

A Work Project, presented as part of the requirements for the Award of a Master's degree in Management from the Nova School of Business and Economics.

**Advertising Agencies and Their Clients in the Age of Generative Artificial Intelligence**

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#### Abstract:

This thesis investigates the role of Generative Artificial Intelligence in advertising, focusing on its transformative effect on business models within Advertising Agencies. Through comparative case studies of Persado and Supernatural, the research evaluates hypotheses related to adopting GenAI, revealing its multifaceted potential to drive productivity, promote a shift towards technological proficiency, and redefine product offerings. The study contributes to the discourse on AI's role in business, emphasizing the need for adaptability and innovation, providing a strategic perspective for agency leaders, and a practical "Best Practice Guide" in the age of AI.

#### Keywords

AI, Generative AI, Advertising, Agency, Communication, Business Model, Innovation, Disruption

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# 1 Introduction

The advertising industry stands out for its rapid adaptation to technological change. This thesis focuses on the transformative effects of artificial intelligence (AI), especially generative AI (GenAI), on the business models (BM) of advertising agencies (AA). Drawing from academic scholarship and insights from industry vanguards, it investigates how AI applications change the sector's business practice.

Historically, advertising has been continuously reshaped by technological and media advancements. From print and broadcast to the digital age, each evolution has redefined the BMs of advertising agencies. Digital platforms started an era of data analytics, targeted campaigns, and personalized messaging. Now, the advent of AI is accelerating this transformation, pushing agencies to integrate innovations into their BM, moving from traditional media buying to sophisticated digital ecosystems (Rahayu et al., 2019). The introduction of GenAI has had a particularly significant impact, optimizing targeted strategies, enhancing user engagement, and efficiently delivering personalized content, leading to increased profitability (Choi et al., 2020). These tools are employed across marketing, sales, and service operations, reflecting areas where businesses perceive the most value (McKinsey, 2023; BCG, 2023).

The interplay between human creativity and AI, facilitated by platforms like Persado or Supernatural, is becoming increasingly crucial to AA BM. This thesis will examine case studies to highlight the influence of AI on strategic planning and creative development. The exploration will be underpinned by academic research and enriched by industry insights, providing a comprehensive view of AI's role in the future of advertising.

## **2 Background and Literature Review**

### **2.1 Transformation of Business Models in Advertising Agencies**

#### **Introduction to the Business Model Canvas**

The BM is a fundamental concept that defines how an organization creates, delivers, and captures value. Osterwalder and Pigneur's (2010) Business Model Canvas (BMC) is instrumental in understanding these dimensions within advertising agencies. The BMC outlines nine key components that constitute the structure of a BM.

#### **Advertising Agencies Defined**

An advertising agency is a service-oriented entity specializing in creating, planning, and administering advertising for clients, serving as an intermediary to marshal the creative arts of persuasion for a commercial purpose (Wells et al., 2008). These agencies sell their skill of developing advertising campaigns that are compelling, targeted, and effectively communicated to the intended audience. Their service encompasses market research, creative services, media planning, advertising, and campaign analytics (Belch & Belch, 2017).

#### **The Impact of Generative AI on Traditional Business Models**

GenAI represents a disruptive force, necessitating a reassessment of traditional BM within the advertising industry (Greenough, 2023). This thesis explores how GenAI is compelling a change in this.

#### **Application of the Business Model Canvas to Advertising Agencies**

Utilizing the Business Model Canvas (BMC), a strategic management and entrepreneurial tool, advertising agencies can dissect and restructure their BM in the face of GenAI's transformative potential. This canvas includes nine essential building blocks:

1. Customer Segments: Agencies cater to diverse clients, ranging from large enterprises to small and medium-sized businesses (Christensen, 2016).

2. Value Propositions: The intrinsic creative capital, coupled with campaign efficacy, forms the core value proposition (Stuhlfaut, 2011).
3. Channels: Transitioning from traditional media to include an expansive digital presence (Hackley, 2003; Schultz & Block, 2015).
4. Customer Relationships: Predicated on retainers and long-term engagements for strategic depth (Sheehan & McMillan, 2013; Brady & Cronin, 2001).
5. Revenue Streams: Evolving from commission-based to performance-oriented models (Sasser & Koslow, 2008; Kaplan & Norton, 1996).
6. Key Resources: Creative talent and market insights remain pivotal (Holt & Cameron, 2020; Srinivasan et al., 2013).
7. Key Activities: Focus on campaign development and market research (Lovelock & Patterson, 2021; Clow & Baack, 2016).
8. Key Partnerships: Collaborations that extend capabilities and market reach (Naik & Peters, 2009).
9. Cost Structure: Balancing creative labor costs with media expenditure (Hackley, 2003; Feldwick, 1996).

### **Strategic Implications and Future Outlook**

The synthesis of GenAI within the advertising BM heralds a new era where agility and foresight are crucial for competitiveness and innovation. Insights from Davenport and Ronanki (2018) and Huang and Rust (2021) suggest profound shifts in marketing paradigms due to GenAI. Moreover, organizational adaptability, as discussed by Westerman et al. (2021) and Libai et al. (2020), is reinforced by the rapid integration of GenAI into industry practices, as indicated by a report from the Boston Consulting Group, which states that 70% of Chief Marketing Officers have already integrated GenAI, with an additional 19% in the testing phase (BCG, 2023).

