the rise of
the 21st century brand economy

IAB Annual Leadership Meeting
Palm Desert, CA
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8. understanding the fulfillment stack
9. understanding the data stack
key takeaways

1. Permanent changes in industry supply chains are shifting the center of growth in the U.S. consumer economy.

2. Economic benefits are accruing to firms that create value by tapping into low-barrier-to-entry, capital-flexible, leased or rented supply chains. These include thousands of small firms in all major consumer-facing categories that sell their own branded goods entirely or primarily through their owned-and-operated digital channels.

3. The singular retail fulfillment experience has permanently changed to a variable experience, which in turn transforms all value-creation and -extraction activities before, during, and after the sale.

4. All retail sales growth is shifting from brick-and-mortar stores to digital, data-enriched channels.

5. First-party data relationships are important not for their marketing value independent of other functions, but because they fuel all significant functions of the enterprise, including product development, customer value analysis, and pricing.

6. An arms race for first-party data is influencing strategy, investment, and marketing strategies among major incumbent brands across all categories.
enduring shift in the consumer economy
01. brand growth in crisis

the 21st century brand economy
the indirect brand economy, 1879 - 2010

- brand
- advertising agency
- publisher
- consumer
- retailer

finance
sourcing
manufacturing
logistics
distribution
integration
historically, supply chain dominance = market dominance

First mover advantage?

<table>
<thead>
<tr>
<th>Brand</th>
<th>'23</th>
<th>'83</th>
<th>Brand</th>
<th>'23</th>
<th>'83</th>
</tr>
</thead>
<tbody>
<tr>
<td>Swift’s Premium Bacon</td>
<td>1</td>
<td>1</td>
<td>Sherwin-Williams Paint</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Kellogg’s Corn Flakes</td>
<td>1</td>
<td>3</td>
<td>Hammermill Paper</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Eastman Kodak Cameras</td>
<td>1</td>
<td>1</td>
<td>Prince Albert Pipe Tobacco</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Del Monte Canned Fruit</td>
<td>1</td>
<td>1</td>
<td>Gilette Razors</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Hershey’s Chocolates</td>
<td>1</td>
<td>2</td>
<td>Singer Sewing Machines</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Crisco Shortening</td>
<td>1</td>
<td>2</td>
<td>Manhattan Shirts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Carnation Canned Milk</td>
<td>1</td>
<td>1</td>
<td>Coca-Cola Soft Drinks</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Wrigley Chewing Gum</td>
<td>1</td>
<td>1</td>
<td>Campbell’s Soup</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Nabisco Biscuits</td>
<td>1</td>
<td>1</td>
<td>Ivory Soap</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Eveready Batteries</td>
<td>1</td>
<td>1</td>
<td>Lipton Tea</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Golden Medal Flour</td>
<td>1</td>
<td>1</td>
<td>Goodyear Tires</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>LifeSavers Mint Candies</td>
<td>1</td>
<td>1</td>
<td>Palmolive Soap</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Colgate Toothpaste</td>
<td>1</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

