How to Be a 21st Century Brand
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Last year, at the IAB Annual Leadership Meeting in Ft. Lauderdale, Florida, I opened my presentation to you with a reminder: "What we say here – what we do here – makes a difference."

Invoking our history of accomplishment, I also warned that "our industry is at the center of an epochal change in the ways citizens perceive and participate in the world around them." I asked you, the leaders of the digital marketing and media industries, to commit yourselves to a higher purpose.

"When all information becomes suspect," I said, "when it's not just an ad impression that may be fraudulent, but the data, news, and science that undergird society itself – then we must take civic responsibility for our effect on the world."

Today, I want to build on last year's presentation, in two ways. First, I want to show you exactly the kind of a positive difference you have made to our industry and our world since last year. And secondly, I want to point you in the direction of the glorious growth opportunities that exist right in front of our eyes, if we can continue to collectively embrace the power of this industry to do good.

Last year, in his opening keynote address, Procter & Gamble Chief Brand Officer Marc Pritchard admonished our extended industry of publishers, agencies, platforms, technology companies, and other brands. "It's time to grow up," he said. "It's time for action."

We'll be hearing more on the need for maturity and action from this year's lead keynote speaker, Unilever Chief Marketing Officer Keith Weed, who has been in the forefront of the battle for transparency and trust for years. Can we stand up to his asks? Let's review the last year, and see if past can be prelude.

Three of the actions demanded last year landed right on the doorstep of IAB and our members. First was the requirement that "any entity touching digital media" join the Trustworthy Accountability Group, the industry's fraud-fighting initiative. No TAG certification, no advertising purchases.

Second was the requirement that agencies, media, and other suppliers accept a single viewability standard for online ads, the Media Rating Council's standard.

Third was the requirement that all publishers of any sort undergo MRC-accredited third-party advertising measurement verification within the year. No verification, no business.

So what happened?

A lot.

In the year since the momentous 2017 ALM, registration in TAG nearly quadrupled, growing from 136 to 473 companies at the end of 2017. Those 473 companies are spread across 27 countries and 6 continents. Unilever was one of the founders of TAG, along with the ANA, 4As, and IAB – so thank you for that, Keith. And I'm proud to say IAB played a special part in making TAG's growth last year happen, with our Board voting to make TAG registration a requirement for membership in the IAB. Any company currently in the IAB that is not TAG-registered by June will be kicked out of our trade association.

More important is the difference this has made. The Association of National Advertisers' annual fraud benchmarking study by White Ops showed the first decline in invalid traffic in the three years the research has been undertaken – a total drop of 10 percent, and an astonishing drop of 83% in TAG-Certified channels compared to cross-industry averages. Put another way, working with trusted, certified partners results in inventory that is 600 percent cleaner than industry averages.

Certainly, the IAB Tech Lab's ads.txt initiative contributed to this enormous improvement in brand safety. More than half the comScore 1000 publishers have implemented this crucial system across 160,000 domains for protecting their inventory against fraudulent appropriation.

Viewability has simply become less controversial during the year. DoubleVerify saw a 75% increase in advertisers who adopted the MRC Viewability standard between 2016 and 2017.

ComScore and IAS both report ongoing improvements in viewability rates in the U.S., with ComScore saying, "Publishers care about measuring Viewability now more than ever." This also represents an industry talking to each other, not past each other.

An enormous step forward toward viewability consistency was taken by the IAB Tech Lab, which assumed governance of the Open Measurement SDK, a software development kit that will help standardize viewability measurement. As IAS affirmed, "In 2017 the industry focused on testing and implementation of the SDK, but in 2018 we will start to see the benefits of a single consistent measurement standard applied at scale."

On independent measurement verification, nothing short of a revolution took place. All the third-party verification firms report rising demand for verification solutions aligned to the MRC standards. Facebook, Google, and Twitter committed to MRC audits, and extensive audits took place at Facebook and Google in 2017, according to the MRC's 2017 year-end recap.

Last year's ALM had even more impact than that. As you'll recall, I asked our industry to move beyond our fixation on weak technology solutions for giant problems, and to inject elements of necessary human oversight in order to fix weaknesses in the industry supply chain – weaknesses that threaten consumer safety and brand safety.

It was and is simply unacceptable that companies in our industry can have no knowledge of who their suppliers are or who their customers are, and thus no concept of the harm they might be causing others.

"Commission a team to … determine who your customers actually are, and what they do for a living," I said. "If they're engaged in child porn or distributing pirated movies or generating neo-Nazi propaganda, or anything else you wouldn't want your parents, spouses, neighbors, or children to know about, then stop doing business with them."

Across the industry, companies rose to this challenge. YouTube announced that it would institute a process of human reviewing, for contributors to be eligible for the Google Preferred advertising program. Facebook, too, instituted a "human review" requirement for certain categories of advertising.

I'm pleased to say our message was heard in Congress, where I was invited to testify before the House Oversight and Government Reform Committee's Subcommittee on Information Technology about Federal political advertising laws and regulations.

I warned the committee that the legislative and regulatory solutions they and their colleagues were drafting would scarcely touch the problems of foreign infiltration and "fake news," because they were applying 20th Century television regulations to a vastly different 21st Century industry.

Their proposed solutions not only threatened freedom of political speech, it would hold small newspapers, magazines, and television station Web sites responsible for policing a problem that was more centered on the opaque third-party distribution system for digital advertising.

What I asked for was "Congress's support for strengthening the self-regulatory mechanisms we already have built – and continue to build – by which digital media companies will police their supply chains for bad actors, and provide greater transparency into who is putting what into their sites. *We* can monitor the financing chain, whether the paid support takes the form of conventional advertising, or whether it shows up in more contemporary or unfamiliar forms and formats, such as native advertising and branded content."