## **2.2 The Age of GenAI**

The "age of generative Artificial Intelligence" is described by numerous tech leaders. An impressive kickoff for business leaders was given by Google CEO Sundar Pichai, who said at the World Economic Forum Annual Meeting, 24/01/2018: "AI is probably the most important thing humanity has ever worked on. I think of it as something more profound than electricity or fire" (World Economic Forum, 2018). But the "age of artificial intelligence" already began in the 1950s with the view to solving complex mathematical problems (Roser, 2023; Queensland Brain Institute, n.d.). AI has become widely and quickly usable for advertising agencies in the last 20 years, helping to scale operations through programmatic and content creation (Goldberg, 2019).

A vast breakthrough with broad public attention happened in November 2022, when ChatGPT was brought to the public by OpenAI (Heaven, 2023; De Witte, 2023). ChatGPT enables the testing of AI with a simple user interface. Nevertheless, ChatGPT is just one of many tools. There are dozens of other AI tools (e.g., Photo/Pictures: Midjourney; Adobe Firefly, DALL-E; Video for Avatar generation: D-ID, Synthesia; Audio: Adobe Podcast, Sounddraw.io; Posts, emails, and A/B tests: Jasper). Moreover, based on these dozens of GenAI tools, thousands of other tools are connected with interfaces. This toolbox is now available to everybody and every advertising agency, enabling the setting up of services and products (with the help of experts) for a specific company to benefit from increased productivity.

## **2.3 (Generative) Artificial Intelligence**

AI encompasses the capacity of machines to execute functions akin to human cognition, including recognizing visuals, interpreting speech, making decisions, and translating languages (Copeland, 2023). Generative AI is a subset of AI that uses machine learning techniques to autonomously generate content based on patterns in data (Digital Adoption, 2023), (Kumar, 2023). A popular GenAI AI is ChatGPT, where GPT stands for Generative Pre-trained

Transformer. ChatGPT can generate text based on context and past conversations, which creates the impression that humans have generated it (OpenAI, n.d.). It enables the testing of AI with a simple user interface (ChatGPT, n.d.). Chat GPT is a popular AI tool used by advertising agencies. According to a survey conducted by ZDNet, 56% of marketing people use it regularly (Whitney, 2023). ChatGPT can be used in ad copy creation (Qureshi, 2023). Another popular model is Google Bard (Lau, 2023).

ChatGPT and Bard are AI-powered Large Language Models (LLMs). Other renowned LLMs are Bidirectional Encoder Representations from Transformers (BERT), Transformer-based Text-to-Text Transfer (T5), Gopher (DeepMind), or Luminous-Explore (Aleph Alpha). A LLM is distinguished by its broad language comprehension and production capabilities, achieved through extensive training on vast datasets to learn numerous parameters. (Rackspace, 2023; Chornaya, 2023; Gartner, n.d.). In the context of advertising agencies, LLMs serve functions ranging from generating content and simulating human-like interactions in chatbots and digital assistants to enhancing advertising platforms' grasp of consumer intentions (Davenport, 2023).

## **2.4 Literature Review**

Creativity is the lifeblood of advertising agencies, often labeled "creative agencies" for generating innovative services and outputs (Yin, 1981). Lee (2022) proposed that understanding creativity functionally could allow its replication through AI, which is crucial for the field's progression.

The intersection of AI's evolution and the BM of advertising agencies needs to be explored more in academic literature, but industry sources offer insights. Moses, Clark, and Jacknis (2021) argue that AI can augment creativity in ad design and predict performance enhancements in agencies (*Advances in Business Information Systems and Analytics*). Kuang (2022) finds that AI technology improves personalized advertising conversion rates, uplifts content creativity, and enhances brand image.

AI has had notable effects on the advertising process. Qin and Jiang (2019) recommend an AI-adjusted advertising process, reinforcing existing frameworks. Managers need to understand AI's potential (Leszczynski et al., 2022), with Forbes (2023) demanding human oversight of AI outputs. AI's emergence could democratize the industry, allowing smaller firms and independent consultants to flourish (Younger, 2023).

The implications for AA are profound. AI aids in data-driven client engagement, enhancing content relevance (Peng & Jia, 2022). AA can become advisors on AI tech, developing a hybrid skillset among employees (Campbell et al., 2022).

AI's role in advertising is complex. Bakpayev et al. (2020) found that AI-generated content receives lower evaluations for emotion-oriented creative content, highlighting the need for human input. Yu (2022) suggests that AI increases efficiency, replacing inefficient manual labor. In summary, as AI matures, agencies must adapt by integrating AI to enhance creative outputs while maintaining the unique value of human insight. Future research should explore AI's role in fostering innovation and reshaping industry dynamics, asking critical questions about its ontological, technical, and ethical consequences (Coffin, 2022)

This review incorporates recent research on AI's impact on AA BM. The ongoing dialogue between human creativity and AI suggests a complementary relationship where each informs and enhances the other, shaping the future of advertising.

