

AI's impact continues to rise, and advertising and marketing are embracing its power

SPOT ON | AI SERIES | NOVEMBER 2024

“The AI genie is now completely out of the bottle and there’s no way to put it back. Nowhere is that more evident than in advertising and marketing. While today ‘digital marketing’ has simply become ‘marketing’, over the next few years ‘AI marketing’ will evolve to take its place. But getting there will require a lot of M&A, especially as the AI pace quickens. Keep up with this fast-moving sector with our new series of Spot Ons covering AI, especially its impact on advertising and marketing.”

JOHN MATTHEWS
AI SPECIALIST, OAKLINS

MARKET OVERVIEW

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While all industries are embracing AI, this powerful tool is really making its mark in the fields of advertising and marketing

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Since the launch of ChatGPT, there’s been an uptick in the generative AI tools appearing for marketers

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Market overview

As we reflect on the evolution of AI, it's clear that 2022 marked a turning point. OpenAI's ChatGPT dropped like a bombshell, catapulting AI into mainstream consciousness and culture. It wasn't completely an overnight success, however. This breakthrough moment was preceded by decades of fits and starts, including notable initiatives in the 1980s. Fast forward to 2024, and it's undeniable that AI, and particularly generative AI, is poised to revolutionize industries worldwide.

In this report, we provide a snapshot of the current AI market, then dive deeper into the impact of AI on advertising and marketing. We also explore these sectors from an M&A perspective, looking at how we expect transactions to unfold from current early-stage deal activity. This is the first in a series of reports from Oaklins focused on AI in advertising and marketing. Join us as we get to grips with this unique moment in the technology and business landscapes.

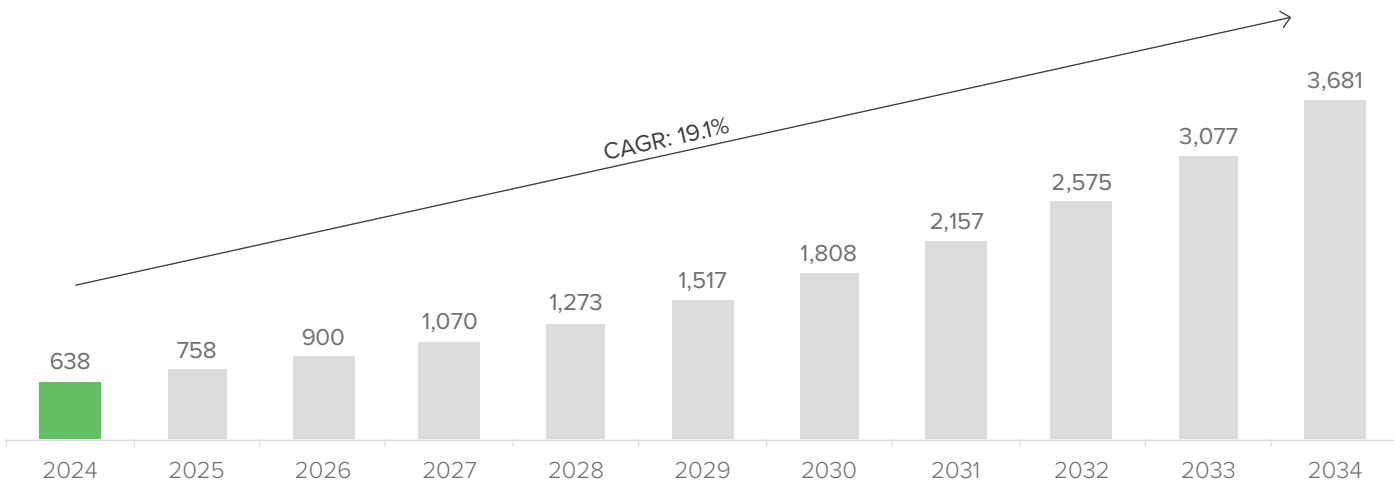
The overall economic landscape for AI shows signs of a significant shift starting to take place, with value expected to transition in the AI tech stack from hardware infrastructure to application development. This mirrors the earlier evolution of the cloud industry, which has resulted in AI-powered cloud services now being at the heart of innovation. In addition, OpenAI's recent US\$6.6 billion funding round and US\$4 billion revolving credit line based on a valuation of US\$157 billion highlight

the critical position of foundational models and cloud AI services in the new AI ecosystem, which evolves around generative AI. They also demonstrate that AI is set to become a key driver of growth across many industry sectors.

The global AI market, currently valued at US\$638 billion, is projected to expand dramatically, reaching US\$3,680.47 billion by 2034, with a compound annual growth rate (CAGR) of 19.1%. Leading this growth, North America today holds a

market value of US\$198 billion, driven by substantial investments from tech giants like Amazon, Google and Microsoft. These companies are accelerating AI adoption, particularly in enterprise applications. They're investing heavily in laying down AI infrastructure and foundational technology, positioning themselves as AI hyperscalers at the center of the cloud AI ecosystems each is creating.

AI market size (US\$bn)

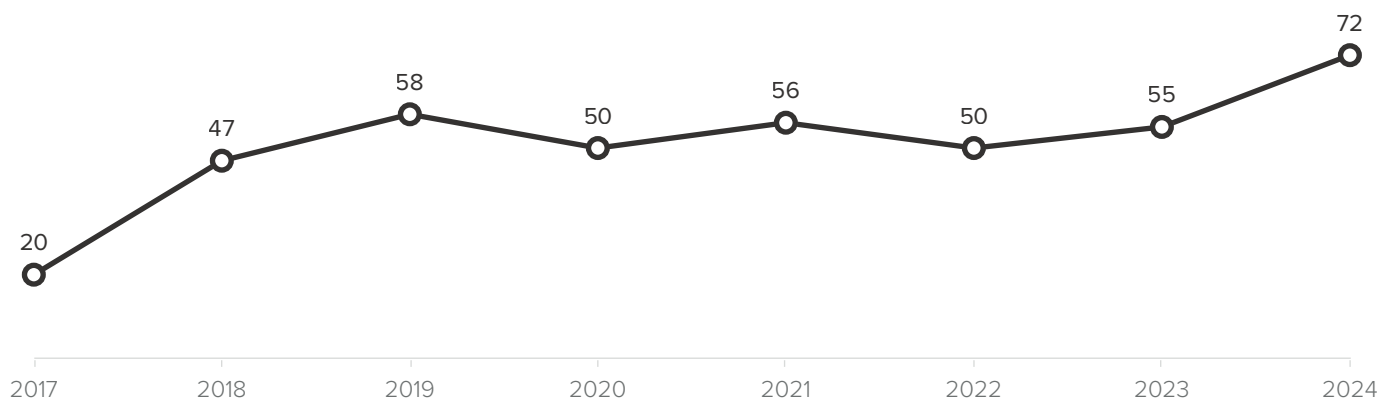


Source: PrecedenceResearch

AI INFRASTRUCTURE SPARKS INNOVATION AND INDUSTRY SHAKE-UP

Accelerated development in AI infrastructure is driving new market opportunities, as firms aim to overcome challenges and capture growth in a rapidly changing landscape.

