefit and ad effectiveness will increase.

Recommendations:

- Marketers must elevate the importance of choice in consumer experience, and communicate with users about the benefits of sharing data and what data is collected about them.
- Publishers should engage users directly about how blocking is a detriment to their ability to offer content to audiences. Consider the approach Ars Technica, a technology news site, took to ad blocking. In 2010, it pioneered a method to block the ad blockers. A coder working on behalf of the blocker developed a work-around to Ars within a day. As a result, the website

responded with a post about why ad blocking hurts content publishers. Within a day, it saw a 12% decline in the number of users blocking ads on its site.[12]

- Marketers should experiment with using advertising formats (e.g., native, video, sponsored content) to increase the quality of the customer experience. Ad effectiveness will increase as a function of marketers becoming more selective about the ad formats they purchase.
- Marketers must segment their audience according to customers' privacy preferences. Ad-blocking tools are being used by 26% of internet users, according to one survey from the IAB.[13] In response, about 7% of sites in the Alexa top 5,000 are detecting and disabling the scripts, known as "anti-ad-blocking."[14] Internet users — and their increasing ability to mediate what data they choose to share — are caught between the two. By capitalizing on this power and signaling what they want (and don't want) in online advertising, audiences will help marketers increase their ad effectiveness through managing their privacy.

Strategic Planning Assumption: By 2020, 100 million consumers will shop in augmented reality.

Analysis by: Noah Elkin

Key Findings:

- Immersive technologies like AR increase user engagement with a product or service by enabling a consumer to fully explore features and conveying additional information that can aid in a buying decision. This will drive immersive interfaces, including both augmented and virtual reality, to become the standard customer experience paradigm for scenarios requiring human-to-machine interactions.
- Retailers and brand marketers are deploying AR applications to enhance the shopping experience. These include allowing a customer to virtually try a product or employing location-based intelligence to bring items of interest to the customer's attention at the right time and place. Some brands will experiment with transactions in AR-based environments; however, for the most part, AR will serve to supplement rather than substitute existing physical and digital channels.
- The popularity of AR applications such as Pokémon Go will help propagate the technology, bringing it into the mainstream and prompting more retailers to incorporate AR into the shopping experience.
- Marketers are developing AR experiences primarily for smartphones and secondarily for tablets, which already have a sizable global installed base. Head-mounted displays (HMDs) will gradually gain a foothold but remain a niche market for AR.
- Improved hardware features, software integration and business cases are inspiring AR adoption among brands. These include ergonomic improvements to HMDs, better tracking and sensing algorithms, and connections to consumer and enterprise software ecosystems.

Near-Term Flags:

- By year-end 2016, more than 150 million people worldwide will download the Pokémon Go app, up from an estimated 75 million today, fueling consumer appetite for AR experiences.
- By year-end 2017, one in five leading global retail brands will use AR to enhance the shopping process, resulting in dramatically higher levels of customer engagement.
- By year-end 2018, smartphones will continue to drive more than 90% of AR-related experiences; HMDs will remain a niche market limited to enterprise use cases and a segment of the consumer population.

Market Implications:

As omnipresent mobile device usage becomes an ingrained behavior, further blurring the lines between the physical and digital worlds, brands and their retail partners will need to develop mechanisms to leverage this behavior to enhance the shopping experience. Using AR applications to layer digital information — text, images, video and audio — on top of the physical world represents one such route to deeper engagement, both in-store and in other locations. For example, a consumer pointing the IKEA catalog app at a room in her home can "place" furniture where she'd like it to go, helping to narrow her consideration set. This real-world element differentiates AR apps from those offering virtual reality (VR).

The growing imperative to bridge physical and digital experiences and assets will place heightened emphasis on customer experience. This means AR should engage your customers in a fashion that is unique to the AR experience, not duplicate an experience that customers can get better, faster or more conveniently via another medium. For example, the L'Oréal Paris MakeupGenius app allows consumers to "try on" products, test looks curated from the brand's roster of expert makeup artists and share them across their social graph, yielding a level of engagement that would be difficult to reproduce using other traditional or digital channels. L'Oréal takes that engagement a step further by enabling consumers to easily purchase the products they have tried on, bringing the opportunity to transact closer to the moment of maximum emotional inspiration. Not all AR experiences need also be commerce experiences, but you should evaluate whether incorporating AR has the potential to shrink the distance between desire and action, and design the experience accordingly.

Although the bulk of AR applications will serve consumer markets, AR will see uptake in enterprises that benefit from information overlaid onto business processes, such as field-service work. Other vertical markets, including automotive, education, energy, engineering, healthcare and real estate, where combining time-bound, context-specific information with real-world views improves safety and productivity, also will see business impact from AR. For example, BMW's service engineers use AR and HMDs to perform car maintenance. Many businesses will use AR to enhance customer service visits and sales calls, adding a new dimension to clienteling strategies. As use cases proliferate, marketers will benefit from positive impact on customer experience and access to a broader market of experienced users.