growth slowing or stopping in much of the U.S. consumer economy

### Fortune 500 – Growth rate by sector
Weighted revenue growth by sector (2014-16)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Sector</th>
<th>Number of companies</th>
<th>Weighted growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Healthcare</td>
<td>45</td>
<td>12.6%</td>
</tr>
<tr>
<td>2</td>
<td>Technology</td>
<td>47</td>
<td>6.3%</td>
</tr>
<tr>
<td>3</td>
<td>Food &amp; Drug Stores</td>
<td>10</td>
<td>3.2%</td>
</tr>
<tr>
<td>4</td>
<td>Retail</td>
<td>45</td>
<td>2.1%</td>
</tr>
<tr>
<td>5</td>
<td>Telecommunications</td>
<td>11</td>
<td>2.0%</td>
</tr>
<tr>
<td>6</td>
<td>Transportation</td>
<td>19</td>
<td>1.8%</td>
</tr>
<tr>
<td>7</td>
<td>Financial Services</td>
<td>78</td>
<td>1.1%</td>
</tr>
<tr>
<td>8</td>
<td>Business Services</td>
<td>19</td>
<td>0.5%</td>
</tr>
<tr>
<td>9</td>
<td>Defense &amp; Aerospace</td>
<td>12</td>
<td>0.4%</td>
</tr>
<tr>
<td>10</td>
<td>Engineering &amp; Construction</td>
<td>12</td>
<td>0.4%</td>
</tr>
<tr>
<td>11</td>
<td>Apparel</td>
<td>5</td>
<td>0.3%</td>
</tr>
<tr>
<td>12</td>
<td>Automotives</td>
<td>17</td>
<td>0.2%</td>
</tr>
<tr>
<td>13</td>
<td>Media</td>
<td>11</td>
<td>0.0%</td>
</tr>
<tr>
<td>14</td>
<td>Restaurants and Leisure</td>
<td>11</td>
<td>-0.1%</td>
</tr>
<tr>
<td>15</td>
<td>Household Products</td>
<td>15</td>
<td>-0.3%</td>
</tr>
<tr>
<td>16</td>
<td>Materials</td>
<td>20</td>
<td>-0.6%</td>
</tr>
<tr>
<td>17</td>
<td>Chemicals</td>
<td>14</td>
<td>-0.8%</td>
</tr>
<tr>
<td>18</td>
<td>Industrials</td>
<td>15</td>
<td>-1.2%</td>
</tr>
<tr>
<td>19</td>
<td>Food, Beverages and Tobacco</td>
<td>29</td>
<td>-1.4%</td>
</tr>
<tr>
<td>20</td>
<td>Energy</td>
<td>64</td>
<td>-19.0%</td>
</tr>
</tbody>
</table>

the old CPG machine is sputtering …

US CPG In Store Retail Sales, by Store Type, 52 weeks ending Feb 19, 2017
Billions and % change vs. prior year

<table>
<thead>
<tr>
<th>Store Type</th>
<th>CPG in-store retail sales</th>
<th>% Change vs. Prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery*</td>
<td>$314.4</td>
<td>0.1%</td>
</tr>
<tr>
<td>Club</td>
<td>$83.1</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Drug</td>
<td>$49.1</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Mass/supercenter*</td>
<td>$32.0</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Dollar</td>
<td>$15.7</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Hardware-home</td>
<td>$5.0</td>
<td>-2.0%</td>
</tr>
<tr>
<td>Health/vitamin</td>
<td>$1.1</td>
<td>-3.4%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$759.5</strong></td>
<td><strong>0.5%</strong></td>
</tr>
</tbody>
</table>

Note: *excludes Walmart; **includes ecommerce
Source: IRI, “IRI Channel Performance Report,” July 26, 2017
... and facing severe profit pressures

INDUSTRY OVERVIEW

THE FMCG (FAST-MOVING CONSUMER GOODS) INDUSTRY DECLINED BY $3B IN 1Q ‘17, BUT WAS ABLE TO REBOUND TO FINISH +1% IN SALES VS. PRIOR YEAR. SLOW, SELECTIVE GROWTH IS EXPECTED AS DOLLARS SHIFT ACROSS THE STORE TO NEW CATEGORIES AND TO NEW CHANNELS

LEADING GLOBAL BRANDS: 2017 U.S. EARNINGS

P&G
(2017 YEAR TO DATE) (+1%) $27.3B

General Mills
(2017 YEAR TO DATE) (-7%) $10.2B

Kellogg's
3Q’17 (+.06%) $3.3B
*marks the first quarter of growth in over 2.5 years

Unilever
(First Fiscal Half) 2017 (+5%) $7.1B

Kraft Heinz
3Q’17 (-4%) $4.4B

Coca-Cola
3Q’17 (-3%) $2.7B

PepsiCo
3Q’17 (-10%) $5.3B

Source: NBCU
Clothing stores and entertainment chains lead store closing surge
Q1-Q3 2017 data

6,752 announced store closings

<table>
<thead>
<tr>
<th>Category</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apparel</td>
<td>2,502</td>
</tr>
<tr>
<td>Home entertainment</td>
<td>1,933</td>
</tr>
<tr>
<td>Footwear</td>
<td>735</td>
</tr>
<tr>
<td>Department stores</td>
<td>553</td>
</tr>
<tr>
<td>Misc. retail</td>
<td>415</td>
</tr>
<tr>
<td>Bookstores</td>
<td>240</td>
</tr>
<tr>
<td>Jewelry stores</td>
<td>165</td>
</tr>
<tr>
<td>Sporting goods</td>
<td>155</td>
</tr>
</tbody>
</table>

- More than 8,600 U.S. retail stores shuttered in 2017
- The number of bankruptcy filings by U.S. retailers, with at least $250 million in liabilities, nearly doubled in 2016.