## **2.5 Research Question**

Based on this lack of research connecting the previously established rise of AI and the ever-changing nature of AA BM discussed above, the following research question must be asked:

**“How can advertising agencies adjust their business models to deal with the rise of (generative) artificial intelligence?”**

## **Hypothesis**

AAs are at a pivotal moment as they start to weave AI technologies into their BM. This move marks a significant change in the way the industry operates. This thesis posits several hypotheses addressing the effects of this integration:

1. Advertising Agencies not integrating Artificial Intelligence into their Business Model will cease to exist in the medium term (5-15 years)
2. Advertising Agencies' productivity will increase, overall market demand will be constant, and an arms race of using Generative Artificial Intelligence in Advertising Agencies will not lead to lay-offs or smaller agencies.
3. A culture of tech-savviness will replace a culture of human experience in Advertising Agencies.
4. Instead of large campaigns, smaller optimizations will be demanded.

Hypothesis 1: In the rapidly evolving competitive advertising landscape, agencies that fail to integrate GenAI into their BM are predicted to face obsolescence. This hypothesis stems from the transformative potential of GenAI and its emergence as a quintessential component for staying relevant (Johansson, 2007; Yin, 1981).

Hypothesis 2: Adopting GenAI is expected to enhance agency productivity levels significantly. Concurrently, the equilibrium in overall demand for agency services is anticipated to be maintained, with an intensifying arms race among agencies utilizing GenAI not resulting in layoffs or downsizing because the overall workload stays the same.

Hypothesis 3: The thesis anticipates a cultural paradigm shift within AA, where technological expertise and GenAI proficiency are projected to supplant the former dominance of human experience and creative intuition. This predicts a transition towards a tech-centric professional environment within the creative industry.

Hypothesis 4: There will be a transformation in AA's product offerings, moving away from large-scale campaign development to more granular and continuous optimizations throughout

the value chain. This shift reflects GenAI's capability to facilitate targeted improvements in content and strategy tailored to individual customer journeys.

All hypotheses will be examined through a deductive research approach, applying them to the contemporary context of AA integrating GenAI. The research will analyze practical case studies, including Persado, Vanguard, M&S, JP Morgan Chase, and Supernatural, to evaluate the real-world responses of AA to GenAI and its implications on their BM. This research will culminate in a "Best Practice Guide," aimed at assisting late-adopting agencies to provide agency executives with the strategic insights they need to navigate the changes AI brings in the advertising world.

## **2.6 Methodology**

This thesis investigates the impact of GenAI on the business models of advertising agencies, focusing on two pivotal case studies: Persado Inc. and Supernatural Development LLC. The aim is to provide a sophisticated understanding of how GenAI is redefining the advertising landscape, mainly through its influence on the business model of audience analytics.

### **Research Design**

The study employs a qualitative research methodology, utilizing case studies to delve into the implementation and effects of GenAI in AA. This approach is well-suited for an in-depth exploration of new or complex phenomena, allowing for examining the subject matter.

### **Case Study Selection**

Persado Inc. is selected as the primary case study due to its pioneering application of GenAI in advertising. In contrast, Supernatural Development LLC is chosen for its innovative use of GenAI in campaign strategy and creative processes. Both case studies offer a comprehensive view of the diverse applications and implications of GenAI in the industry, facilitating a comparative analysis of different approaches.

### **Data Collection**

Data is gathered through secondary sources, including industry reports, academic articles, and relevant publications. This information provides the contextual backdrop necessary for a thorough analysis of the case studies.

### **Data Analysis**

The research employs thematic analysis to systematically identify, analyze, and report on themes within the collected data. It concentrates on themes about changes in BM, operational processes, creative strategies, and market positioning due to GenAI adoption.

### **Limitations**

While acknowledging the limitations inherent in qualitative research, such as the focus on a limited number of case studies and the potential for subjective interpretations, these are mitigated through the thoroughness of the research design and the triangulation of data sources.

### **Expected Outcomes**

The research aims to elucidate how GenAI is reshaping the BM of AA, focusing on strategic, operational, and creative impacts. The findings are expected to contribute significantly to the discourse on GenAI integration in business models and operational strategies within the advertising industry.

This methodology offers a structured approach to comprehensively explore the transformative impact of GenAI on advertising agency business models, yielding insights valuable for both academic inquiry and industry application.

## **2.7 Use of Generative AI for Advertising Agencies**

After presenting an overview of the major benefits for AAs with currently existing GenAI, the limitations are elaborated. This leads to a brief consideration of the future developments.

## **Where AI can help advertising agencies**

GenAI revolutionizes by providing a range of benefits to AA. Two major fields in AA, Account-Planning (strategy and channeling) and Creation (concept, design, and production), each can be supported by GenAI: **Creation (concept, design, and production)**

1. **Content creation, especially support with creative writing and generating variations:** GenAI can help human creatives by supporting writing content, including articles, emails, blog posts, social media posts, eBooks, whitepapers, podcasts, landing pages, and ads. Generated variations of content, title, or length help creatives use the same content during their workflow for posts, campaigns, and YouTube scripts. Additionally, GenAI can also generate variations of existing content, enabling testing and optimizing messaging (Davenport, 2023); (Anisin, 2023); (Taylor, 2023).