Excitement around HMDs is high, but market penetration will trail that of smartphones and tablets for some time. Gartner predicts sales of HMDs for both AR and VR applications will rise from 1.4

million units in 2016 to nearly 40 million by 2020. By comparison, global smartphone sales will increase from 1.42 billion in 2016 to 1.6 billion in 2020. The installed base will reach more than 4.5 billion by 2020, putting smartphones in the hands of more than half the world's population.

In 2018, over one-quarter of HMDs will be dedicated for business use, including for tasks such as equipment repair, inspection and maintenance. HMD providers that can deliver products tightly integrated with enterprise software solutions will position themselves for growth through 2020.

Recommendations:

- Understand how customers engage with your brand and your products to determine where digital overlays can enhance the physical shopping and customer service experience.
- Evaluate AR implementations with an eye to scenarios where information will help shoppers and employees overcome hurdles or make key decisions at moments of truth — for example, as part of clienteling programs.
- Avoid using AR merely as a promotional ploy. AR experiences should provide functional benefits that fundamentally improve your brand's customer experience or the ability of your employees to serve customers.
- Plan carefully for the current state of hardware, audience adoption and privacy preferences, as well as the extensibility of AR content into other media.
- Incorporate measures of business value, usability testing and promotion into the development process.
- Seek opportunities to leverage industry-leading platforms or apps, such as gaming interfaces, for your own branded experiences.

Strategic Planning Assumption: By 2020, virtual agents will participate in a majority of commercial interactions between people and businesses.

Analysis by: Andrew Frank

Key Findings:

- Digital platform providers are escalating their efforts to deploy consumer-facing AI-based systems and interfaces. Google, Apple, Facebook, Amazon, IBM and Microsoft are among competitors offering cutting-edge conversational AI platforms aimed at attracting consumers creating new business ecosystems.
- Providers are also targeting marketers with conversational AI platforms, such as social chat bots, although with less fanfare and greater market skepticism.
- Conversational AI platforms targeting both consumers and marketers set up conditions for conversational agents to interact with each other directly as proxies for their end users. Gartner identifies this market as a "proxy web."

- Smart contracts based on blockchain technology provide a secure way to decentralize and commoditize complex transactions, paving the way for distributed, efficient machine-to-machine negotiations with minimal oversight.
- Gartner forecasts that "the confluence of three trends — unprecedented volumes of data, massively increased processing power and new analytic tools — creates a 'tipping point' beyond which differentiated algorithms become central to competition."[15] Conversational agents add a fourth trend — consumer conversational dynamics — to the formula, intensifying its relevance to marketers who must now address the behavior and influence of agents on buying journeys.

Near-Term Flags:

By year-end 2017:

- The share of mobile search queries initiated through virtual personal assistants (VPAs), such as Siri, Allo, Cortana and Alexa, will rise from 20%[16] to over 50%.
- Room-based screenless devices such as Amazon Echo and Google Home will be in over 10 million homes[17] and will account for a growing share of commercial traffic.
- Leading marketing hubs and automation platforms that seek to model and optimize customer journeys will recognize agent-mediated interactions as critical components of journey analysis and design.
- Marketers will spend over 250 million dollars collectively on conversational technologies such as virtual agents and chat bots deployed on websites and social networks.[18] However, they'll have difficulty justifying these marketing investments as consumer interactions with vendor agents remain sparse and challenging to attribute to results (with the exception of service-related queries).

Market Implications:

Economic efficiencies will drive adoption of AI-based agent technology in many large-scale markets, leading to continued advancement in capabilities and creating new imperatives for marketers to understand the implications of agents on demand and discovery of products.

Digital platform giants such as Google, Apple, Facebook and Amazon collectively already control a major portion of front-end consumer interactions through hardware and software dominance. They stand to gain even more market power as consumers increase reliance on VPAs to interpret and fulfill their requests. Although B2C marketers are likely to feel it first, B2B buyers will follow suit and exploit the power of virtual agents to streamline procurement processes.

As marketers experience pressure to invest in virtual agents as part of the next wave of customer experience design, they'll struggle with the complexity of how to train and deploy AI agents effectively. This challenge will exacerbate as VPAs will increasingly mediate access to consumers, who seek to resist ceding more control to large ecosystem platform providers that control many of the requisite AI platforms and standards. Ultimately, marketers will need to consider proxy web interactions between agents as crucial marketing conditions.

Growing restrictions on access to walled-garden personal data accumulated from VPAs and their networks will drive tension among digital ecosystems and raise the cost of platform neutrality.