Adoption of AI in at least one business function (% of respondents)

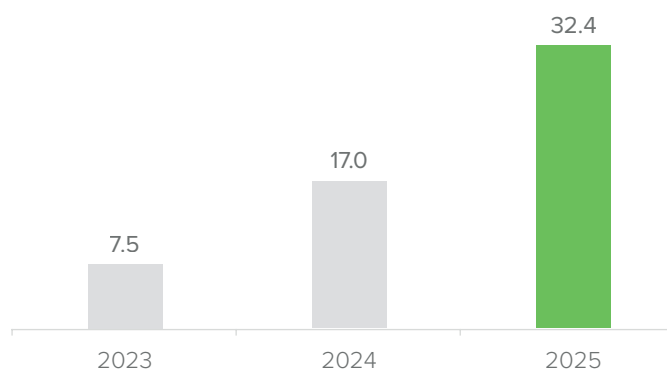


Source: McKinsey Global Survey on AI

AI infrastructure is developing quickly, reshaping industries, driving technological advances and fueling a highly competitive landscape that's ripe for innovation and offers substantial growth opportunities. According to a recent McKinsey survey, global AI adoption surged from 55% to 72% in just a year from 2023 to 2024, with professional services leading the charge. Nearly half of the organizations surveyed have integrated AI across multiple business functions, illustrating its widespread influence.

Generative AI software spending is expected to rocket from US\$7.5 billion in 2023 to US\$32.4 billion by 2025, driven by fierce competition among tech giants like Google and Meta. This intensifying demand is in turn expected to spur a wave of acquisitions, particularly of startups facing operational pressures. Major players will capitalize on these acquisitions to scale their AI capabilities and secure their dominance in this transforming market.

Generative AI software spending estimate (US\$bn)



Source: Pitchbook

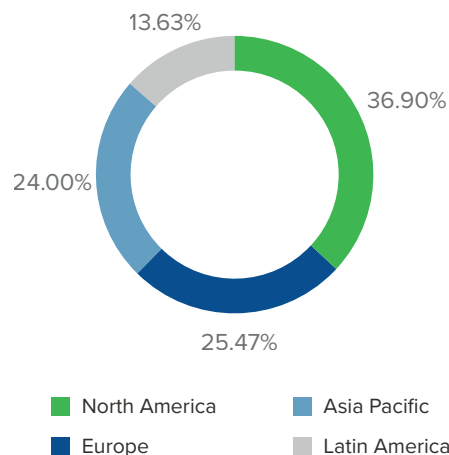
Key players like OpenAI, Google, Microsoft, Amazon and Anthropic are well-positioned to lead this consolidation, given their expertise in foundational AI model development and cloud AI services. However, despite deep discounting of cloud AI services to stimulate the market and the development of pilots, enterprise AI, which often requires significant investment and infrastructure, remains expensive to implement and scale, with only about 10% to 15% of enterprise pilots crossing the chasm into production so far. As the larger AI firms continue to acquire innovative startups, they will strengthen their ability to deliver complex, high-value AI solutions, reinforcing their leadership and ensuring long-term market supremacy.

While much of the attention currently being paid to AI is focused on cloud AI, it's important to be aware that not all AI will be in the cloud. To comply with regulations and in certain cases to protect their intellectual property (IP), some organizations will implement on-premises AI, which doesn't send their data and IP to the cloud for AI processing. This will create new opportunities for those who can provide AI infrastructure and tooling for on-premises AI deployment where preferred or required (for regulatory compliance or to satisfy cybersecurity and data protection needs, etc.). It is becoming clear that the development of AI and cybersecurity are increasingly intertwined.

REGIONAL AI MARKET DYNAMICS

- North America currently dominates the global AI market with a 36.9% share, driven by its advanced tech infrastructure and the presence of major AI players such as Google, OpenAI, Microsoft, Anthropic, and IBM. The region’s leadership is supported by substantial investments in AI across various industries.
- Europe follows with a 25.47% market share, bolstered by strong government backing of key sectors like automotive and healthcare. This support is fostering innovation and enabling Europe to maintain a solid position in the global AI landscape.
- Asia Pacific is the fastest-growing AI market, propelled by increasing investments and widespread AI adoption across industries such as automotive, healthcare, retail, and food & beverage. Companies like Baidu are leading the way, driving rapid expansion and positioning the region as a critical player in the global AI ecosystem.

Market share



Source: PrecedenceResearch

AI sector

Tailwinds

- **Enterprise AI adoption**
Increasing deployment across industries boosts operational efficiency
- **Cloud and infrastructure growth**
Expanding cloud infrastructure supports AI scalability
- **Generative AI popularity**
Growing interest in AI-driven content creation drives adoption
- **Investment growth**
Strong government and corporate investments fuel sector expansion

Headwinds

- **Data governance and security**
Concerns over privacy and data misuse persist
- **Unclear ROI**
Difficulties in measuring AI-driven returns create adoption hesitancy
- **Competitive pressures**
Rising competition strains profitability and market share

Key drivers of the AI sector

- **Corporate demand for automation**
Businesses seek AI to automate processes, improve efficiency and reduce costs across sectors
- **Consumer demand for AI solutions**
Rising consumer demand for AI-driven products and services is accelerating adoption, thereby boosting competition and financial performance
- **Technological advancements**
Advances in machine learning, quantum computing and cloud computing are rapidly enhancing AI, giving adaptable companies a competitive edge
- **AI-powered personalization**
Companies invest in AI to enhance customer engagement and ROI through targeted, data-driven experiences

AI in advertising and marketing

Although the use of AI in advertising and marketing is not new, since the appearance of ChatGPT and generative AI, it's now having an even more significant impact, a pattern that's set to last. In particular, generative AI is influencing the creative side of advertising and marketing, previously largely untouched by AI, in areas like content creation and production — which, along with software development, have emerged as the dominant use cases for generative AI. Applying it in this way is enabling more creative and personalized content to be produced faster and cheaper than before, making

the process more accessible to a broader user base.