The committee – as well as their partners in the Senate, as well as our own member companies – were more than attentive. They have continued to meet with IAB, and we are increasingly hopeful that the self-regulatory mechanisms we have built can help our industry and our nation – using the words I articulated last year - “repair the trust.”

I’m focusing on the impact we had last year to advance another claim, a bigger claim: We will have even more impact this year.

Because last year our mission and our mania were to fix problems – serious problems – that impede our industry’s growth and prosperity.

This year, our mission and our mania are to focus you on the growth and prosperity that are staring us in the face.

[TITLE SLIDE]

Last February, IAB commenced a study on the evolution of brand marketing. Today, we are releasing the results of that research. Without hyperbole, I believe we have cracked the code of the new consumer economy. I promise you will leave this IAB ALM with an utterly transformed view of how and where growth is taking place – and where it is not.

Equally important, we will present to you strategic pathways by which the marketing and media industries will find their next collective $100 billion – and the tactics that will help your company claim a piece of that… if you dare to transform yourselves.

These themes will infuse this entire meeting. You will hear from leaders of several of the world’s largest brands about how they are transforming to meet the specific requirements of this new consumer economy. You will hear from leaders of several upstarts that are stealing share in their categories, one fraction of a share point at a time. You will learn in our Master Classes, taught by marketers themselves, why “brand safety” is *not* a reputational requirement, but rather an essential component of a company’s growth.

You literally will learn “How to Build a 21st Century Brand” – and how you can be part of the foundation.

First, I would ask you to reflect:

What if the number of stores became infinite?

What if shelf space was endless?

What if production capacity was limitless?

What if all goods and services were like milkshakes in Manhattan, available for home delivery, 24 hours a day, 7 days a week?

This is what's happening today to brands, marketing, advertising, and media.

[SLIDE – ENDURING SHIFT]

Warby Parker in eyewear, Glossier in cosmetics, Casper in mattresses, Away Travel in luggage – these are not interesting curiosities. These are not the second coming of direct response advertising. These companies actually represent an enduring shift in the way the consumer economy operates.

[SLIDE – BRAND GROWTH IN CRISIS]

To understand what they represent, and where we are hurtling, you first must understand where we are. If you're a longtime incumbent brand in most consumer categories, where you are, is in crisis.

[SLIDE – INDIRECT BRAND ECONOMY]

For nearly 140 years – since Procter & Gamble invented Ivory soap, ushering in the era of consumer packaged goods – dominant consumer-facing companies created value through their ownership and operation of high-barrier-to-entry, capital-intensive supply chains. In category after category, the most successful companies owned outright or had significant control over every major function within their supply chain, from the sourcing of raw materials to the ownership of their factories and warehouses, to the railway cars and trucks that got their goods to market.

So powerful was this form of value creation that brands could afford to go through a laborious form of value-extraction involving multiple third parties - and <u>still</u> make money. We call this "The Indirect Brand Economy."

Brands would first go through advertising agencies, because agencies, beginning in the late 19th Century, owned all the competitive pricing information about media. The agencies then went to another third party, what we today call publishers, because publishers controlled virtually all access to the consumer.

But the publishers were responsible, in turn, directly or indirectly, for getting the consumers to visit yet a third third-party, the retail store. With some famous exceptions – the Sears catalogue, Avon cosmetics, in recent decades L.L. Bean – third-party physical-store retailers accounted for nearly all retail sales in the United States. <u>As recently as 1992, physical retail stores claimed more than 96 percent of the $2 trillion in U.S. retail sales, according to the U.S. Census Bureau.</u> Nonstore retailing - the selling of goods and services outside the confines of a retail facility, including direct selling, mail order, catalogue sales, telephone solicitations, and e-commerce - accounted for less than 4 percent of retail sales.

[NEW SLIDE – SUPPLY CHAIN DOMINANCE]

Finding ways to control an industry's end-to-end industry supply chain consumed leading company's strategic development. How powerful could supply chain dominance be? Consider the U.S. automotive industry: After World War II, despite the booming market for autos, all new automotive companies were frozen out of the U.S. auto market. The American automobile industry had "solidified into a joint-profit-maximizing oligopoly," said University of California business historian James J. Flink. GM, Ford, & Chrysler owned 94% of the U.S. automotive market from 1955 through the 1970s.

And if you could make it to number one in your category, and you committed resources to distribution, production, and managerial expertise, chances are you could stay number one – for 60 years or more, in many cases.

[NEW SLIDE – GROWTH SLOWING]

And then… growth just started slowing down. Certainly not everywhere; some industries, like health care, are booming, as my fellow baby boomers and our parents age. But other parts of the consumer economy today are barely keeping up with an already anemic 2.5 percent GDP growth – itself way down from average GDP growth of 3.19 percent from 1948 through 2017.

[NEW SLIDE – OLD CPG MACHINE]

Perhaps most alarming today is the degree to which classic staples, like the foods and toothpastes and detergents we need to lead our middle-class lives, aren't selling. Total CPG unit purchases in the U.S. decreased by 2.5 percent in Q1 2017 compared with Q1 2016, according to our cousins at the Association of National Advertisers. This after flat growth from 2013 through 2016

[NEW SLIDE – PROFIT PRESSURES]

Unsurprisingly, this weak revenue picture has put severe pressure on company profits, with several of the world's most venerable CPG brands showing significant declines from 2016, and only one – Unilever – outperforming.

[NEW SLIDE – RETAIL APOCALYPSE]

Without question, one of the biggest contributors to incumbents' pain is the slow erosion of physical retailing. Almost 9,000 stores closed shop in the United States in 2017, with clothing stores leading the way. The commercial real estate firm Cushman & Wakefield estimates this will climb to around 12,000 closures this year.

It's hard to know what's chicken and what's egg: Has the growth of online commerce decimated the retail store, or have the falling fortunes and closures of retailers driven more people to e-commerce?