Source: https://www.bloomberg.com/graphics/2017-retail-debt/
... is propelling sales away from brick-and-mortar stores...
and towards digital channels

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Retail Sales (millions of dollars)</th>
<th>E-commerce as a Percent of Total</th>
<th>Percent Change From Prior Quarter</th>
<th>Percent Change From Same Quarter A Year Ago</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total E-commerce</td>
<td>Total E-commerce</td>
<td>Total E-commerce</td>
<td>Total E-commerce</td>
</tr>
<tr>
<td>Adjusted 2</td>
<td>3rd quarter 2017(p)</td>
<td>1,268,887</td>
<td>115,345</td>
<td>9.1</td>
</tr>
<tr>
<td></td>
<td>2nd quarter 2017(r)</td>
<td>1,254,819</td>
<td>111,369</td>
<td>8.9</td>
</tr>
<tr>
<td></td>
<td>1st quarter 2017</td>
<td>1,250,055</td>
<td>106,383</td>
<td>8.5</td>
</tr>
<tr>
<td></td>
<td>4th quarter 2016</td>
<td>1,236,638</td>
<td>101,606</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>3rd quarter 2016(r)</td>
<td>1,217,100</td>
<td>99,875</td>
<td>8.2</td>
</tr>
<tr>
<td>Not Adjusted</td>
<td>3rd quarter 2017(p)</td>
<td>1,268,782</td>
<td>107,002</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td>2nd quarter 2017(r)</td>
<td>1,274,074</td>
<td>105,024</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>1st quarter 2017</td>
<td>1,164,228</td>
<td>98,292</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td>4th quarter 2016</td>
<td>1,299,699</td>
<td>122,515</td>
<td>9.4</td>
</tr>
<tr>
<td></td>
<td>3rd quarter 2016</td>
<td>1,220,051</td>
<td>92,644</td>
<td>7.6</td>
</tr>
</tbody>
</table>

1 E-commerce sales are sales of goods and services where the buyer places an order, or the price and terms of the sale are negotiated over an Internet, mobile device (M-commerce), extranet, Electronic Data Interchange (EDI) network, electronic mail, or other comparable online system. Payment may or may not be made online.

2 Estimates are adjusted for seasonal variation, but not for price changes. Total sales estimates are also adjusted for trading-day differences and moving holidays.

Note: Table 2 provides estimated measures of sampling variability. For information on confidentiality protection, sampling error, nonsampling error, sample design, and definitions, see [http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf](http://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf).
innovation-led growth is shifting to smaller DTC & boutique brands

Razors

Gillette’s share of the U.S. men's-razors business fell to 54% in 2016, from 70% in 2010. Both Dollar Shave Club and Harry’s combined U.S. share rose to 12.2%, from 7.2% in 2015.

innovation-led growth is shifting to smaller DTC & boutique brands

CPG

In 2016, small and medium-sized CPG manufacturers together represented 64% of sales, up from 39% in 2015.

innovation-led growth is shifting to smaller DTC & boutique brands

Contact Lenses

J&J’s Acuvue: +8% YOY
Bausch & Lomb: +6% YOY
Hubble Contacts: +20% monthly

innovation-led growth is shifting to smaller DTC & boutique brands

Pet Food

Subscription service The Farmers Dog is averaging 40-50% revenue growth monthly, in a U.S. pet food market projected +4.4% in 2018.

innovation-led growth is shifting to smaller DTC & boutique brands

Mattresses

Dozens of mattress companies selling direct to consumers online garnered more than 5% of the market in 2016, and were projected to double share in 2017.

innovation-led growth is shifting to smaller DTC & boutique brands

Grocery

Grocery store revenue growth is projected to be ~1% annually through 2022. The market for Meal Kits is expected to grow by a factor of 10x over that period.