2. **Assistant for human creatives with translation, image creation, video and music creation, and workflow automation: Other than variation, the** generation of new content can be supported with GenAI with the production of visual and audio content, including translated content, images, videos, and music. GenAI can support automated workflow processes (Davenport, 2023); (Anisin, 2023); (Taylor, 2023).

### **Account Planning (strategy and channeling)**

3. **Personalized marketing based on automated A/B testing and experimentation:** GenAI can help personalize marketing campaigns by creating content tailored to specific audiences. It can also automate A/B testing and experimentation, allowing AA to quickly identify the most effective messaging for different segments (Davenport, 2023; Gill, 2023; Taylor, 2023).

4. **Data-driven insights and optimization:** GenAI can help AA analyze large amounts of data to identify patterns and insights. This can be the basis for further marketing strategies.

GenAI can also optimize campaigns in real time, adjusting messaging and targeting based on performance data (Davenport, 2023; Gill, 2023; Taylor, 2023).

### **Where GenAI cannot help (yet)**

Especially when human characteristics are typically required, the use of GenAI will not (yet) be able to help. That includes, in summary, all personal relationships based on personal connection, including client relationships, as well as influencer marketing. Both are typically driven by understanding and authenticity. Human experiences, including the native language, cultural and linguistic subtleties, and strategic expertise, refined the brand's voice with sophisticated distinctions. Expert knowledge: Medical, legal, B2B and technical content still needs to be overseen by an accurate technical (scientific) expert to avoid damage to the brand's reputation. (Panel, 2023).

### **Where AI might help in the future**

The future of AI will likely be supported by new technologies like quantum computing (Quantum AI). Quantum AI can help companies optimize their search engine optimization strategies and pay-per-click campaigns, personalize the user experience, and create better client content. Since GenAI is resource-intensive, Quantum AI can be a chance to lower the agency's costs, supercharging, and campaign optimization at the same time. Emerging technologies like Quantum AI for marketing, emotion detection and reaction, influence engineering, and GenAI are expected to transform digital advertising. Additionally, Quantum AI's role in enabling the creation of digital twins can foster individualized customer journeys through enhanced communication efficiency and smart manufacturing, offering a competitive edge to forward-thinking AA (Lu et al., 2021); (Huang & Rust, 2020); (Das & Varshney, 2022). Furthermore, AI combined with Big Data Analysis is revolutionizing the measurability of marketing's value contribution to company success, providing tangible evidence for the effectiveness of marketing budgets. AI is also set to redefine the creative process in AA, predicting the most effective creation strategies through simulation and eliminating the need for traditional A/B testing,

thereby streamlining marketing efforts and reducing time to market (Liaquat, 2023) (Adams, 2023); (Liddicoat, 2023).

### **3 Introduction to Case Study Analysis**

This analysis explores how AA is adapting its business models in response to the rise of GenAI. For this purpose, two distinct applications of GenAI are examined through the lens of two companies: Persado Inc. (Persado) and Supernatural Development LLC. (Supernatural) Persado represents the data-driven aspects of GenAI, focusing on A/B testing and the optimization of advertising copy through their unique "Motivation AI" platform. In contrast, Supernatural showcases the creative capacities of GenAI, using the technology to drive the entire campaign strategy for their client Kayak. Through both case studies, this analysis aims to uncover the transformative potential of GenAI in marketing and advertising and to provide insights into how AA can harness this technology to innovate their BM and stay competitive. Each case study will delve into the company's background, the challenges it faced, the GenAI solutions implemented, and the outcomes of these initiatives, setting the stage for a discussion on the broader implications for the advertising industry.

#### **3.1 Persado: Pioneering Data-Driven AI in Marketing**

##### **Introduction to Persado**

Persado Inc., based in New York, U. S. A. (Persado), is a company that specializes in the application of GenAI to digital marketing communications. Established on 12/12/12, Persado has developed what it refers to as a "Motivation AI" platform (Persado, 2023b, page number). This platform aims to produce personalized communication at scale, designed to motivate individual customer engagement and action (O'Hara, 2023). Various global brands have embraced Persado's innovative approach, leading to reported significant revenue gains.

The author gathered additional information about Persado by using the Business Information Partner Creditreform. The information gained had very low content since Persado does not

publish information. Balance sheets are not available because there is no obligation to publish. 2023 they had 150 employees (Appendix 4).

### **Persado's Motivation AI Platform: Operational Insights and Its Distinctive Approach**

At the heart of Persado's offerings is the “Motivation AI” platform, leveraging GenAI technology to generate personalized language for digital marketing communications. This innovative system analyses over 1.5 billion customer interactions, drawing on a database comparable to 645 years of A/B testing data and a growing repository of more than 15 million performance messages. Such extensive resources empower Persado to refine its language models, crafting digital content with unparalleled efficacy. Unlike the broader scope of GenAI, which refers to any AI capable of generating new content, Persado's “Motivation AI” platform is explicitly tailored to induce customer action. This specialization focuses on applying AI's generative capabilities to meet precise marketing goals - stimulating customer responses and driving engagement by aligning with their motivations (Persado, 2023a).

## **3.2 Vanguard's Strategic AI Enhancement with Persado**

### **Vanguard's Business Context and AI Strategy**

The Vanguard Group Inc., Malvern, U.S.A. (Vanguard), a global investment giant, has strategically partnered with Persado to scale personalized content delivery within the financial services industry's regulatory framework. This collaboration enhanced client communication, particularly on LinkedIn, Vanguard's chosen social media platform (Blair, 2023a).