Whatever's cause, and whatever's effect, the basic fact is very simple: that singular fulfillment experience called the physical retail store is undergoing a big bang, and fragmenting into multiple fulfillment experiences – and all the growth, every last dime of it, is accruing to online fulfillment experiences.

[NEW SLIDE – IS PROPELLING]

Nonstore retailers – 4 percent of $2 trillion in retail sales in 1992 – by last February had grown to account for 10.4 percent of the $5.3 trillion retail economy.

[NEW SLIDE – TOWARDS DIGITAL]

More telling yet is the degree to which virtually all growth is shifting to digital retailing channels. Census Bureau figures show that quarterly adjusted e-commerce growth rates are 3-to-7 times greater than total retail growth.

In some categories, all growth is happening in these digital channels. For fast-moving consumer goods - packaged foods, beverages, toiletries, over-the-counter drugs and other consumables – Nielsen says dollar sales in brick-and-mortar stores increased just 0.1 percent during the first half of 2017. Online channels saw a 21.1 percent uptick in sales.

[NEW SLIDE – RAZORS]

How powerful is this revolution in retailing? Fundamentally, it's opened up the economy. A brand no longer has to fight its way onto scarce physical retail shelves to make its way to the buying public.

In the razor category, Gillette's share of the U.S. men's-razors business fell to 54% in 2016, from 70% in 2010. Almost all of that share has shifted to Dollar Shave Club, Harry's, and several other digital primary sellers.

[NEW SLIDE – CONTACT LENSES]

In contact lenses, incumbent growth has been good - J&J's Acuvue saw 8 percent revenue growth, and Bausch & Lomb saw 6 percent year-on-year growth in 3Q'17. But Hubble Contacts growth has been spectacular: 20% *monthly.*

[NEW SLIDE – SHOES]

Sales at U.S. shoe stores in February 2017 fell 5.2%, the biggest year-over-year tumble since 2009. Online-only players like Allbirds, Jack Erwin, and M.Gemi have gained nearly 15 percentage points of share over five years.

[NEW SLIDE – GROCERY]

Grocery store revenue growth is projected to be about 1 percent annually through 2022. Over that same period, the market for Meal Kits is expected to grow by a factor of 10x.

[NEW SLIDE – PET FOOD]

In pet food, subscription service The Farmers Dog is averaging 40-50% revenue growth *monthly,* in a U.S. pet food market as a whole that is projected to see 4.4% growth in 2018.

[NEW SLIDE – THE THREE LAST MILES TITLE]

What's propelling the increasing velocity of this new consumer economy? One compelling way to think about it is that there are three last miles that any consumer brand must traverse, and that technology is closing those gaps with increasing rapidity.

[NEW SLIDE – THREE LAST MILES]

There's the last mile to the head: Communication of the rational value of a product or service to the consumer. "Less filling, great taste." "50 percent off – today only." "Highest thread count of any bedsheet" – these are all rational or functional appeals.

There's the last mile to the heart: Emotional appeals that place a product or brand within someone's lifestyle, soul, or demographic. "Nobody gets between me and my Calvin's." "Baseball, hot dogs, apple pie, and Chevrolet." "Real women, real beauty" – these are historic emotional appeals.

And there's the last mile to the home: Getting the goods into the hands of the consumer.

[NEW SLIDE – THE CLOUD IS CLOSING]

As we've established, the last mile to the home is shrinking – for more consumers, more companies, in more categories, day by day. But this is happening to <u>all three</u> last miles, and for the same reason: the Internet, and even more specifically, the cloud-based Internet.

I think it's fair to say that the cloud is to the 21st Century what the mechanical loom was to the 18th Century – a technology that changes the geographic scope and human scale of an endeavor.

[NEW SLIDE – THE CLOUD ENABLES]

Before the mechanical loom, all clothing was sewn painstakingly by hand. The loom made it possible to create many more goods in the same span of time, exponentially increasing the productivity of the individual human.

The mechanizing of the loom – first with coal and steam, later by electricity – changed scope and scale in several ways. It enabled faster machines, certainly, which in turn facilitated the division of labor that advanced productivity. It enabled the delivery of goods across longer distances, nationalizing what had been local markets. It enabled the communication of the goods' existence across the geographic span of a continental nation. For the first time in history, one size could fit not just all, but could fit everyone everywhere.

The next industrial revolution – the IT revolution – increased span and scope yet again. IT allowed enterprises to look at many multiple industrial processes at the same time: supply, demand, weather patterns, localized microeconomic changes, and macroeconomic changes at a national and multinational level. Demand forecasting became possible, and with it the just-in-time revolution at Wal-Mart and the TPS revolution at Toyota.

And finally, the Cloud took this increasingly finely-tuned ability to manage supply and demand across borders, and enabled it to segment down to the individual level. For the first time, it became possible for customers to make demands of companies as individuals – and to have those demands fulfilled.

[NEW SLIDE – FORCING BRANDS]

This individual connectedness between companies and consumers – an impossibility just 25 years ago – is now an assumed right. Today, J.D. Power says two-thirds of consumer expect direct connectivity to companies. An equivalent number say they use companies' Web sites for servicing.

[NEW SLIDE – FIRST PARTY DATA]

But this isn't a one-way street, of consumers making demands and companies meekly acquiescing. Brands get something equally valuable – first-party data that fuels every other function of the enterprise.

Consider Nike's push to digital. As the analysis firm Market Realist puts it, its digital initiatives like Nike+ "represent an increasingly important source of customer data" to help Nike "develop new products targeted at specific consumer segments." Nike ID enables consumers to customize their products – providing yet more first-party data into the company's product development cycles.

"More importantly," says Market Realist, "Nike's e-commerce business is profitable and a margin enhancer." Taken together, these are the reasons Nike "is aiming to open more websites in more countries across the globe and provide a superior mobile and seamless omni-channel experience to its consumers."