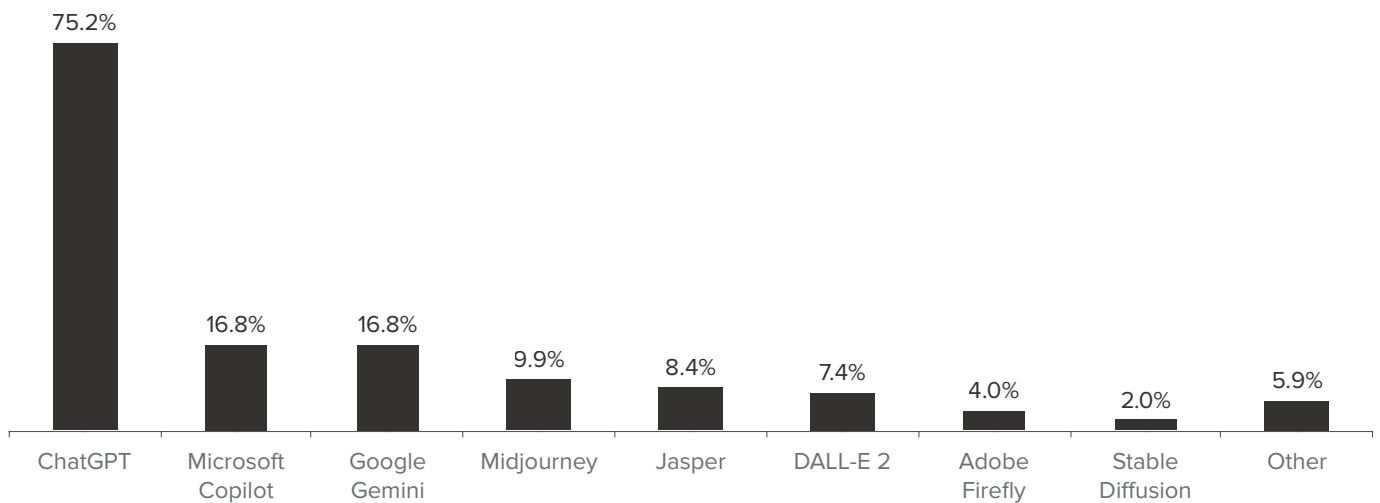
AI REDEFINES ADVERTISING AND MARKETING EFFICIENCY

ChatGPT, Jasper and many other AI tools, some very task-specific and others that are more general purpose or for handling overall workflows, are enhancing ROI for marketing by automating content generation and optimizing ad placements, resulting in more efficient, lower-cost campaigns and improved performance metrics.

Such examples highlight how AI is reshaping these sectors and unlocking new opportunities for growth and innovation.

This is helping drive a global generative AI market that's projected to reach **US\$1.3 trillion by 2032**, as AI tools are used to streamline operations and boost engagement.

Generative AI tools and platforms used in advertising and marketing worldwide



Sources: Statista, MarTech

Some other areas of marketing where AI is now having a more significant impact are customer contact centers and the broader customer experience, with more advanced personalization and increasing levels of AI automation improving efficiency. Advanced, predictive analytics, chatbots and voicebots are just some of the tools AI brings to the

table to better understand customer behavior, anticipate their needs and tailor interactions, all of which can ultimately foster loyalty and satisfaction. Significantly, while customer experience is often considered in terms of the digital context, such as websites or mobile apps, it's actually much wider than this.

It also includes interactions with contact centers, in-store shopping and so on. And this may be where there is the greatest opportunity to improve an audience's marketing experience through the use of AI.

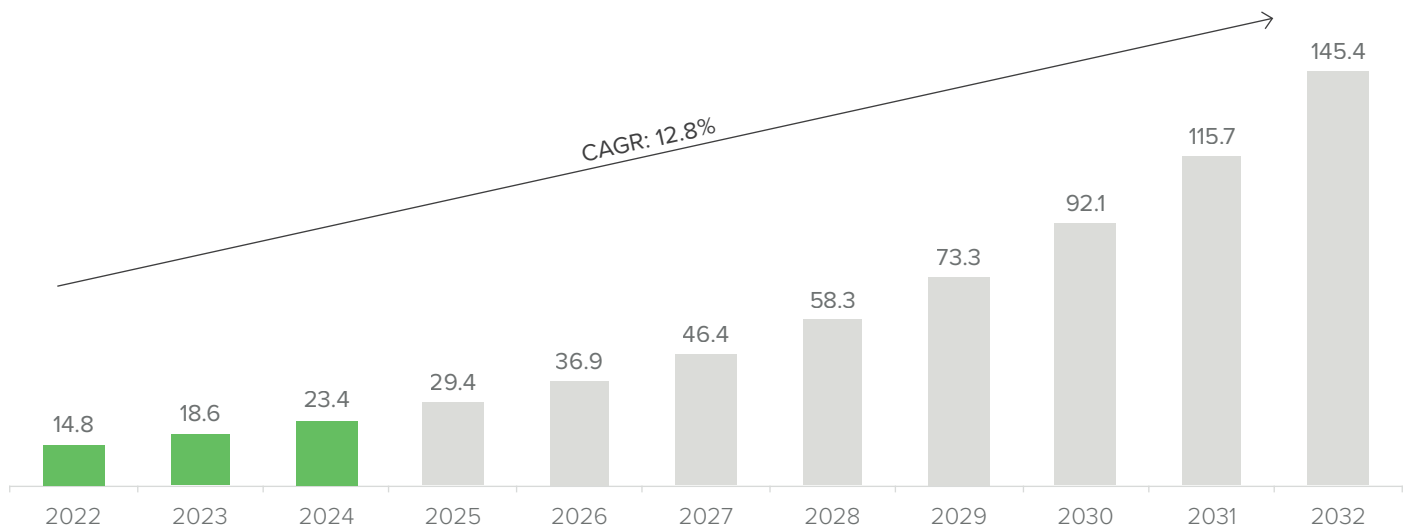
The AI marketing sector is expected to soar from US\$14.8 billion in 2022 to US\$145.4 billion by 2032, propelled by a CAGR of 12.8%. ChatGPT leads the AI tool landscape in marketing with a usage rate

of 75.2%, followed by Microsoft Copilot and Google Gemini both at 16.8%.

Companies are ramping up their AI investments to capitalize on

growth opportunities and enhance competitiveness, particularly as generative AI market capitalization in advertising and marketing is projected to reach US\$29.4 billion by 2025.

AI in advertising and marketing (US\$bn)



Source: PrecedenceResearch

Advertising and marketing sectors

Tailwinds

- AI enhances productivity and reduces costs in media production
- AI improves ad targeting, boosting ROI in advertising campaigns
- AI enables deeper data-driven insights, enhancing marketing efficiency and personalization

Headwinds

- Some brands are already stipulating to their marketing agencies that AI-generated content cannot be used in campaigns to avoid any IP infringement liability
- Data privacy regulations may restrict AI's impact on AdTech and MarTech strategies

MARKET INSIGHT: GENERATIVE AI — A TURNING POINT FOR ADVERTISING AGENCIES

As already noted, Generative AI is starting to transform advertising by streamlining content creation, media planning and customer personalization, pushing agencies to evolve. Innovative challenger agencies are taking a lead in leveraging AI not just for operational efficiency but also for creating scalable, data-driven campaigns that deepen client engagement. By integrating AI into many aspects of their operations, challenger agencies using AI are already demonstrating how agencies can provide customized and cost-effective solutions, positioning themselves as indispensable partners in an AI-driven market. Similarly, at the recent Advertising Week New York event, Horizon Media, the largest independent media agency, announced a partnership with AI company Akkio to apply generative AI to Horizon's data ecosystem and media planning operations. As agencies seek to greatly improve the efficiency of their media buying operations, other such partnerships or even acquisitions in the industry are likely.

Traditional agencies are also facing mounting pressure as clients increasingly internalize creative work, supported by AI-driven tools. To remain relevant, ad agencies are pivoting from basic content creation towards leveraging the advantages offered by AI integration such as data analytics, AI-enhanced customer journeys, and strategic media planning. A new breed of creative agencies are at the forefront of this shift, using AI to streamline operations and drive both creativity and efficiency, showcasing how smaller agencies can innovate by fully integrating AI into their business models.