### **Operational Benefits and Strategic Impact of AI on Vanguard**

Implementing Persado's GenAI technology enabled Vanguard to revolutionize its marketing communications, leading to more precise and emotionally engaging content that resonated deeply with its target audience. The AI identified key phrases and strategies that significantly improved client engagement by analyzing comprehensive interaction data. For instance, the Persado AI-generated message achieved a click-through rate of 15.76% higher than the control

message, evidencing the technology's impact on marketing success. This strategic shift not only heightened the efficacy of Vanguard's marketing initiatives but also introduced substantial operational efficiencies by reducing the need for extensive employee training, thus allowing the workforce to redirect their focus towards strategic, high-value tasks. Vanguard's experience with Persado's AI illustrates the profound potential for transformative technology in marketing, particularly in industries facing stringent regulatory constraints like the financial industry (Blair, 2023a).

### **3.3 Case Study Analysis of M&S**

#### **M&S's Digital Transformation with Persado's AI**

Marks and Spencer plc. (M&S), The renowned British retailer has initiated a strategic partnership with Persado to bring the personalized service hallmark of its physical stores into the digital realm. This move was part of M&S's broader commitment to digital innovation and customer-centricity. To foster 5 billion personalized digital interactions, M&S leveraged Persado's GenAI to revolutionize its digital marketing approach, driven by its loyalty scheme data and organizational readiness for data-driven personalization (Blair, 2023b).

#### **Analysis of M&S's AI-Driven Marketing Achievements**

Implementing Persado's "Motivation AI" Platform in 2019 significantly amplified M&S's customer engagement, as evidenced by a substantial uplift in conversion rates through personalized email campaigns. These achievements underscored the platform's proficiency in crafting content that resonated emotionally, tailoring experiences to individual customer segments, and aligning with M&S's vision for meaningful customer relationships. The success of this GenAI-driven strategy was not just in enhanced conversions but also in setting a new standard for digital interaction, leading M&S to extend its collaboration with Persado, reflecting a strategic commitment to GenAI-integrated personalized marketing (Blair, 2023b).

### **3.4 JP Morgan Chase's Partnership with Persado**

#### **JP Morgan Chase's AI Integration in Financial Services Marketing**

JPMorgan Chase & Co., New York, U.S.A. (JP Morgan), a behemoth in global financial services, embarked on a transformative journey with Persado, inking a five-year contract to infuse AI into its marketing strategies (Persado, 2022). This strategic move began with a pilot project leveraging Persado's advanced "Message Machine," aimed to revolutionize marketing content creation across the company's customer base.

#### **Impacts of Persado's AI on JP Morgan Chase's Customer Engagement**

The pilot, focusing on Chase's Card and Mortgage sectors, yielded a staggering increase in consumer engagement, with AI-refined marketing messages achieving up to a 450% surge in click-through rates (Persado, 2022). The success of the AI initiative underscored the potential for personalized content to make a more profound connection with customers, prompting Chase to broaden its AI application to customer service and internal communications (Persado, 2022)

### **3.5 Case Study: Supernatural Development LLC and the Kayak 'Deniers' Campaign**

#### **Introduction to Supernatural Development LLC**

Supernatural Development LLC, New York, U.S.A. (Supernatural), a trailblazer in the advertising domain, has seamlessly woven AI into its marketing strategies. "The Machine," their in-house AI platform, synergizes business acumen with expansive consumer data, propelling the AA to the forefront of targeted and insightful advertising campaigns (Supernatural, n.d.-a, n.d.-b; Vranica, 2023).

#### **The Creative AI Approach in the Kayak 'Deniers' Campaign**

Supernatural partnered with Kayak, Stamford, U.S.A. (Kayak), and released the "Kayak Deniers" campaign. Kayak's main product is a travel search engine for flights, hotels, car rentals, and package holidays to compare flight, hotel, rental car, and vacation deals from

hundreds of travel providers and websites at once. The campaign, a data-driven yet creative endeavor, leveraged GenAI to navigate the post-pandemic travel upswing. The campaign strategically engaged with prevailing sentiments of denial, infusing humor to challenge the entrenched narrative of prohibitively expensive travel (Coffee, 2022; Supernatural, 2023).

### **Cultural and Marketing Impact of the 'Kayak Deniers' Campaign**

The campaign achieved marketing success and resonated culturally, stimulating discourse and connection with its audience. The effectiveness of the "Kayak Deniers" campaign in utilizing GenAI to enhance creativity and engagement exemplified a broader trend: AI's growing role in driving both the strategy and execution of marketing campaigns.

### **3.6 Implications for Advertising Agencies: A Comparative Analysis of GenAI Integration**

Integrating GenAI technologies like Persado redefines AA's approach to data-driven strategies and creative processes, thus changing the BM. Persado's utilization of GenAI in crafting personalized communication represents a paradigm where analytics and machine learning are crucial to understanding and predicting client preferences (Persado, 2023a). AAs adopting this approach, as seen with Vanguard, benefit from operational efficiency and the ability to deliver highly personalized content without extensive staff training (Blair, 2023a).