Indeed, leading companies are using the Cloud to collapse the last mile to the head and to the heart, to their great advantage.

For more and more companies, a Marketing Cloud plus a Sales & Service Cloud plus a DMP plus direct sales drives virtuous circles of direct engagement. Companies can then use "look-alike analysis" to optimize use-cases for direct-to-consumer engagement – making their advertising, content marketing, and ecommerce more productive. They can use the Cloud to tap into 2nd and 3rd party data for agile test-and-learn opportunities. Together with personalization and subscriptions, they can lower acquisition costs and churn, thus driving higher margins.

[NEW SLIDE – HOSTS THE RACE]

This is the proper way to look at the frenzied race to etail. It is not just about consumer convenience. It is not just about data. It is not just about the sale. It is about all three, together, inextricably intertwined. The greater the number of digital consumer relationships, the more the first-party data that continually improves every other enterprise function. The better your products, the more acute your customer value analysis, the more refined your pricing, the more precise your real-time analytics and offers, the more competitive your company becomes.

[NEW SLIDE – THE CLOUD TURNS MEDIA]

The necessity of direct insights also explains the astonishing growth of digital advertising over the past 10 years – and why, particularly, there is currently a goldrush in the over-the-top television or streaming video space, with OTT's share of advertising views having grown more than three times from 2014 to 2016.

If you can tell a story with sight, sound, and motion, AND you can collect first-party data that's voluntarily given to you, AND you can use it to improve your own media and entertainment products, AND you could use that to improve your customers' businesses – well, then, why wouldn't you? We'll be hearing more about this very subject from Hulu CEO Randy Freer a little bit later.

Strip away everything else you may have heard or think about digital advertising. Forget about opaque words like "programmatic" and malleable phrases like "content marketing."

You really only need to know one thing: A two-way relationship is inherently more valuable than a one-way impression – even though the full enterprise value may not be captured in the price of the advertising.

Understand this, and you understand half of the following equation: Data is to the 21st Century what capital was to the 21st Century.

[NEW SLIDE – THE CLOUD POWERS]

Why only half the equation? Because capital is no longer a barrier.

What's notable about the Cloud-centered industrial revolution is that every bit of it is for rent. The expensive, end-to-end, supply chain functions that companies used to need to own or control are now promiscuously available for lease. And by this, I'm referring not only to the so-called "soft functions" of marketing, communications, and customer care, but the extremely hard functions of sourcing, production, logistics, and fulfillment.

[NEW SLIDE – SCAAS]

The truth is, the owned-and-operated supply chain, the vertically integrated supply chain typified by Ford Motor Company's giant River Rouge plant, which could build consumers anything they wanted, as long as it was a Model T, in black, has been fading from the scene for decades. It has been replaced by the radical innovations of Toyota and its Toyota Production System in the early 1990s, which emphasized "LEAN" production through rigorous supply chain collaboration with external suppliers.

But the newest phase of supply chain management is even more radical yet. It's called Supply Chain as a Service, and it allows companies to outsource to a single provider or to multiple providers any and all the essentials of their supply chain – inventory management, production, supply planning, quality control, maintenance - in the same way business process outsourcing enabled them to outsource back-office functions in the 1980s and 1990s.

Supply chain as a service is enabling the explosion in small-scale production that we see powering the 21st Century Brand revolution. The value of scale – one of the essential support structures of the Indirect Brand Economy – is eroding.

The simplest way to understand this, I think, is this: If 25 years ago, you had an idea for a better toothpaste, a radically better toothpaste, there was nothing you could do with that idea. You wouldn't know where to go for the raw materials – and even if you did, the mint and the sodium bicarbonate would be available to you only by the ton.

If you could get your hands on the raw materials, you wouldn't be able to make anything with them, because there were no assembly lines available to a bit player like you.

If somehow you managed to make something, you couldn't afford to distribute it – because small batch warehousing and transport was the most expensive form of storage and transportation. So there was no way for you to fulfill demand.

But that's okay, because you couldn't afford to drive demand, anyway. Prime-time television was simply outside your reach. The Duane Reade's and the Kroger's – they wouldn't talk to you. Wal-Mart? Fuhgeddaboudit.

All you could do with your better toothpaste idea was to get your Aunt June to introduce you to her old high school friend who now works at Colgate Palmolive, so you could maybe sell your toothpaste concept to them.

[SLIDE – BETTER TOOTHPASTE]

Today, if you've got an idea for a better toothpaste, you can make it yourself. And market it, sell it, and deliver it yourself. You can find, sell, and deliver to your health-conscious segment… You can start a subscription service… Or you can "unbrand" it and bring it straight home, at a discount.

[NEW SLIDE – ENTRY COSTS]

Thanks to these promiscuously available supply chain functions, entry costs in all industries have plummeted. Consider the craft brewing industry, and its astonishing growth – an almost 19 percent compound annual growth rate for the past five years, in a flat beer market (ha ha).

Sure, you can spend $1 million to start up a craft brewery, for kettles, kegs, boilers and fermentation tanks. But Page Buchanan, owner and founder of House of Brews, a contract brewing service in Madison, Wisconsin, says you can start up a beer brand through outsourcing for as little as $5,000.

[NEW SLIDE – NEW FULFILLMENT FORMATS]

As costs of entry plummet, as physical retail stores lose their singular hold on consumer fulfillment, as the need for first-party data grows, so does a fragmentation of both consumer opportunity and the fulfillment experience.

Some say there are now four primary fulfillment formats, all built around the requirement for data: direct to consumer delivery, subscription commerce, on-demand, and second-hand marketplaces.

[NEW SLIDE – CONSUMER FRAGMENTATION]

But we are seeing new spins on these spins every day, with increasing numbers of hybrid models that blend offline and online experiences. Flash stores, personal curation services, platform partnerships, virtual reality stores – you should treat these as utterly separate fulfillment experiences, as different from the physical retail store as the Porsche is from the horse.