However, despite the clear advantages AI brings to ad agencies, a recent World Federation of Advertisers (WFA) report shows that 80% of global brands have concerns about them using generative AI, particularly in terms of ethical and legal risks. This demonstrates that while AI offers significant opportunities, ad agencies must manage its integration carefully to align with client expectations

and build trust. Agencies that not only adopt AI to drive personalization and efficiency but also address these concerns transparently will emerge as trusted leaders, securing their position as key partners in an increasingly AI-driven advertising landscape.

So, while AI may not push ad agencies out of the ecosystem, it will likely change their role. More critically, as is happening in other service industries, AI will disrupt existing business models: those based on billing for fee earners' time will change to billing for outcome not service. This will lead to a reduction in the number of people working in the advertising industry, and a significant change of role for others who will be required to develop new skills to work with AI marketing and creative assistants, and increased levels of production and campaign automation. Those agencies that take the lead in these changes will survive, perhaps even thrive, and those that fall behind will struggle and may not last.

Future growth drivers

- **AI-driven personalization**
Generative AI enables real-time, hyper-personalized ads, increasing engagement and ad spending
- **Privacy-compliant targeting**
With third-party data fading, AI-powered contextual targeting and privacy-first solutions face rising demand
- **Growth in emerging channels**
AI helps drive expansion and innovation in CTV, DOOH and retail media, creating new targeted ad opportunities
- **AI-powered creative automation**
AI automates dynamic, scalable ad production while maintaining creativity
- **AI in measurement and attribution**
AI improves real-time ad performance measurement, helping optimize campaigns and increase ROI



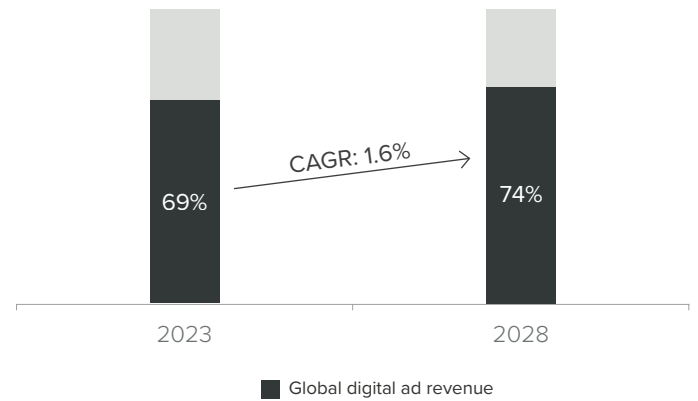
AI in AdTech and MarTech

ADTECH TRANSFORMED

AI enhances targeting, drives efficiency, and is fueling the next wave of digital advertising growth.

AI has long played a role in the AdTech ecosystem, often being used to optimize programmatic advertising campaigns to achieve campaign goals. However, generative AI is set to revolutionize AdTech, by driving even greater efficiencies, leveraging the capabilities of large language models (LLMs), allowing campaigns to be set up using natural language by replacing complex user interfaces, and delivering enhanced targeting precision and more personalized creative content, with the aim of achieving higher engagement and conversion rates. Digital ad revenue accounted for 68.8% (US\$602 billion) of the global total in 2023, and is projected to grow to 74.4% by 2028. Much of this growth has been fueled by the increase in use of programmatic advertising and AI's ability to optimize ad placements, automate processes and deliver personalized content.

Global digital ad revenue (% share of global total ad revenue)



Source: GroupM*

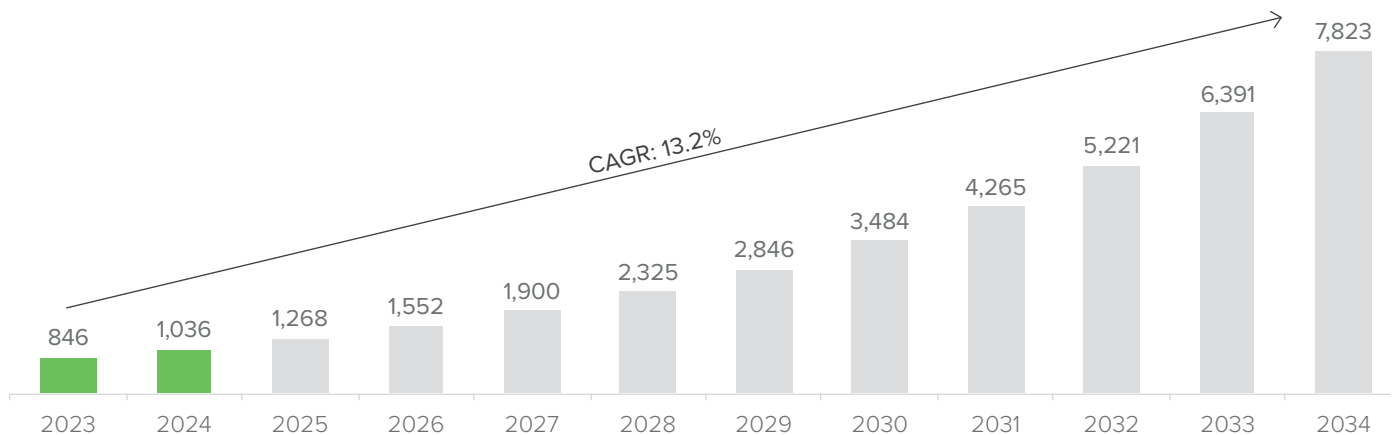
WHAT'S NEXT?

Several key trends and challenges are now shaping the AdTech landscape. The phase-out of third-party cookies looms ever larger, and as such, privacy-compliant solutions are gaining prominence, which is creating a shift toward first-party data strategies becoming essential for effective ad targeting. At the moment, the depreciation of third-party cookies is reducing the availability of data that has been used in the past for targeted advertising. However, as AI innovation moves forward and brands get better at consolidating and cleaning up their first-party data, and making use of cookie replacement technologies

like data clean rooms and privacy-compliant ID resolution, there will be continuing advances in ad targeting as well as growth in areas like contextual advertising, which is making a comeback due to being enabled by more advanced AI capabilities.

Ultimately, AI is positioned to be the core engine of future growth in AdTech. As companies continue to embrace AI-driven innovations, the industry is set for further efficiency gains and deeper consumer connections, laying the foundations for the next era of digital advertising.

AdTech market size (US\$bn)