Source: https://www.technomic.com/technomic-study-reveals-global-opportunities-within-meal-kit-market; IBISworld iExpert Industry Summary 44511
innovation-led growth is shifting to smaller DTC & boutique brands

Shoes

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

the 21st century brand economy

02. the three last miles
brands must traverse three last miles

TO THE HEAD

TO THE HEART

TO THE HOME
the cloud is closing all three gaps

Industrial Revolution Timeline

First
Water and steam power is used to create mechanical production facilities.

Second
Electricity lets us create a division of labor and mass production.

Third
IT systems automate production lines further.

Fourth
IoT and cloud technology automate complex tasks.

1784: First mechanical loom

1800

1870: First assembly line

1900

1969: First programmable logic controller

2000

Today
**the cloud enables the** “relocalization” of businesses …

<table>
<thead>
<tr>
<th>Machine</th>
<th>Mechanical Loom</th>
<th>Electricity</th>
<th>IT</th>
<th>The Cloud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scale</td>
<td>Local</td>
<td>National</td>
<td>Global</td>
<td>Relocal</td>
</tr>
<tr>
<td>Relationship</td>
<td>One size fits all</td>
<td>One size fits everywhere</td>
<td>One size fits everywhere greatly</td>
<td>One size fits one</td>
</tr>
</tbody>
</table>

1. **1st Industrial Revolution**
2. **2nd Industrial Revolution**
3. **3rd Industrial Revolution**
4. **4th Industrial Revolution**
forcing brands to connect directly with consumers

2/3 of consumers expect direct brand connectivity

67% of consumers have used a company's social media site for servicing

1st party data fuels every enterprise function

Source: https://marketrealist.com/2016/03/growing-web-sales-strategically-imperative-athletic-firms
the cloud hosts the race to e-tail (and its richer trove of data)

“What CPGs lack more than anything is actionable consumer data,” says Brian Cohen, head of digital integration at marketing agency Catapult. “A DTC engine allows them to collect insights directly.”

Source: https://consumergoods.com/dtc-dilemma
Ad view composition and growth by device, US
Q3 2013 – Q3 2017

<table>
<thead>
<tr>
<th></th>
<th>Q3'13</th>
<th>Q3'14</th>
<th>Q3'15</th>
<th>Q3'16</th>
<th>Q3'17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desktop</td>
<td>0% YOY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STB VOD</td>
<td></td>
<td>+54% YOY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTT device</td>
<td></td>
<td>+47% YOY</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smartphone</td>
<td></td>
<td></td>
<td>+28% YOY</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tablet</td>
<td></td>
<td></td>
<td></td>
<td>+7% YOY</td>
<td></td>
</tr>
</tbody>
</table>

*FourFronts STB VOD and Canoe Phase III Integrations.

Source: FreeWheel Q3 2017 Video Monetization Report.
the cloud powers rentable, “stack your own” supply chains ...
known as “SCaaS” (supply chain as a service) in the field

Rather than maintaining resources and capabilities in-house, companies can buy individual supply-chain functions as a service on a by-usage basis. Service providers’ greater specialization creates economies of scale and scope, increasing the potential for attractive outsourcing opportunities.

McKinsey

your better toothpastes, delivered
entry costs in consumer industries are plummeting

FROM GRAINS TO GROWLERS
A LOOK AT THE
Craft Beer Industry
SUPPLY CHAIN

The craft beer industry is quickly becoming more popular than any other alcohol segment. A typical craft brewer produces less than 2 million barrels annually, and does so in an independent, traditional fashion.