[NEW SLIDE – INDIRECT BRANDS]

I've already said I believe this is a revolution. But I think it's now important to give it a name. As I explained at the very beginning, we have lived for almost 140 years inside what we call the Indirect Brand Economy. Indirect Brands created value through their high-barrier-to-entry, capital-intensive, owned-and-operated supply chains, and extracted that value through indirect, one-way relationships with their end consumers, mediated by a series of independent third parties, ending with fulfillment in a physical retail store.

If that was then, what is now?

[NEW SLIDE – DIRECT BRAND ECONOMY]

We call it the Direct Brand Economy. We date its origin to 2010. That's not arbitrary. It's the year Warby Parker was founded.

In this new economy, 21st Century Brands create value by tapping into a low-barrier-to-entry, capital-flexible, leased or rented supply chains. And they extract that value through a multiplicity of fulfillment models, all of which have a single thing in common: they aim to create a mutually beneficial, two-way relationship between the brand and the consumer, because that interactive relationship throws off the data that is the central competitive element for every other function in the enterprise.

In the Direct Brand Economy, supply chain functions reside in four "stacks." We are deliberately borrowing the language of the "ad tech stack," because it has long implied both promiscuous availability, and the opportunity for a company to outsource or insource its functions at will, based upon specific strategic requirements.

[NEW SLIDE – D2C LOGO ANIMATION]

We see no reason to believe this Direct Brand Economy will stop, let alone go into reverse. There is no credible argument that says giant shopping malls will again flourish, or that department stores will come back into favor. As you review the published version of this study, you will see that the "stack your own supply chain" is now so advanced and so embedded in the economy – from sourcing through to logistics, from materials to warehousing, from branding to the delivery of "eaches" – that the trends we've seen for the past decade will only accelerate.

[NEW SLIDE – EVIDENT IN GDP]

The evidence of this shift in the economy's operations can be seen in the three benchmark studies IAB has conducted with Professor John Deighton of the Harvard Business School, charting the "Economic Impact of the Internet Advertising Ecosystem."

Without question, the total numbers are impressive – with the Internet advertising economy accounting for 6 percent of GDP in 2016, up from 3.7 percent in 2012.

[NEW SLIDE – AND JOBS]

But even more telling are the categories of job growth. Consumer support services jobs – one of the underpinnings of the Direct Brand Economy - grew from 190,000 total in the U.S. in 2008, to more than 1 million in 2016 – a more than five-fold increase.

In the longer, published version of this study, we go into much richer detail in the composition of the different supply chain stacks; how they interrelate to change the competitive opportunities for consumer-facing companies; and how this new competitiveness is showing up in U.S. economic data. I encourage you to download the full report and share it with your colleagues and business partners.

[NEW SLIDE – VCs ARE TARGETING]

These trends will be aided by venture capital, of which there is plenty to go around to fund these only-modestly-expensive endeavors. I know you can't read this chart from the audience. I'm including it to entice you to download and share the full report. This is from Teddy Citrin, an associate at the VC firm Greycroft, assessing the "disruptability" of 35 distinct consumer categories – all of which have Direct Brand competitors already!

[NEW SLIDE – BIG BRANDS]

The Direct Brand revolution has not gone unnoticed by the giant incumbents. Many executives at these companies will freely concede that for much of the past decade, they considered these disruptors too small to pay attention to. Ultimately, though, they have been forced to notice that their sales and their margins – already thinned from years of shaving by retail behemoths like Wal-Mart – were disappearing.

This illustration by the consulting firm CB Insights brilliantly captures the Direct Brand assault on incumbents. It shows how 42 upstart Direct Brands have targeted Procter & Gamble across all its categories.

Even if P&G wanted to ignore them, by last year, it could not: The Direct Brand Revolution was a central part of the hedge fund Trian Partners' attack on the company's management. Several of the largest CPG companies in the world have been experiencing similar raids by activist investors.

[NEW SLIDE – MOST INCUMBENTS LAG]

Most incumbent big brands lag the Direct Brand Revolution. According to research by IDC, only 18 percent of 100 top consumer goods companies said they were making omnichannel fulfillment via DTC a business priority in the foreseeable future.

Big brand executives freely concede this is an existential crisis for them. "This is the question everyone is asking," Carol Hamilton, group president of L'Oréal Luxe USA, who oversees brands including Lancôme, Kiehl's and Urban Decay, told WWD. "But it's not just heritage brands. In this fast-moving market, how do all brands maintain and retain their relevance?"

[NEW SLIDE – SOME ARE ADAPTING]

Some major incumbents have answers – and they've been adapting for years. By 2015, Nike was already showing 55 percent year-on-year increases in e-commerce sales. Nike plans for DTC sales to grow by almost 2.5 times in the next five years, from $6.6 billion in fiscal 2015 to $16 billion by fiscal 2020. The company beat its own target of $5 billion in DTC sales by fiscal 2015 by over $1.5 billion.

[NEW SLIDE – SOME ARE ACQUIRING]

Some are aggressively buying their way into the Direct Brand Revolution – acquiring both capabilities and talent. Unilever's $1 billion acquisition of Dollar Shave Club was premised on "expertise and technology in direct-to-consumer sales we can use internationally and in other parts of our business," the company said at its Investors Day last November. Lever also said at the time that it expects "experience platforms and e-commerce to reach 30 percent of turnover in 2022, from 15 percent in 2012." Indeed, Unilever said that 70% of its growth in "the near future" would come from two platforms, Personal Care, and e-commerce/DTC.

In fact, one of my strongest arguments to you is: Watch and adapt to what the world's most forward-thinking incumbent brands are doing. They remain by the far the largest spenders on advertising – and where they go you must follow…or better yet, lead.