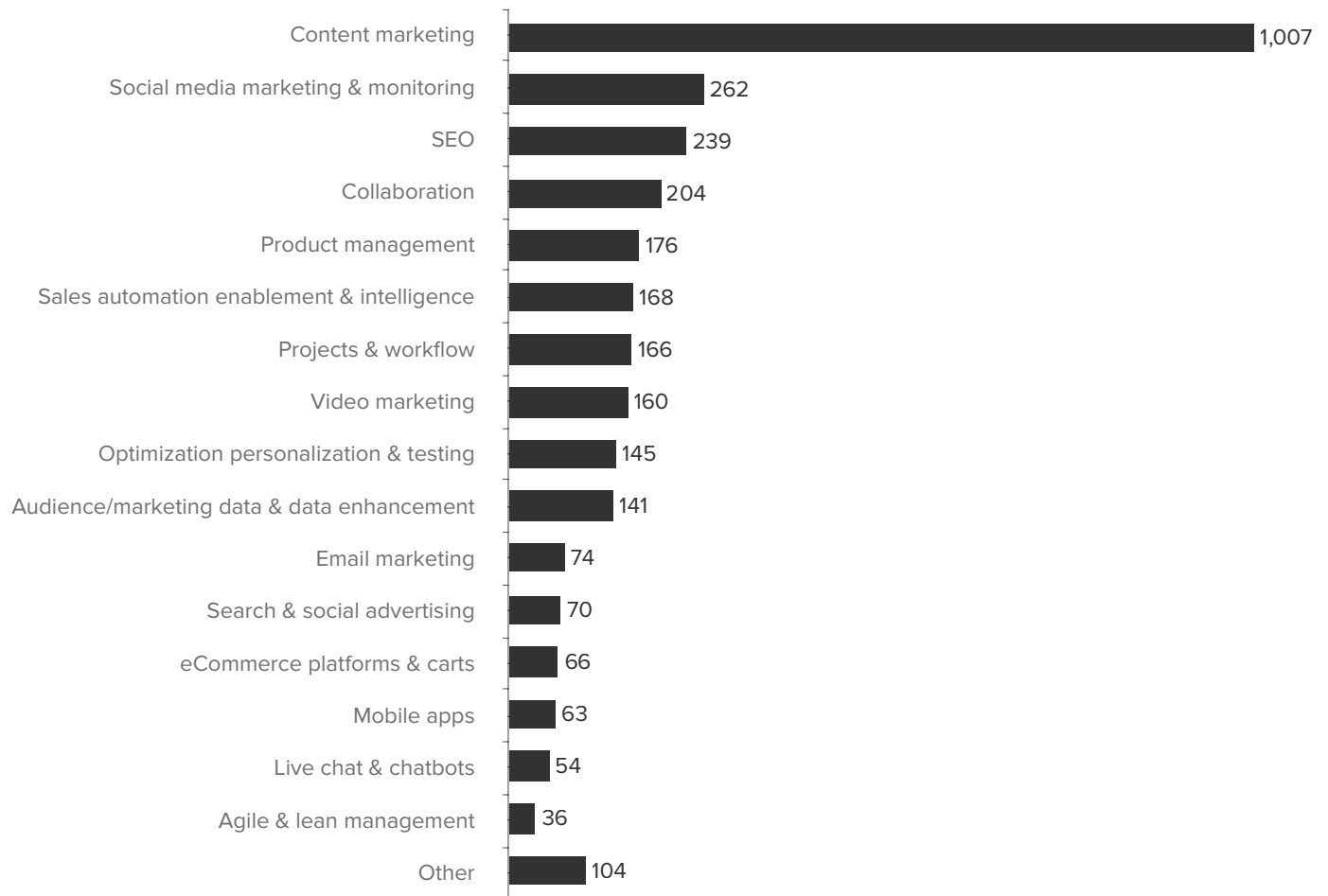
Source: PrecedenceResearch

AI-DRIVEN MARTECH: THE NEW POWER

Like AdTech, MarTech is undergoing significant change brought about by AI, as highlighted by the 2024 report from ChiefMartech and MartechTribe, which details over 3,135 AI-driven tools that are reshaping core marketing functions. The report highlights that marketers are not only automating content generation but also other key tasks like social media management and SEO, although content marketing dominates with 32% of AI-based GPTs focused on it.

This shift is enabling marketers to streamline operations, enhance personalization and leverage deeper data insights, resulting in more effective, data-driven strategies that maximize ROI. Even non-technical users can now orchestrate complex campaigns, boosting efficiency and delivering faster, smarter marketing outcomes that directly impact performance.

MarTech GPTs 2024–2025



Sources: MartechTribe, ChiefMartech

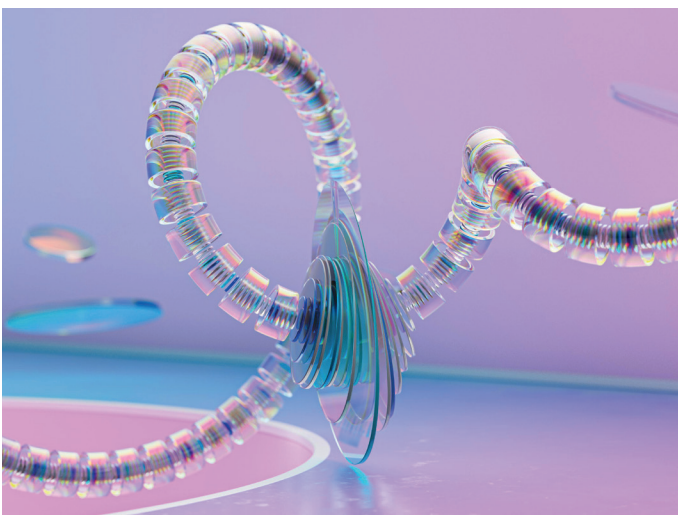
The rise of AI-first marketing agencies is quickly altering the traditional landscape, as these firms utilize automation and data optimization to offer faster and more customized work solutions at significantly lower costs. AI-powered agencies are increasingly outpacing their more conventional counterparts, demonstrating measurable gains in efficiency and profitability.

By automating key marketing tasks and improving revenue-per-employee ratios, these companies are scaling operations with minimal overhead. In the future, the MarTech sector will favor those who integrate AI-driven capabilities, setting the stage for M&A activity as larger platforms look to acquire these innovative firms to enhance their own technological edge.

CONSOLIDATION IS CLOSE, BUT WON'T BE IMMEDIATE

The MarTech industry is set for substantial consolidation, both through M&A and internal optimization. With vendor saturation, a wave of transactions is expected as larger firms aim to streamline operations and reduce inefficiencies. Similarly, organizations are simplifying their MarTech stacks, opting for integrated platforms at lower costs and improve data cohesion. This consolidation will lead to fewer dominant players and leaner operations, presenting opportunities for strategic investments, particularly in firms that provide comprehensive, scalable solutions capable of enhancing enterprise-level performance.

But this won't happen in the near future, due to the current heavy fragmentation (with numerous niche players, each offering specialized solutions that cater to specific needs) that clearly manifests the very embryonic phase the market is in. These smaller firms, although not aiming for market dominance, are filling gaps left by larger platforms and driving key advances in MarTech AI. This diverse ecosystem is delaying immediate consolidation, as the market continues to benefit from the range of solutions these companies offer, making the space ripe for continued innovation and future M&A.



HOW ARE BRANDS USING AI TODAY?

New research from the WFA highlights the growing adoption of generative AI in marketing, despite concerns about legal, ethical and reputational risks. The research concludes that to harness the potential of generative AI, brands must prioritize increasing their understanding of its implications, update agency contracts, develop responsible AI principles, and translate these principles into market practice. By doing so, they can ensure effective risk management and initiate important conversations with their marketing agencies.