Annual growth of the craft beer industry in past 5 years

18.8%

In 2014

the entire craft brewing industry (farm to consumer) contributed

$55.7 billion to the U.S. economy

new fulfillment formats are proliferating ...
...with consumer fragmentation breeding even newer formats

Intentional consumption, “lean closet”

Personal curation

Shareable experiences

VR stores

Flash selling

Premium platform partnerships

Source: https://nrf.com/blog/2017-top-250-global-powers-of-retailing
the indirect brand economy, 1879 - 2010
the direct brand economy, 2010 +

production stack
- Warehousing
- Business operations
- Materials
- Packaging
- Fabrication
- Logistics

attention stack
- SEO
- Media buying
- Social media
- Content marketing
- Optimization
- Retargeting

brand
- product services
- identity
- community
- analytics
- programmatic
- storytelling
- retailing
- measurement

consumer
- CRM
- Call centers
- eCommerce platforms
- Return processing
- Inventory management
- Order fulfillment
- Fulfillment stack

fulfillment stack
- Payment gateways
- Last mile delivery
- Order fulfillment
- eCommerce platforms
- Inventory management
- Return processing
- Call centers

data stack
- Analysis
- Delivery
- Planning
- Targeting
- Optimization
- Transaction
- 2nd & 3rd party acquisition
- Reporting
D2C companies keep emerging.
the direct brand revolution is already evident in GDP…

### Contribution of the Internet Ecosystem to U.S. GDP

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct employment due to internet</td>
<td>1,015,000</td>
<td>1,999,000</td>
<td>4,097,001</td>
</tr>
<tr>
<td>Direct and derived employment</td>
<td>3,050,000</td>
<td>5,100,000</td>
<td>10,383,000</td>
</tr>
<tr>
<td>Contribution of internet to GOP</td>
<td>$300 billion</td>
<td>$530 billion</td>
<td>$1,121 billion</td>
</tr>
<tr>
<td>Growth in GDP (% per annum compound)</td>
<td></td>
<td>15.5%</td>
<td>20.0%</td>
</tr>
<tr>
<td>Share of Total US GDP</td>
<td>2.1%</td>
<td>3.7%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Source: Economic Value of the Advertising-Supported Internet Ecosystem, John Deighton, Baker Foundation Professor of Business Administration, Harvard Business School; Leora Kornfeld, Marlon Gerra
### Structure of the Internet 2016

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure/Hard infrastructure</td>
<td>140,000</td>
<td>420,000</td>
<td>304,393</td>
</tr>
<tr>
<td>Infrastructure support/Soft infrastructure</td>
<td>165,000</td>
<td>254,000</td>
<td>662,691</td>
</tr>
<tr>
<td>Consumer services support</td>
<td>190,000</td>
<td>435,000</td>
<td>1,068,364</td>
</tr>
<tr>
<td>Consumer services</td>
<td>520,000</td>
<td>885,000</td>
<td>1,619,335</td>
</tr>
<tr>
<td>Integrated firms</td>
<td></td>
<td></td>
<td>442,218</td>
</tr>
<tr>
<td>Total</td>
<td>1,015,000</td>
<td>1,999,000</td>
<td>4,097,001</td>
</tr>
</tbody>
</table>

Growth in employment (% per annum compound)

- 2008: 18.5%
- 2012: 19.6%

Source: Economic Value of the Advertising-Supported Internet Ecosystem, John Deighton, Baker Foundation Professor of Business Administration, Harvard Business School; Leora Kornfeld; Marlon Gerra
VCs are targeting all consumer categories for DTC disruption

Source: https://medium.com/@tcitrin/the-direct-to-consumer-landscape-96fd03c563b4
big brands are being nibbled to death ...
most incumbents lag the direct brand revolution

Direct-to-consumer selling

- We are selling some products to the consumer: 53%
- We are not selling any of our products directly to the consumer: 38%
- We are selling a significant amount of our products to the consumer: 7%
- We are exclusively a direct to consumer business: 4%

Source: IDC/CGT Sales & Marketing Survey, 2016
some have been adapting for years

Nike’s Direct-to-consumer sales projections

some are acquiring their way in

Differentiated channel strategies

Hyper/Supermarkets (incl. Discounters/Convenience)  Traditional trade  Experience platforms  E-commerce (incl. Direct-to-consumer)

Medium-term contribution to Unilever growth

Bubble size: % of future turnover

40%  0%

Protect value  Leverage strength  Build equity  Build capability

The acquisition brings expertise and technology in direct-to-consumer sales we can use internationally and in other parts of our business.