Recommendations:

- Make developing an overall understanding of the broad role of AI in marketing a top priority. Pay particular attention to how interactions among AI systems — both within and outside your organization — might disrupt marketing at many levels.
- Direct your digital marketing center of excellence or other innovation group to focus on AI agent and proxy web scenarios, and develop specific recommendations for how marketing can stay ahead of the adoption curve.
- Track and project the emergence and impact of VPA-based ecosystems in your industry. Determine how digital giants are likely to mediate customer relationships and discovery processes, and how this impacts marketing functions.
- Gauge the impact of agent mediation on all of your SEO-related activities. Compose messages that answer specific questions and can be rendered in a natural voice.
- Work with IT and other appropriate operations groups to develop a digital commerce strategy that incorporates the capabilities of smart contracts and related blockchain technologies to scale up emerging channels for agent-based digital transactions. Focus on their impact on buying journey and customer experience scenarios.

Strategic Planning Assumption: By 2020, 20% of Global 2000 CIOs will report into marketing.

Analysis by: Jake Sorofman

Key Findings:

- Gartner finds marketing organizations taking on primary or substantial responsibility for driving company growth, delivering on customer experience goals and leading innovation projects, all of which increasingly depend extensively on technology.
- CMO marketing technology budgets are nearing CIO's level of spending on enterprise IT.
- Eighty-one percent of marketing organizations have appointed a chief marketing technologist (CMT) in title or role equivalent; however, increasingly the lines between marketing-specific technology and enterprise IT will blur as customer-facing and revenue-centered functions are owned or driven by marketing. With this blurring, the CMT and CIO roles will begin to merge.
- Marriott International and Delta Dental are examples of companies where the corporate IT function now reports into the CMO. They see this strategy as a way to better align IT with both the revenue engine and customer experience.

- According to Gartner research, 31% of marketers say that IT reports into marketing. This finding doesn't account for the fact that these may be indirect or shared reporting lines, but nonetheless suggests substantial marketing authority over IT resources.
- While there may be convincing customer and commercial rationale for the IT function to be assigned to the marketing organization, this reporting structure will not make sense for most large enterprises. Enterprise IT is often focused on the architecture, procurement, delivery, security and administration of infrastructure, which doesn't naturally fall into a CMO's purview. Expect the likelihood of this reporting relationship to diminish with the scale and complexity of a company's IT function.

Near-Term Flags:

- By 2017, the percentage of the marketing expense budget allocated to technology will, on average, exceed the overall corporate IT budget.
- By 2018, 10% of Global 2000 companies will have CIOs reporting into CMOs.
- By 2019, 15% of Global 2000 companies will have CIOs reporting into CMOs.

Market Implications:

Marketing's role has grown in scope and significance, from when marketing was often considered to be little more than a promotional channel, the bullhorn for the brand. Today, the marketing function is often the primary growth engine for the business and, more than any other function, responsible for funding and setting the strategy for the cross-functional customer experience.

The marketing mandate is broad and, more than ever, highly dependent on technology. Eighty-one percent of organizations now have a CMT in name or role equivalent. As the title suggests, this leader is responsible for managing the capital and expense budget for marketing, which now represents 27% of the overall marketing expense budget (or 3.24% of revenue), exceeding investments in paid media and rivaling the overall corporate IT budget, which averages 3.4% of revenue.

The marketing function is increasingly at the center of the company's revenue machine. As marketing drives digital commerce initiatives and customer experience strategies, and invests in more and more marketing-specific technology, the roles of the CMT and CIO will begin to blur. To maximize alignment among IT and these business-critical functions under the CMO's purview, some companies will consider reorganization to embed the corporate IT function within the marketing organization.

This will not become a mainstream practice. Many large enterprises have highly complex companywide IT challenges that could become a distraction to marketing leadership. For these companies, reporting lines will likely remain separate and distinct. However, for companies with below-average IT scale and complexity, where marketing owns and controls the majority of revenue-generating and customer-facing touchpoints, these new reporting lines will likely make sense.

Recommendations:

- Assess the current alignment among IT, marketing and your overall business objectives. Determine whether conflicting priorities across these organizations may slow decision making, execution and responsiveness to market opportunities and change.
- Review the marketing technology stack, governance and operations relative to the corporate IT stack and customer data. Determine the degree of overlap and difference between these two spheres as a measure of compatibility.
- Review the priorities and plans of the CMT and CIO. Identify opportunities for collaboration and work to ensure that each has a distinct and measurable remit.

Evidence

[1] In June 2016, there were 2 million apps available for download in Apple's App Store and 2.2 million in Google Play (source: Statista).

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Digital has redefined the role of marketing, adding new players and creating bigger complexities.

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