In contrast, Supernatural use of GenAI for the 'Kayak Deniers' campaign exemplifies a creative application of GenAI, where AI tools are leveraged to guide the entire campaign narrative and strategy (Supernatural Development LLC, 2023). This represents a shift from GenAI as a supportive tool to a central player in creative development, offering a competitive edge in aligning content with emergent socio-cultural trends.

Drawing on the implications from the Vanguard and M&S cases, it is evident that embracing AI for data-driven insights is crucial for AA to facilitate personalized customer experiences. The collaboration between M&S and Persado highlights the necessity for a synergistic approach

that combines GenAI solutions with human expertise, maximizing the impact of marketing campaigns (Blair, 2023b). Similarly, JPMorgan Chase's engagement with Persado indicates that GenAI can significantly reshape advertising agency BM, introducing efficiency in personalized targeting and automated content production (Persado, 2022).

As advertising agencies apply the BMC based on the usage of GenAI to their operations, the influence of GenAI on their BM becomes apparent across various components. Customer Segments and Value Propositions are enhanced through GenAI's capability to generate tailored content, while the need for agile, real-time communication strategies transforms Channels and Customer Relationships. Revenue Streams evolve as performance and personalization become key drivers, and Key Resources shift to include GenAI tools and AI expertise. For Key Activities, the focus on campaign development is augmented by predictive analytics, and Key Partnerships may extend to AI developers and data scientists. Lastly, the Cost Structure must accommodate the investment in GenAI technologies.

AAs that adapt early and master the complexities of integrating GenAI into their BM will be rewarded with leading a market that increasingly values the interplay between human creativity and machine intelligence. The ability to adapt and evolve with these technological advancements will distinguish the leaders in the next generation of AA.

## **4 Conclusion**

The exploration of GenAI's role in the advertising industry, particularly within the context of AA, has uncovered a transformative landscape. This thesis has highlighted pivotal shifts anticipated to redefine the sector, underpinned by the comparative analysis of Persado and Supernatural and supported by a wealth of academic and industry insights.

This thesis illuminates the impact of GenAI on the business models of AAs, substantiated by four hypotheses:

1. Hypothesis 1: AAs not adopting GenAI are predicted to face obsolescence in the competitive landscape. The transformative potential of GenAI is essential for maintaining relevance.
2. Hypothesis 2: The implementation of GenAI is expected to significantly enhance productivity levels, with an equilibrium in demand for services maintaining the workforce despite an arms race in technology adoption.
3. Hypothesis 3: A cultural shift within AAs is anticipated, where GenAI proficiency becomes more valued than traditional human creativity and experience, leading to a tech-centric professional environment.
4. Hypothesis 4: AAs are expected to transition from large-scale campaigns to granular, continuous optimizations in the value chain, driven by GenAI's capabilities for targeted content and strategy improvements.

**Expert Commentaries:** The practical application of these hypotheses is reflected in the insights from industry experts:

- Kai Gehlen, Data Analyst, notes the real-world efficiency gains and strategic enhancements in advertising, emphasizing the operational benefits of AI in data analytics (Appendix 1).
- Julia Göntgen, Web Analytics, highlights regional differences in AI adoption, such as the slower pace in Germany, yet acknowledges the overarching impact of AI on creative and operational processes (Appendix 2).
- Ulrich Stockheim, CEO Communication Agency, commends the thesis for bridging theory with practicality, providing a comprehensive overview of AI's current applications in advertising (Appendix 3).

Each expert's commentary reinforces the thesis's findings, demonstrating the current and future relevance of GenAI in the advertising industry. Their insights, alongside the validated

hypotheses, attest to the necessity for AAs to strategically integrate GenAI to remain competitive and innovative in the evolving digital landscape.

## **4.1 Further research directions**

### **Expert Interviews**

Further qualitative research should involve interviews with agency managers and strategists at international advertising agencies to gauge LLMs' current and potential uses, uncovering strategic insights and anticipated trends.

### **Performance vs. Profit Analysis**

Quantitative research should be directed towards analyzing the relationship between the use of AI in advertising and the resultant client profits, providing a data-driven perspective on AI's return on investment.

### **Human vs. GenAI in Influencer Marketing**

Comparative studies could assess the effectiveness of influencer campaigns conducted by humans versus those enhanced by GenAI, examining engagement and conversion outcomes to evaluate performance.

### **AI Simulations and A/B Testing**

Research could also focus on comparing AI simulations with A/B testing in content creation, determining AI's ability to predict successful marketing strategies efficiently including future influence of Quantum Computing.

## **4.2 Limitations of research**

The technology behind LLMs and GenAI is rather complex. As a master's student in management, the author is not an insider of the advertising agencies industry and does thus not have insights into actual business strategies. This research gave insight into theory and praxis from secondary sources, including case studies. However, decent research would contain

several primary sources, such as interviews with responsible agency managers or strategists. Finding willing practitioners and conducting and analyzing the interviews would go beyond the scope of this research project.

## **5 Best Practice Guide – A 10-Point Program**

Reservations: As discussed in this Work Project, GenAI is developing rapidly on an exponential trajectory. Employees and decision-makers in AA are already dealing with this change because AI implementation is currently broadly discussed. This fast development, combined with an anticipated significant impact on the BM of AA, presumably leads to disruptions. Therefore, this 10-point-program best-practice guide only applies now and might be used by late-adopting advertising agencies.