Paul Polman, CEO, Unilever, on acquisition of Dollar Shave Club

the 21st century brand economy

03. direct brands - drivers and characteristics
1. Its primary means of interacting, transacting, and story-telling to consumers is via the web.
2. The DNVB requires the commercialization of an e-commerce channel, but that channel is an enablement layer—it’s not the core asset.
3. The profit losing nature and small scale of the DNVBs leads most traditional retailers to ignore or underestimate these little tadpoles.
4. Some big companies now believe they can make these brands themselves.
5. It is not e-commerce, it’s vertical commerce. The product gross margins are at least double that of e-commerce (e.g. 65% versus 30%). The contribution margins can be 4–5x higher (e.g. 40–50% versus 10%).
6. The digitally-native vertical brand is maniacally focused on the customer experience.
7. The digitally-native vertical brand drives a lot more customer intimacy than it’s 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.
8. Deeper data on the consumer drives enables the DNVB to stay closer to the customer than its brick and mortar driven peers, and the ownership of the brand end-to-end fuels more affinity for a vertical commerce brand than even the best e-commerce experiences.
9. While born digitally, the DNVB need not end up digital-only.

**Andy Dunn, founder, Bonobos**
By circumventing traditional channels, designing glasses in-house, and engaging with customers directly, we’re able to provide higher-quality, better-looking prescription eyewear at a fraction of the going price.

Neil Blumenthal & David Gilboa, co-founders and co-CEOs, Warby Parker
We think every woman should have the ability to be connected through her beauty knowledge, opinions, products, and routine.

Emily Weiss, founder, Glossier

they are “maniacally focused” on customer experience

“... 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 saw untapped potential to change her relationship with the category.

Katia Beauchamp, co-founder, Birchbox
direct brands use content as a differentiator ...

Storytelling is a central part of our marketing. We think about what stories we can feed to the press and to social media - things that make people take notice, things people want to share and talk about.

*Steph Korey, co-founder, Away Travel*
We’re all about content. In fact, all our customer support people are licensed cosmeticians.

Amy Errett, founder, Madison Reed
Building a true community means you put people first, are authentic and real with the people you serve, and can connect them to other members with shared affinities.

*Tina Sharkey, co-founder & CEO, Brandless*
It's really an opportunity to bring the mission to life... the ethics, the transparency. We tell you the cost of everything we make and then what you're paying so you can see that markup and we tell you the stories of our factories, and we want people to have a space where we can actually tell those stories in real life, not just online.

*Michael Preysman, founder, Everlane*
**direct brands are data-cored**

- Offer highly-differentiated products with high product margins
- Invest only in zero-sum markets (A customer buying your product means they stop buying your competitor’s products)
- Choose categories where incumbents sell only through retailers and have no direct relationship with their actual customers
- Choose categories where incumbents overly depend on broadcast advertising
- Look for products and services which gather usage data and utilize machine learning to improve over time

_David B. Pakman, partner, Venrock, on the VC firm’s investment in Dollar Shave Club_

Source: https://pakman.com/dollar-shave-club-how-michael-dubin-created-a-massively-successful-company-and-re-defined-cpg-f2fa700af62b
The main reason a customer wouldn’t buy our product online was because they wanted to be able to feel it themselves. We are remedying that with our physical location.

Scott Tannen, co-founder and CEO of Boll & Branch
women founders abound

Emily Weiss, Glossier
Steph Korey & Jen Rubio, Away Travel
Alexandra Wilkis Wilson, Glamsquad
Katrina Lake, Stitch Fix
Katia Beauchamp, Birchbox
Amy Errett, Madison Reed
Meaghan Rose & Maia Bittner, Rockbox
Tina Sharkey, Brandless
still more women founders

Rachel Blumenthal, Rockets of Awesome
Gauri Nanda & Audry Hill, Toymail
Jordana Kier & Alex Friedman, Lola
Dolly Singh, Thesis Couture
Claire Burke, Goby
Shane Reilly, Guildery
04. brand strategy for revolutionary times
become direct
a two-way relationship