Key findings:

- 63% of brand owners are already using generative AI (gen AI) in their marketing strategies
- Concerns about gen AI use include legal, ethical and reputational risks (66%, 51% and 49%, respectively)
- Lack of capabilities and AI maturity were also cited as major roadblocks to adoption (55% and 49%)
- Despite concerns, usage is rising: only 9% of brands have no current plans to use gen AI for marketing
- Most brands are still at the early stages of their gen AI journey

Gen AI use cases:

- Content creation (79%), content ideation (67%) and task automation (54%) are the most common uses
- Efficiency is prioritized over marketing effectiveness, with 70% using gen AI to save time or reduce costs

AI-generated content in marketing assets:

- Only 40% of respondents currently use AI-generated content; a further 37% plan on doing so soon
- Most common applications include altering or enhancing real places/images/products (68%), generating product descriptions/copy (68%), and creating synthetic sounds/humans/voices (14%–18%)

Responsible AI principles:

- 63% of brands have adopted responsible AI principles; the most popular are privacy, transparency, responsibility and respect for intellectual property rights
- Only 35% have translated principles into market practice; another 40% plan to in the near future

M&A developments

While the M&A market in AI is still in its infancy, the current focus is to acquire players with novel relevant technologies and high growth potential. However, as has been seen in the broader tech M&A landscape, a greater focus on efficient growth that values cost leadership and scalability is just a matter of time.

The economics of AI computing are becoming increasingly clear, with major players like Microsoft, OpenAI and Alphabet/Google offering deep discounts on AI compute to stimulate their ecosystems and capture market share. However, this pricing strategy is not sustainable indefinitely as pressure to achieve efficient growth increases. OpenAI, for example, recently hired a new CFO and has indicated plans to raise prices over time as they continue to close the gap on achieving AGI (artificial general intelligence). While higher prices will bring increased

capabilities, they will also raise costs for end users and developers, leading to some degree of sticker shock as their use of AI scales up. Simultaneously, the AI hyperscalers must work on reducing their own AI compute costs to become profitable in a reasonable time frame.

The current AI M&A market, however, is still primarily focused on acquiring growth potential, talent, technology and IP, as large companies look to solve their efficiency and scaling challenges by bringing in innovative capabilities. Often, the targets for these acquisitions are companies that the buyers are already familiar with through partnerships or existing customer relationships. This is an early-stage market that is less about large-scale consolidation and more about strategic acquisitions that position the buyer for future growth. However, this will gradually change as the drive for market consolidation starts to take over from unfettered innovation, making companies who can combine enhanced capabilities with a strong growth trajectory, cost leadership and scaling mechanisms into attractive targets for buyers.

WHAT'S HAPPENING WITH M&A IN AI-ENABLED ADVERTISING AND MARKETING FIRMS?

A similar narrative and positioning will emerge in other AI markets such as advertising and marketing. A proliferation of AI marketing companies and solutions has increased the pressure for market consolidation, to avoid hyper-fragmentation of the market and allow leaders to emerge. Without market consolidation, it seems likely those AI marketing companies that emerge as leaders will, rather than become acquirors themselves, instead get cherry-picked by existing MarTech leaders like Adobe, Salesforce and Klaviyo to consolidate their position.

M&A activity in AI

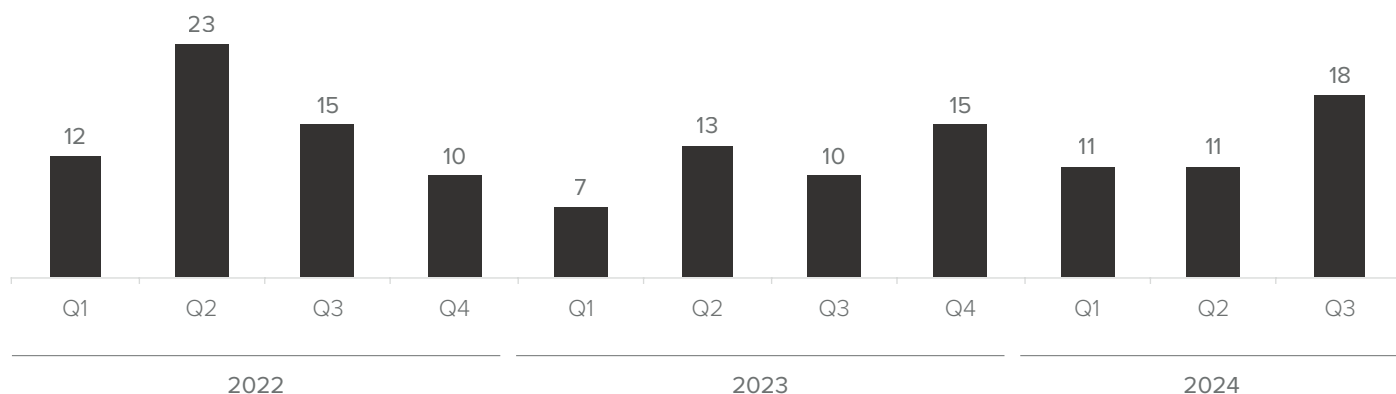
Tailwinds

- Compelling growth story for the AI market
- AI's ability to drive down costs and improve efficiencies
- Increasing demand for personalization and data-driven insights
- Rapidly growing market size for AI in both AdTech and MarTech
- Improving macro themes

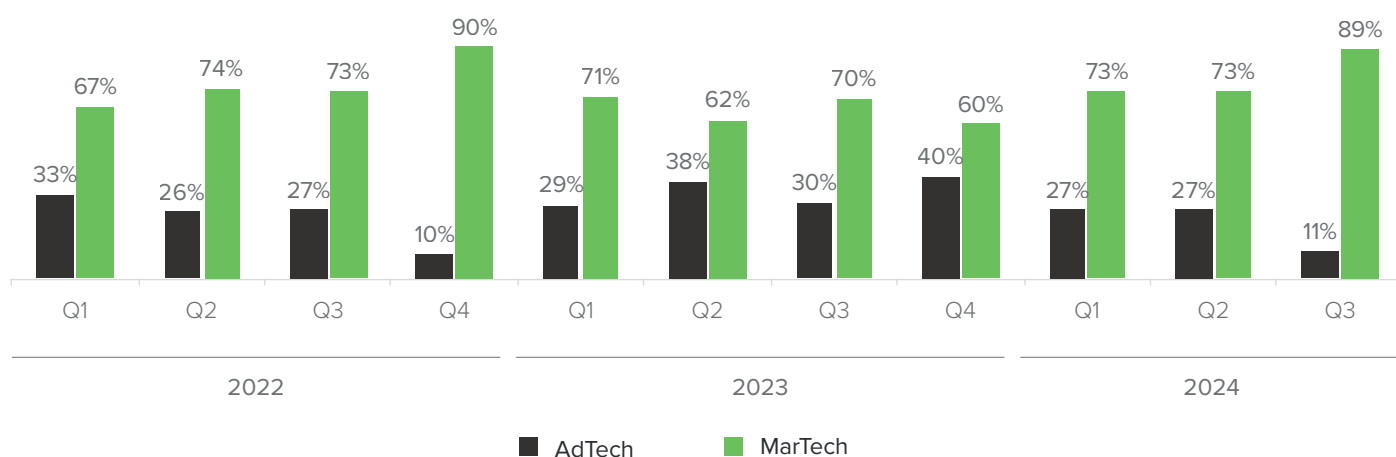
Headwinds

- Rising AI compute costs as companies scale up their use of AI
- Regulatory and data privacy hurdles impacting AI adoption and integration
- Potential for IP disputes, particularly in content creation
- Returns on capital allocated not yet visible

Global advertising and marketing AI deal flow: We expect 2024 to finish off at 2022 levels, as strong M&A momentum driven by growing interest in generative AI starts to drive the market as it moves on from its heavy early-stage investment phase.