### **1. Involve Decision Makers:**

The obvious first step is to involve major stakeholders like top management and investors. Decision makers today must update their knowledge of new technologies in advertising at a higher frequency than they were used to because the development speed of GenAI enforces rapid changes. The support of top decision-makers for adjusting the BM is indispensable. Major stakeholders must be deeply convinced that this is necessary to avoid being overrun by competition. One example is the start-up Persado, snatching away global corporations from established large AAs.

### **2. Establish a Strategic AI Project**

Only professional project management with planning, implementation, and control of targets, progress, and results can do justice to AI implementation and BM adoption. The number of AI tools and the variety of possibilities discussed in this Work Project prove the need for a strategic approach.

### **3. Allocate Sufficient Resources:**

Implementing AI will cost time and money. License fees, cloud/computing resources, personnel training, strategic process revisions, etc., cannot be done casually; decision-makers must budget and allocate necessary human and financial resources to this strategic project.

#### 4. Rethink Your Business Model

Rethink markets and rethink resources; AI opens new horizons: Small AAs are no longer limited to small and mid-sized customer companies. Large AA can develop new BM with automated tools for small customers. B2B agencies can serve the B2B market and vice versa. The most qualified employee might not sit in your office but be in a developing country and might not be the experienced Creative Director with a personal network but the newly hired Prompt Engineer. New markets might be in the Metaverse or other virtual realities. BMs will change concerning technology, dimension, resources, and focus.

#### 5. Inform Employees:

Employees will be afraid of GenAI's impact and want to be informed. Following this research, GenAI will not lead to layoffs – inform your employees accordingly to avoid rumors and unwanted terminations of highly qualified personnel.

#### 6. Train Employees

Build up training competencies and train your personnel to use AI's benefits. Invite external professionals and early adopters for keynote speeches to make adoption easier, avoid beginner errors, and reduce lucky shots. Implement GenAI playgrounds and foster regular knowledge sharing in your teams to share experiences.

#### 7. Establish New Workflows:

Strategic process revisions will lead to new workflows. Written and visual content creation and variation can be combined and significantly supported by GenAI. Use GenAI to generate variations and test message variants to find optima nearly automatically for your clients. Simulate the most effective creation route with AI instead of more A/B tests or retrograde

analysis. AI Simulation in advance, based on probabilities, offers a cost-effective multitude of information.

Use GenAI (as shown by Persado) to find data-driven optima analytically. During the transformation, make it mandatory for trained employees to develop at least one client marketing route with AI.

If your AA develops its own LLM, KI, and specific software specialists, standardize your international language, the job, and role descriptions (according to point 4) throughout the organization to enable qualified exchange (point 6) and achieve synergies.

#### 8. Market Your New Competencies

Use your newly developed competencies. Your new skills have their value besides advertising business. Agencies can thus help their customers implement GenAI to optimize the customer's business model. Three examples:

1. A GenAI LLM checks all outgoing emails for compliance with the customer's uniform wording standards, designed and maintained by your AA.
2. AI automatically adapts all documents according to the Corporate Identity, developed by your AA.
3. Automatic and permanent data-driven AI optimization of the customer's public appearance, designed by your AA.

#### 9. Foster Your Marketing

Establish a measurability of the value contribution of your GenAI marketing to the customers' success to argue for the effectiveness of the marketing budget allocated to your AA.

#### 10. React Now!

Agencies not quickly adapting to this change will cease to exist in the medium term. Advertising agencies do have to react now if they still need to change their BM.

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## 7 Appendix

Appendix 1:

Kai Gehlen, self-employed Data Analyst, <https://kai-gehlen.de/> 2023-12-18:

"I work as a self-employed data analyst for the advertising agencies of multinational corporations.

This research describes the changes to be expected in the business models of advertising agencies. The included guide is convenient and well thought out. This research offers a strategic plan for agencies on the integration of AI.

Today, in my daily activities, I notice how business models of advertising agencies are changing because AI is increasingly being used in data analytics. Automating repetitive tasks and programming support is just one simple application area. Another exciting business area is the data-driven simulation of expected reactions and automatic optimization. I am inspired by the research and excited to see how my customers embrace additional AI capabilities."

Appendix 2:

Julia Göntgen, Team Lead Web Analytics,

<https://www.linkedin.com/in/julia-goentgen> 2023-12-17:

"I have read the thesis, and it all sounds logical from my point of view. However, there are also a few differences between German and American advertising agencies, for example.

Nevertheless, some things apply to both, especially about AI. However, the Germans usually need to catch up. As far as I know, most agencies in Germany still use AI very sporadically for content creation or in SEO for keyword ideas/text creation, but this still requires 'manual' rework. In my area (web analytics), we use Chat GPT for scripts we need, but much rework is still required."

Appendix 3:


Ulrich Stockheim, CEO of Ulrich Stockheim Communications, <https://www.us-communications.com> 2023-12-18:

“To whom it may concern

I reviewed the Master Thesis of Lukas Hanf. The topic of AI and Advertising Agencies is absolutely on top of today’s discussions around AI. The Thesis provides on the one hand side a great overview of the current developments in the sector. By picking three concrete examples Lukas combines a well structured theoretical fundament with the concrete practical part of this important technology.