Look to Pepsico. It has unleashed a team of some 200 e-commerce professionals, charged with capturing growth in DTC. (https://www.forbes.com/sites/greatspeculations/2017/10/11/how-pepsico-is-dealing-with-growth-in-e-commerce/amp/).

Look to Kellogg, which is investing millions in Project K, a retooling of its supply chain to become more flexible and responsive to changing consumer demands.

Look to Unilever, which is testing a Hellman's-branded DTC box with the delivery sefvice Quiqup.

Look to Mars Petcare, which is bringing in unprecedented amounts of first-party consumer data, volunteered through its app Whistle, a "Fitbit for dogs."

[NEW SLIDE – DRIVERS AND CHARACTERISTICS]

By now, I have a sense of what you're thinking: Very interesting, Randall, but what can I do with this other than exult (if I'm Instagram) or weep (if I'm me)?

I'll admit it: We don't have all the answers. But we have some insights and case examples. We also have speakers here, on this stage and in our breakout rooms, who will be able to give you clinical answers to these questions.

No one in the world knows more about advertising – and few spend more – than Unilever CMO Keith Weed. And no one will be able to tell you more about how you can fit into Lever's plans over the next 10 years – plans which, as I've outlined, are animated by the Direct Brand Revolution.

No one has managed to transition a giant incumbent better than Leonid Sudakov of Mars Petcare. He will explain why going from CMO of the world's largest maker of pet food to its President of Connected Services was much more than a title change.

And no one has lived the Direct Brand Revolution more directly than Henry Davis, the President of cosmetics upstart Glossier, Away Travel co-founder Jen Rubio, and Liza Landsman of Jet.com.

But let me give you a brief sense of what these Direct Brands are, what they want, and where they are going – in the words of their founders and leaders.

[NEW SLIDE – ANDY DUNN]

The first thing you need to understand is that technically, culturally, procedurally, and socially, Direct Brands are different than their Direct Response forebears.

Andy Dunn, the founder of Bonobos, has promulgated 9 rules for identifying and running what he calls "Direct Native Vertical Brands," or DNVBs. Let me emphasize a few:

- A Direct Brand's **primary** means of interacting, transacting, and story-telling to consumers is via the web.
- It's not a store – it's not a horizontal e-commerce player that sells lots of other companies' goods and services. It's a **vertically integrated brand** - manufacturing, selling, and building relationships around its own goods and services.
- The digitally-native vertical brand is maniacally focused on the **customer experience** – you might even argue that it's selling the experience, with the product serving largely as the enabler of the experience.
- The digitally-native vertical brand drives a lot more **customer intimacy** than its competition. The data is better because every transaction and interaction is captured. "It's one CRM. It's one store, where everybody knows your name."

You find these motifs recurring whenever Direct Brand founders discuss their companies.

[NEW SLIDE – WARBY PARKER]

Warby Parker co-founders Neil Blumenthal & David Gilboa have emphasized that "Web-nativity" was and remains central to their business model, even as they open stores across the U.S..

[NEW SLIDE – GLOSSIER]

Emily Weiss, who founded Glossier first as a blog before it was a product brand, says the brand serves as a facilitator for customers to get close to each other.

[NEW SLIDE – BIRCHBOX]

A “maniacal focus” on the customer means you not only understand their passions, but how their passions are prioritized, says Katia Beauchamp, the founder of the beauty company Birchbox.

“The industry has historically focused on its most passionate and avid customers, who drive the majority of sales. Our customers were different. beauty was a part of her life, but not a passion of hers. We’re laser focused on creating a delightful shopping experience for that casual beauty consumer,” she says.

[NEW SLIDE – AWAY]

The deep understanding of the consumer also explains another recurring theme we see among Direct Brands – their focus on content as differentiator. Our ALM speaker Jen Rubio came up with the idea of offering custom alphabets by different artists for monogramming luggage, explicitly to create a content experience shareable on social media.

[NEW SLIDE – MADISON REED]

Yet Direct Brands define content and storytelling in many different ways, far more varied than we’ve described them conventionally in the media business. When I asked the founder of hair-coloring company Madison Reed, Amy Errett, about it, this is what she told me: “We’re all about content. In fact, all our customer support people are licensed cosmeticians.”

[NEW SLIDE – EVERLANE]

Central to Direct Brands is their sense of mission, and how they use mission as part of their consumer-facing story. Michael Preysman, founder of fashion company Everlane, says the brand’s mission around ethics and transparency includes exposing its factory operations, pricing, and markups to consumers.

[NEW SLIDE – DOLLAR SHAVE CLUB]

By now it should be self-evident that data lives at the core of a Direct Brand. Dollar Shave Club seed founder David Pakman of Venrock has explained why: first-party data provides significant advantages over high-priced competitors that are stuck with indirect – and thus less valuable – retail-based relationships.

[NEW SLIDE – BOLL & BRANCH]

Yet despite their focus on non-store selling, many Direct Brands, at an early point in their lifecycle, start developing hybrid sales models, joining online and offline experiences in varied ways.

[NEW SLIDE – WOMEN]

And one more trend I want to highlight: An extraordinary number of Direct Brand founders are women.

Is this an accident? A data anomaly? I am positive not. Among the barriers to entry that have fallen are cultural and social barriers. A young woman with a passion for building things – in my day, they were directed into teaching, like my mother. If she was curious, and a font of new ideas – she was directed into writing or magazine editing, like so many of my friends.

Today, with barriers to entry falling in industry after industry, with costs tumbling down, a young woman with a great idea and a passion for building something around it – she can look to Emily Weiss, and Amy Errett, and Jen Rubio and Steph Korey. She can look to Stitch Fix's Katrina Lake…

[NEW SLIDE – MORE WOMEN]

She can look at Alex Friedman and Jordana Kier of Lola and Dolly Singh of Thesis. She can look to the example of all these passionate women who are <u>building companies</u>.