> a one-way impression
### Major Media and Marketing Services

**Spending Forecast for 2018 and 2017: Spending for 2016.**

<table>
<thead>
<tr>
<th></th>
<th>Spending (dollars in billions)</th>
<th>Year-to-year percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major Media</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Internet</td>
<td>$78.3</td>
<td>$69.2</td>
</tr>
<tr>
<td>TV</td>
<td>68.1</td>
<td>68.4</td>
</tr>
<tr>
<td>Radio</td>
<td>17.6</td>
<td>17.6</td>
</tr>
<tr>
<td>Magazine</td>
<td>15.1</td>
<td>15.9</td>
</tr>
<tr>
<td>Newspaper</td>
<td>15.1</td>
<td>16.6</td>
</tr>
<tr>
<td>Outdoor</td>
<td>9.6</td>
<td>9.3</td>
</tr>
<tr>
<td>Cinema</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total: Major media</strong></td>
<td><strong>204.8</strong></td>
<td><strong>197.9</strong></td>
</tr>
<tr>
<td><strong>Marketing Services</strong></td>
<td></td>
<td></td>
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<tr>
<td>Sales promotion</td>
<td>82.7</td>
<td>79.9</td>
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<tr>
<td>Telemarketing</td>
<td>59.6</td>
<td>57.9</td>
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<tr>
<td>Direct mail</td>
<td>47.6</td>
<td>48.5</td>
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<tr>
<td>Event sponsorship</td>
<td>30.9</td>
<td>37.4</td>
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<tr>
<td>Directories</td>
<td>8.0</td>
<td>8.0</td>
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<tr>
<td>Public relations</td>
<td>5.7</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Total: Marketing services</strong></td>
<td><strong>243.5</strong></td>
<td><strong>237.1</strong></td>
</tr>
<tr>
<td><strong>Total: Major media and marketing services</strong></td>
<td><strong>$448.3</strong></td>
<td><strong>$435.0</strong></td>
</tr>
</tbody>
</table>


### Share of U.S. Ad Spending by Medium

From Zenith. The internet in 2017 will pass TV to become the largest U.S. ad medium, according to the media agency's forecast.
brand safety is not optional
find your next
5,000 customers
“de-risk”

the buy
SmartVideo Platform

Captivating the audience of one at enterprise scale with SundaySky's proprietary personalized video technology.

See how SmartVideo works

More powerful personalized video

Create one-to-one connections with your customers through the emotional storytelling and compelling nature of personalized video. SundaySky crafts videos tailored to an audience of one with information relevant and specific to each customer, through its unique ability to leverage and synthesize real-time data. The result? A million unique videos for a million customers, creating strong bonds with each and every one of them.
story

matters
WHY WE EAT
WHAT WE EAT

Gimlet Creative
Blue Apron
help brands

hybridize
mastercard + marie claire
THE NEXT Big THING CONCEPT SHOP/
bring brands a 3D view of their 1D customer
2017 NBCU PARTNERSHIPS
A LOOK AT CPG PARTNERSHIPS LEVERAGING SIMILAR THEMES ACROSS NBCU

BRANDED CONTENT
CROSS PLATFORM
TODAY SHOW PLAZA EXPERIENCE
SPORTS SPONSORSHIP
CULTURAL RELEVANCE
the 21st century brand economy

05. direct brands and the U.S. economy
IAB has conducted the study “Economic Value of Advertising-Supported Internet Ecosystem” every four years since 2008. The most recent study was released in March 2017.

The study has been designed to understand the contribution of the industry to employment and GDP and explore the internet’s many advertising benefits and non-business benefits.

The main author is John Deighton, the Baker Foundation Professor of Business Administration at Harvard Business School, the founding editor of Journal of Interactive Marketing, and a two-term editor of Journal of Consumer Research.

For more detail, visit iab.com/economicvalue
An employment-based methodology by identifying large firms in each layer of the internet and using a range of public and private sources to estimate each firm’s revenue and employment as well as estimates of aggregates of small firms and self-employed people.

In addition, the report also uses a top-down method based on the U.S. Census Bureau’s databases to decide how to allocate the employment to geographies at the state and congressional district level.

The study was conducted during the second half of 2016.
The U.S. already runs on the internet

- The U.S. economy is increasingly an information economy, its fuel is data, and the internet carries the traffic.

- Across three studies at four-year intervals, we find that internet-related employment doubled, and then doubled again.