I wish Lukas Hanf all the best for his further career and I am confident that he will make his way!”

# Appendix 4: Creditreform Report




**WIRTSCHAFTSAUSKUNFT**

International

Datum / Uhrzeit: 19.12.2023 / 08:48  
Mitgliedsnummer: 407-068845-001  
Ihr Zeichen

Auftragsnummer: 144344045  
Seite: 1 von 3



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**Persado Inc.** Identnummer: 19001008103400

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**Firmenidentifikation**


Persado Inc. 11 E 26th St, 15th Floor 10010 New York, NY Vereinigte Staaten von Amerika	Telefon: +1 6466783400 Telefax: E-Mail: Internet: www.persado.com
--	--

Identnummer: 19001008103400  
Firmenstatus: aktiv

---

**Bonität**

Bonitätsindex: 275



Der Bonitätsindex 275 bedeutet "zufriedenstellende Bonität".

---

**Zahlungsweise und Krediturteil**

Zahlungsweise	Am Platz keine Beanstandungen bekannt.	(28)
Krediturteil	Kredite werden nicht abgelehnt. Eine Geschäftsverbindung gilt als zulässig.	(31)
Kreditlimit	Aus den vorliegenden Zahlenangaben kann kein Höchstlimit ermittelt werden.	

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**Strukturdaten**

**Rechtsform**  
Aktiengesellschaft (AG) nach Landesrecht  
Name der Rechtsform in Landessprache: Corporation

**Gründung**  
2011  
Unternehmensalter: 12 Jahre

**Register**  
17.05.2011, Secretary of State, 4983902, Delaware  
18.05.2011, Arbeitsgenehmigung: 3378691, Kalifornien  
31.03.2013, Arbeitsgenehmigung: 4353568, New York  
28.08.2018, Arbeitsgenehmigung: F19000003994, Florida

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**WIRTSCHAFTSAUSKUNFT**

International

Datum / Uhrzeit: 19.12.2023 / 08:48  
Mitgliedsnummer: 407-068845-001  
Ihr Zeichen

Auftragsnummer: 144344045  
Seite: 2 von 3



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**Persado Inc.** Identnummer: 19001008103400

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**Historie**  
seit 2011, Rechtsform: Aktiengesellschaft (AG) nach Landesrecht - Corporation

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**Kapitalangaben**  
Nominalkapital: 10,00 USD

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**Gesellschafter und Kapitalangaben**  
Aktionär nicht publiziert  
gestückt in 1.000 Stammaktien zu je 0,01 USD

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**Geschäftsführung und Vertretungsbefugnisse**

Identnummer	Name / Adresse	beteiligt seit	Vertretungsbefugnis
	Alex Vratskides		Verwaltungsdirektor
	Will Dean		Finanzdirektor
	Athina Kafantari		Schriftführer

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**Standorte**

Adressbereich	Anschrift
Geschäftsadresse	11 E 26th St, 15th Floor, 10010 New York, NY
Juristischer Sitz	11 E 26th St, 15th Floor, 10010 New York, NY

registriert agent (=Zustellungsvertreter):  
c/o THE CORPORATION TRUST COMPANY  
Corporation Trust Center  
1209 Orange St  
Wilmington, DE 19801

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**Geschäftstätigkeit**

**Klassifikation der Wirtschaftszweige, NACE Rev. 2**

NACE Rev. 2	Beschreibung	Rang
62.0	Ebringung von Dienstleistungen der Informationstechnologie	

Tätigkeit des Unternehmens in Landessprache:  
Tatsächlicher Gegenstand: Softwareentwicklung, Anbieter von maschinellem Lernen, Omnichannel sowie generativer KI

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**Zusatzinformationen**

**Anmerkungen**

Weitere Anmerkungen:  
das Unternehmen gehört zur Persado Firmengruppe  
verbundene Unternehmen u.a.:  
Persado Holdings Limited, Jersey  
Persado UK Limited, Großbritannien

Anmerkungen zu den Finanzdaten:  
Umsatzzahlen nicht erhältlich  
näherer zahlenmäßiger Einblick in die Finanzlage nicht zu gewinnen  
Bilanzen sind nicht erhältlich, da keine Publikationsverpflichtung besteht.  
Mehrere Finanzierungsabkommen sind registriert, abgesichert durch bestimmte Ausrüstungen etc.

Anmerkungen zu den Mitarbeitern:  
Firmengruppe:  
2023:  
Gesamt: 150

**Banken**  
Eine Bankverbindung ist nicht bekannt.

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**Zahlungsinformationen und Beurteilung der Geschäftsverbindungen**

**Zahlungsweise und Krediturteil**

Zahlungsweise	Am Platz keine Beanstandungen bekannt.	(28)
Krediturteil	Kredite werden nicht abgelehnt. Eine Geschäftsverbindung gilt als zulässig.	(31)
Kreditlimit	Aus den vorliegenden Zahlenangaben kann kein Höchstlimit ermittelt werden.	

**Negativmerkmale**  
Es liegen keine öffentlichen Negativmerkmale vor.

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