This is why I am so excited to have Freada Kapor Klein and Ellen Pao speaking at this IAB Leadership Meeting about overcoming unconscious biases and creating inclusive, diverse workplaces. Because if you do not, you will be losing the talent and the customers who can grow your company.

[NEW SLIDE – BRAND STRATEGY]

So… if you're a publisher… if you're an ad agency… if you're a platform… if you're a tech company… and most importantly, if you're a brand or if you're thinking of starting a brand… what does the 21st Century Brand Economy mean for you?

First, let me tell you what it doesn't mean.

It doesn't mean that Direct Brands will immediately take the place of the industrial giants that have dominated consumer product categories for generations.

Today, in addition to this research, we are releasing a list of the IAB 250, powered by Dun & Bradstreet. These are the 250 Direct Brands we believe are most worth watching, according to our analysis of hard economic data from D&B as well as cultural data from various sources.

We'll continue to push forward with this research, and in October, we will release both an updated version of this "Direct Brand Economy" study and a revised ranking of the IAB 250 that will show in much more clinical detail their connective tissue, their success factors, and their ongoing needs.

Our goal is for this research to become an annual underpinning of our industry – a continually updated exploration of creative destruction and emergence in the 21st Century Brand Economy.

But one thing we know right now: Most of these Direct Brands are small – under $1 billion in annual sales.

Size notwithstanding, here's one other thing we can state with confidence:

You must watch them. You must know them. You must partner with them.

For the lesson from the giant consumer-facing incumbents is stark and clear: They are getting picked apart, a fraction of a share point at a time, by these little upstarts. And each fraction of a share point that disappears drives the incumbents to change their strategies and investments.

Put another way, a Direct Brand doesn't have to win, in order for an incumbent to lose. And the incumbents have awakened to that fact.

Which brings me to Strategy Number 1:

[NEW SLIDE – BECOME DIRECT]

There is only one strategy in the world: Become Direct.

I say "Become Direct" rather than "Go Direct," because "directedness" is not a destination, it is a state of being. It is not where you're going; it's what you are and what you do.

For incumbent Indirect Brands, you must become a Direct Brand. For upstart Direct Brands, you must break through the revenue and share barriers that are keeping you small. For every other company that serves them, you must help them become direct, and grow their business in that environment.

Note that this doesn't mean you must help them learn to deliver products straight to peoples' homes. Not all companies will do that. But all will need to develop more, and more enduring, relationships with their end consumers.

[NEW SLIDE – DISNEY]

This applies to publishers, as well. It's now a commonplace that pressures on the traditional advertising economy will continue to drive down traditional advertising spend. Publicis "guru-in-chief" Rishad Tobaccawala this week publicly estimated that advertising spend will decline 30 percent in the next five years. Publishers need to become expert at selling themselves, not just their advertisers. Disney CEO Bob Iger said at the time he announced the acquisition of 21st Century Fox's major assets that direct to consumer offerings "are our highest priority this year." They must be for all publishers with equivalent in-demand content.

[NEW SLIDE – 2-WAY RELATIONSHIP]

At the center of becoming direct must be, as I articulated earlier, the recognition that a two-way relationship is more valuable to all brands than a one-way impression. This is a vital lesson for publishers, in particular, to internalize – especially now, 24 years after the release of the Mosaic browser. It's not that mass advertising won't matter. It's that it will become less valuable as more and more consumer-facing brands cross the chasm and concentrate their activity on creating, reinforcing, and extracting value from their direct consumer relationships.

[NEW SLIDE – 2- WAY CHARTS]

Media spending patterns don't lie. As the data from Zenith Media show, digital advertising will continue to skyrocket versus other media forms because it provides data-enriched value.

[NEW SLIDE – BRAND SAFETY]

This means that brand safety is not optional. It is a requirement in the 21st Century Brand Economy. The reason has little to do with the soft concept of "reputation." It's because if you don't have your consumers' trust, you won't get their data. And without their data, you don't have a company.

No trust, no data, no company.

[NEW SLIDE – FIND YOUR NEXT]

For the major media that have built the economy since the advent of industrialization, you must find your next 5,000 customers.

Brian Wieser of Pivotal Research is the industry's most respected analyst of media spending patterns. His analysis – which includes a deep dive into a decade's worth of IRS data - is stark: 200 marketers account for around 90 percent of network TV spend, around 60 percent of all television, and around one-third of all paid media – and they are not growing. "They are facing accelerated cost pressures, impacted by a resurgence of zero-based budgeting and more aggressive application of marketing procurement to ad spending in general," Brian says.

Brian will be teaching a Master Class on media spend analysis later today. But for now, the summary lesson is: Main media need more customers from this long tail, and this long tail wants direct relationships and data.

That leads to another lesson. In the words of VC Andrew Cleland of Comcast Ventures, to get the new class of Direct Brands as customers, you must derisk the buy.

[NEW SLIDE – DERISK]

Digital platforms have created multiple mechanisms for reducing the participation risk for smaller advertisers. What does that mean for other media companies? Different pricing schema are an element of de-risking the buy. It doesn't necessarily need to be lower pricing, just more adapted to risk. The pricing could, for example, be partially linked to website traffic or foot traffic in stores.

And most certainly, far richer analytics and more concrete attribution models are a way main media can increasingly take risk out of their models.

Self-serve mechanisms are another answer – especially self-serve options that allow brands to assemble their own creative, rather than reflexively relying on big agencies and their added production costs.

As Cleland says, "Standing up broadcast-quality creative templates can greatly derisk both the time and expense of moving to TV."

[NEW SLIDE – SUNDAY SKY]

SundaySky.com and MikMak are examples of how to do this effectively in digital, mobile, and social contexts.

MikMak founder Rachel Tipograph will be centering one of our IAB Leadership Dialogues this afternoon, and can describe this in much more detail for you.