Vertical transactions % share — quarterly development: MarTech M&A transactions have consistently been far in the lead



Sources: Capital IQ, Pitchbook, Oaklins analysis

Deal flow in numbers

40 Total transactions in 9M 2024 **+29%** Increase y/y

8 AdTech transactions in 9M 2024 **-20%** Decrease y/y

32 MarTech transactions in 9M 2024 **+160%** Increase y/y

Financing activity highlights

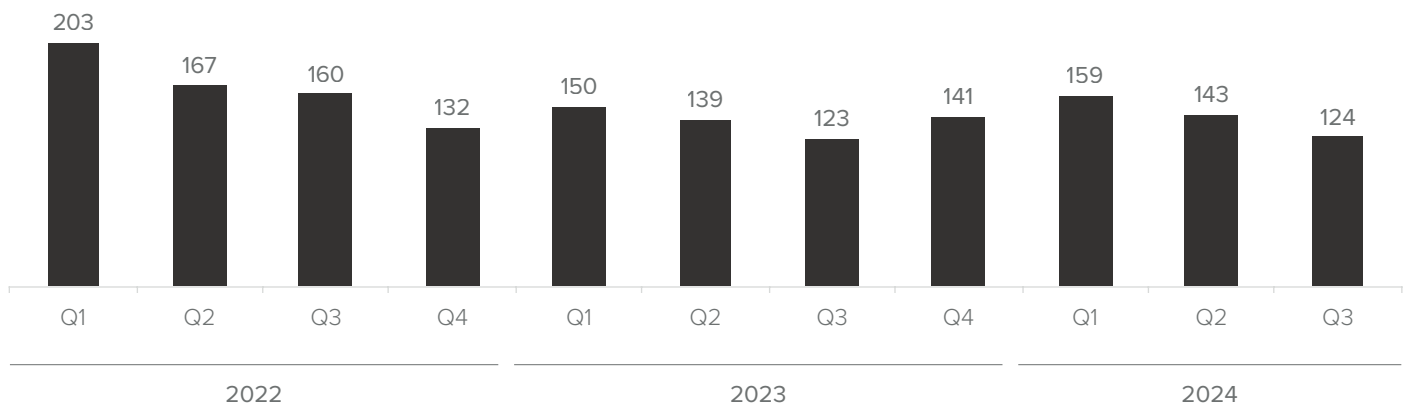
426 Total transactions in 9M 2024 **+3%** Increase y/y

US\$2.2bn Capital raised up to Q3 2024 **+26%** Increase y/y

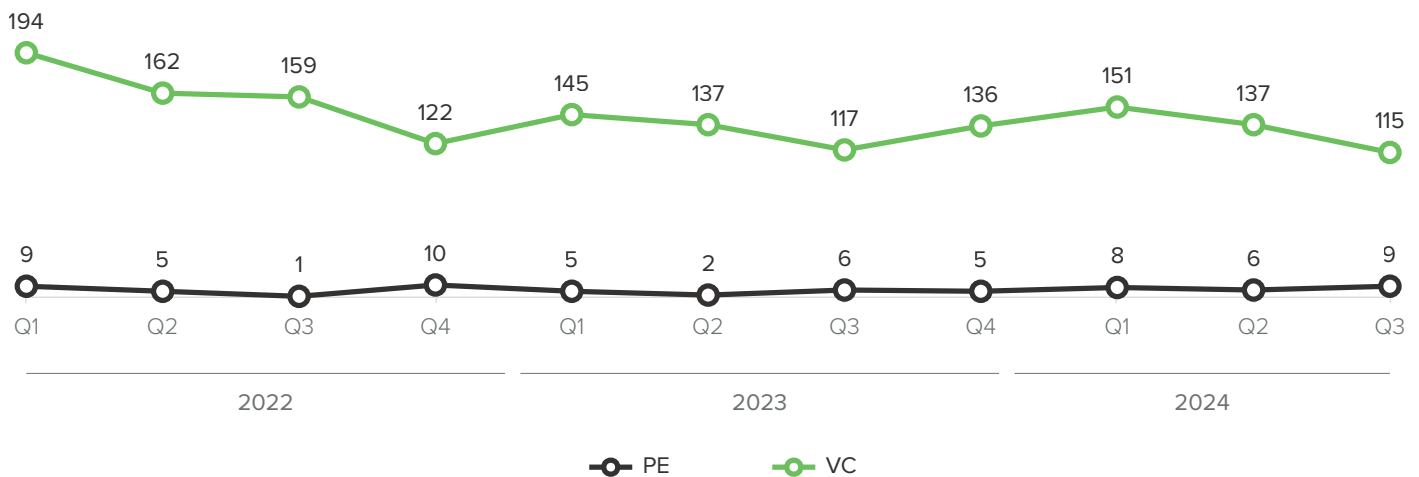
23 PE-backed transactions 9M 2024 **+77%** Increase y/y

403 VC transactions 9M 2024 **+1%** Increase y/y

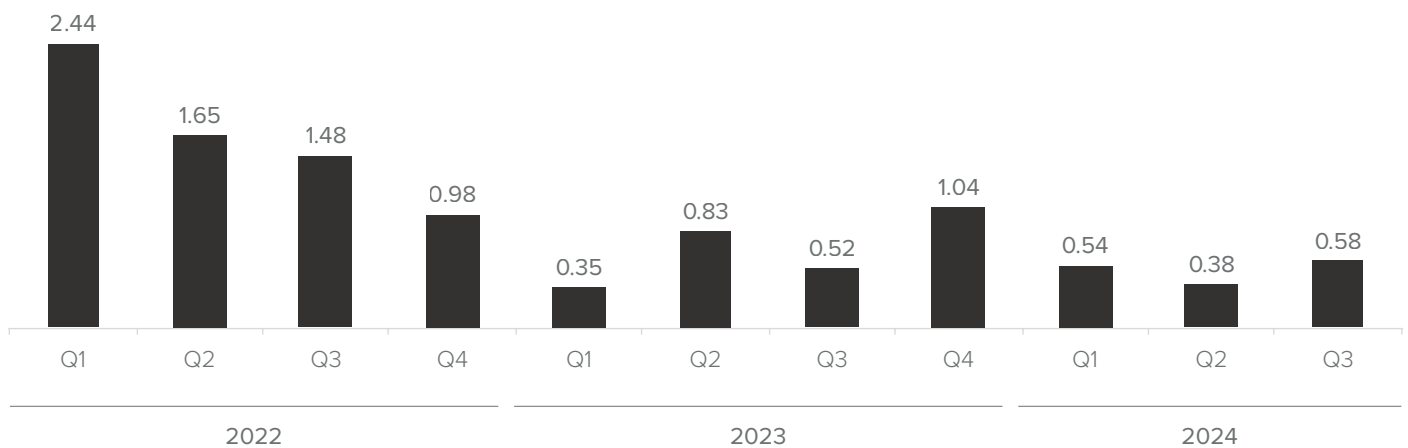
Financing deal count development 2022–Q3 2024: Activity remains strong as the search for value creation continues