Certainly, another strategic takeaway from this emphasis on creative is that story matters.

[NEW SLIDE – STORY MATTERS]

When we first began exploring Direct Brands, we went in with the hypothesis that they would be focused relentlessly on programmatic delivery of banner ads – because that's such an efficient way of placing, testing, and re-testing a message at scale to myriad targeted audiences. What we found instead is what you heard last night from Glossier's Henry Davis: a deep focus on content as a differentiator.

It didn't take long to figure out why. Direct Brands are as subject to commoditization perceptions as Indirect Brands. Perhaps even more subject to such pressures, in that the barriers to entry are low, every competitor has access to the same supply chain functions, and the basic cost of attention also is low. Taken together, that renders differentiation by function or price difficult, and compels direct brands early in their lifecycle to start differentiating by lifestyle, and by story.

[NEW SLIDE – GIMLET MEDIA]

We think this is why publisher content studios have become such a popular service for Direct Brands. Consider the branded content podcast partnership between Menu Box service Blue Apron and Gimlet Media. It's designed to enhance Blue Apron's strategy "to build a lifestyle brand around home cooking, deepen our relationship with our customers, and win new fans."

Understanding the new methods and value of storytelling is why I'm so excited to have Colleen Decourcy of Wieden & Kennecy on the ALM stage. Colleen is one of the advertising industry's master storytellers. With giant CPG companies and Direct Brand upstarts on its roster, Wieden specializes in turning Indirect Brands into Direct Brands.

[NEW SLIDE – HYBRIDIZE]

This leads directly to the next strategic insight. The singular fulfillment experience – the drive-them-to-third-party-retail-store consummation of brand communications that dominated for more than a century – is now over, with maybe a dozen different, major ways to get a product or service into consumers' hands.

That means you've got to help brands hybridize.

By "hybridize," I mean aid the brands as they develop their own presence across myriad spaces – especially the virtual and the physical. Here's the mantra to remember: Because there are now multiple ways to fulfill desire, you must have multiple ways to instill desire.

[NEW SLIDE – MASTERCARD]

Here, incumbent media companies have an advantage. Magazines, television networks, and radio stations have been developing in-store programs, ride-and-drives, and events for generations;. But as fulfillment experiences proliferate, so does the need for more creativity – as in this pop-up store created by Hearst's Marie Claire for Mastercard.

Why do Direct Brands want such multidimensional access to their consumers? Why, especially, are they so focused on pop-ups and other vertical physical retail experiences, when their growth is premised on direct relationships and the data they disgorge?

Because no matter how intimate a brand's relationship with a consumer, that relationship is almost entirely one-dimensional. Glossier will only know its consumer as a consumer of beauty products. Mars Petcare will know its consumer only as a dog owner. But in meatspace and in virtual space alike, we all live varied and complex lives.

[NEW SLIDE – BRING BRANDS]

Hence my final piece of strategic guidance: Bring brands a three-dimensional view of their one-dimensional customer. This is what the best media companies, agencies, researchers, and creatives have done since the beginning of modern marketing – understand the total consumer, everywhere he or she may be.

[NEW SLIDE – NBCU]

Applying that combination of creativity and analysis in all places and spaces is essential. Consider the many ways NBCU is able to showcase for CPG clients its ability to pump social media presence, provide cross-platform exposure, arrange live events, activate sports marketing, and develop branded content – all at scale, and all with data emerging.

A last word.

I have laid out for you a new framework for understanding the consumer economy. We are committing IAB to this framework – and to helping you navigate this exciting, obviously transcendental evolution in the way brands and consumers interrelate.

Eighty percent of what IAB, the IAB Tech Lab, and the IAB Education Foundation do will not change. We will still work with our members to identify best practices for growing company revenues and profits. We will still put the highest priority on brand safety and consumer safety, because as I say year after year, no trust means no data means no business.

We still will devote ourselves to developing global, cross-industry technical standards, to create greater, safer efficiencies in the marketing and media supply chain.

But here's what will change.

[NEW SLIDE – IAB ACTIVITIES]

We're going to bring the brands into the room. Our members have a lot to learn from them and their evolution. We also have a lot to teach them – about the best content marketing, risks to their data in the global public policy environment, best practices and technical developments in attribution modeling, and many other things.

The centerpiece of this mutual learning experience will be the IAB Direct Brands Conference on October 30-31, 2018. This conference will become an annual fixture on the IAB calendar.

At that event, we will release a more refined version of the IAB 250, pinpointing exactly which Direct Brands – both newcomers and evolved incumbents – are having the most impact in their categories.

We also expect to release our first-ever benchmarking report on the Direct Brand Economy, diving deep into their operations to learn how they work with media, marketing, and data partners, what obstacles they are facing, and what's contributing to their growth.

And we'll be collecting your case studies. Because our goal is to help them grow – and to help you grow.

There was a lot in here, and I know you want a wrap-up. Let me leave you with four key points.

- The world is awash in capacity for producing, marketing, and delivering goods and services to consumers – and drawing first-party data from those interactions. That "stack your own supply chain" is generating thousands of new companies, and changing the competitive requirements for all companies.
- To succeed in this new economy, you must become a Direct Brand, or serve the needs of Direct Brands – and what they need more than anything else is to create more, and more enduring, two-way relationships with their consumers.
- Creating those data-enriched relationships most certainly requires technology, but it also requires story, for there are three last mile gaps that must be closed: to the head, to the home, and to the heart.
- Maintaining and growing enduring two-way relationships between brands and consumers requires authenticity and trust. For trust equals data equals growth.

And growth is the goal. Growing businesses underpin a growing economy, and a growing economy creates more jobs and more fulfilling lives for human beings. So go forth and build this exciting 21st Century Brand Economy.

Thank you.

[END SLIDE – THANK YOU]