Quarterly development 2022–Q3 2024: VCs lead on deal count, showcasing the early-stage, high growth potential AI has in the space








VC quarterly activity (US\$bn): After the hype in 2022, strong VC-backed financing has kept the momentum going in 2024







Sources: Capital IQ, Pitchbook, Oaklins analysis

Selected M&A transactions

A selection of recent AdTech AI M&A transactions























Date	Target	Buyer	Country	Target description	Rationale
1-Aug-24	Cynny	MorphCast		Cynny offers an interactive video platform that enriches experiences for various users while prioritizing privacy	Technology innovation and global expansion
26-Jun-24	Clickable	Beehiiv		Clickable develops an ad-generation platform for all marketing channels	Entering new markets and a strong focus on AI development
4-Apr-24	Adsme	JobCannon		Adsme develops a platform that helps businesses understand customer thinking	Revolutionizing traditional hiring algorithms through advancements in AI technology
20-Mar-24	Adnymic	Linehub		Adnymic develops an AI-powered platform focused on boosting e-commerce engagement	Rapid development and scaling of existing products through AI
18-Jan-24	Thrio	Nextiva		Thrio develops an AI-powered contact center platform aimed at enhancing customer engagement and improving interactions	Market expansion with enhanced customer experience

A selection of recent MarTech AI M&A transactions

Date	Target	Buyer	Country	Target description	Rationale
1-Aug-24	Acqueon Technologies	Five9		Acqueon Technologies develops a conversational engagement platform that proactively connects with customers, patients and citizens across various channels	Enhanced revenue execution capabilities on a global scale by expanding market presence and operational capacity
25-Jul-24	Influential	Publicis Groupe		Influential develops an influencer marketing platform that delivers targeted campaigns for brands and agencies	AI-powered technology platform that delivers direct financial benefits
16-Jul-24	The Hook	Squirrel Media (MAD: SQRL)		The Hook provides content generation in various formats and strategic advertising partnerships to meet businesses' communication needs	Strategic partnership to integrate AI into digital consulting and content generation of MarTech
15-Jul-24	AiChat	reAlpha (NAS: AIRE)		AiChat develops an AI platform that helps companies manage chatbots on popular messaging apps	Expansion into new territories and commitment to AI innovation
20-Mar-24	Action Health	Syllable		Action Health develops a healthcare CRM platform that transforms providers into member-focused enterprises	Advancing AI between patients and health systems

PE/VC activity in AdTech AI and MarTech AI

A selection of recent PE/VC transactions for AdTech AI and MarTech AI from January to September 2024

Date	Company	Lead investor(s)	Post money valuation
12-Sep-24		Announced/in progress	ND
1-Aug-24			ND
2-Jul-24		  	ND
4-Mar-24		 	US\$264.16m
14-Feb-24		  Headline	US\$39.82m
14-Feb-24		 	ND
1-Jan-24		  	ND
1-Jan-24			ND

Conclusion

MarTech has seen an explosion of AI innovation, leading to an overwhelming number of startups coming to market with AI solutions; however, many are little more than wrappers for cloud AI APIs from the leaders like OpenAI, Microsoft, Google and Amazon. Inevitably, the MarTech AI market will experience significant consolidation, enabling a handful of companies to scale up. However, the real battle will be between the leading MarTech companies like Adobe, Salesforce, Klaviyo, Canva and Genesys, as they compete to infuse AI across their current product platforms and introduce new ones, most likely through a combination of internal developments and acquisitions to fill in their AI roadmaps.

Advertising and marketing are industries that have seen significant change in the past 15 years, perhaps more than any others, as digital transformation gave rise to a proliferation of new media formats, innovation and automation, as well as an explosion of data that went far beyond simply transforming operations to digital. Just as companies in these sectors were adjusting to these changes, AI has shown up to drive a whole new wave of innovation and disruption that is likely to lead to headcount reductions, a drive for efficiencies, and changes in their creative process and business models, which for agencies may mean abandoning billing service fees in favor of becoming solution providers.



John Matthews attending Advertising Week New York, October 2024

Our recommendation for investors is to look at companies developing strong, deep AI capabilities, and those that are adapting quickly to changing market conditions.



Forecast

Salesforce’s plan to introduce usage-based pricing for its recently announced AgentForce products has ignited a new debate: will AI software result in a shift from SaaS-based per seat pricing to usage-based pricing as the dominant software pricing model, as a consequence of AI automation replacing human workers and causing a reduction in per seat software usage?

We are already seeing new developments in generative AI, such as the ability to reason introduced with OpenAI’s o1 model that is now part of ChatGPT, and the emergence of agentic (or agent-based) AI, which tie together and automate AI workflows, chain of thoughts, etc. This could well define what future AI applications will look like and may displace much current enterprise software. In fact, the enterprise software market may see at least two disruptive changes. The first is the appearance of agentic AI software in the shape of enterprise applications (e.g. in MarTech), and the second is the possibility that businesses will be able to generate enterprise applications themselves using specialized generation software that takes over from pre-prepared enterprise software.

When it comes to regulation, it’s important to note that AI is not immune from either existing regulations such as GDPR and CCPA or new ones coming into force. Compliance will become increasingly significant for companies unwilling to take on AI-related risks. For example, acquirors will be particularly diligent when it comes to ensuring that AI companies or businesses that use AI are compliant both with AI-specific regulations and other applicable laws.

The emergence of AI-first companies is driving a new concept that is starting to be discussed by investors, i.e. the shift from Software-as-a-Service (SaaS) to a new model: Service-as-Software. This transformation redefines the core of SaaS, with service providers becoming responsible for outcomes enabled by AI. Traditionally, software companies provided platforms or tools that their customers used to achieve their goals and deliver outcomes. In a service-based model, these companies go beyond supplying the software to taking ownership of delivering the results. For example, rather than providing marketing automation software, the company offers marketing services performed by AI that can directly replace the use of a marketing agency.

This shift to Service-as-Software is forecast to have massive repercussions. VC firm Sequoia Capital has just released a must-read report, which discusses this shift that turns labor into software, as a potential US\$10 trillion opportunity. This clearly has significant implications for today’s leading marketing agencies and holding companies, which could face competition from disruptor Service-as-Software startups chipping away at key markets or, even more significantly, from challenger agencies able to quickly shift to this business model to compete for and win major accounts.¹

To quote Amera’s Law “we tend to overestimate the effect of a technology in the short run and underestimate in the long run”. This is how the impact of AI is likely to unfold — a compounding effect as new innovations keep coming and AI merges with other new technologies and new media to create our media and marketing future.

We will expand on some of these themes in future AI Spot On newsletters.

¹ Sequoia Capital <https://www.sequoiacap.com/article/generative-ais-act-o1>

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If mergers, acquisitions, or divestitures of businesses or business units are part of your strategy, we would welcome the opportunity to exchange ideas with you.



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John is a managing director at Oaklins DeSilva+Phillips in New York. Coming to investment banking after a career in the technology and management consulting sectors, John has more than 10 years of investment banking experience advising sell-side and buy-side middle-market clients on M&A transactions. Notable AI-related transactions include the sale of Admeta to WideOrbit, and the sale of Helixa to Telmar.

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