- Directly and indirectly over 10 million jobs rely on it, and that number is growing at an accelerating rate.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
GDP contribution over $1 trillion

- $1.12 trillion contribution for the U.S. economy in 2016, more than double its previous contribution to the U.S. GDP.

- The industry currently accounts for 6% of the U.S. GDP, markedly higher than 3.7% in 2012.

- This growth represents a 20% compound annual growth rate from 2012 to 2016 - far outpacing the overall U.S. GDP average of 4% over the same four years.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
yet the internet is still in its take-off phase

The rate of job growth is greater each year than the year before

Contribution to GDP grows faster each year

New sectors are becoming internet-reliant

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
shifting internet infrastructure enables new brands, products, services

Mobile, video, e-commerce, on-demand platforms, user-generated content, music.

Verticals such as financial, e-learning, travel, healthcare, shipping, e-government, programmatic marketing, attribution.

Enterprise IT is giving way to cloud and network services. Video and mobile place new demands on the supply chain.

The infrastructure is evolving from backbone-branches to edge providers.

Examples

Online Video
Most significant new source of internet traffic. Over-the-top transmission gives consumers unprecedented control over what video to watch and when.

New Marketplace
Entrepreneurs have been building out a market-making infrastructure, including advertising tech and marketing tech.

Cloud Computing
Software as a service allows tech to be consumed more flexibly and without substantial fixed cost. Digital startups and mature businesses can tailor information technology costs to needs.

New Infrastructure
Much of the internet's data no longer travels on the backbone. Instead it moves on the edge of the network, from data suppliers to distribution nodes and on to homes.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
massive employment changes highlight direct brands’ centrality

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Infrastructure/Hard infrastructure</td>
<td>140,000</td>
<td>420,000</td>
<td>304,393</td>
</tr>
<tr>
<td>Infrastructure Support/Soft Infrastructure</td>
<td>165,000</td>
<td>254,000</td>
<td>662,691</td>
</tr>
<tr>
<td>Consumer Services Support</td>
<td>190,000</td>
<td>435,000</td>
<td>1,068,364</td>
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<tr>
<td>Consumer Services</td>
<td>520,000</td>
<td>885,000</td>
<td>1,619,335</td>
</tr>
<tr>
<td>Integrated Firms</td>
<td></td>
<td></td>
<td>442,218</td>
</tr>
<tr>
<td>Direct employment due to internet</td>
<td>1,015,000</td>
<td>1,999,000</td>
<td>4,097,001</td>
</tr>
<tr>
<td>Total (Direct and derived) employment</td>
<td>3,050,000</td>
<td>5,100,000</td>
<td>10,383,000</td>
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<tbody>
<tr>
<td>Contribution of internet to GDP</td>
<td>$300 billion</td>
<td>$530 billion</td>
<td>$1,121 billion</td>
</tr>
<tr>
<td>Share of Total US GDP</td>
<td>2.1%</td>
<td>3.7%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Growth in GDP (% per annum compound)</td>
<td>15.5%</td>
<td>20.0%</td>
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</tbody>
</table>
Hard Infrastructure

(Four functions required to operate the internet):

1. Manufacture of hardware
2. Long range transmission of data
3. Shorter range connectivity between data generators or transmitters and data stores or consumers
4. Storage and routing of data in data centers

Infrastructure employment is declining not because the infrastructure is shrinking, but because firms that were classified as infrastructure just four years ago have changed their business models. Some have integrated into more profitable superstructure businesses, hoping to capitalize on proprietary claims on the internet traffic carriers. Others have exploited a new pattern to the internet’s infrastructure, one that depends on software and services more than hardware.

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Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
• Manufacturing employment has held up well overall in the last four years of the evolution of the internet ecosystem.

• Personal access to the internet has migrated rapidly from machines configured for computing to mobile devices configured for communication.

• This shift has favored mobile equipment manufacturers like Apple and Qualcomm and those like Cisco that have benefited from growth in server sales, not mainframe computers.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
• Data centers are fundamental to the internet’s infrastructure as the physical expression of the idea of the cloud.

• The infrastructure of the internet is gradually migrating from a linear data flow pattern to a networked pattern, where data travels as much among firms on the periphery of the internet as on the backbone.

• The backbone-and-branch pattern of the last two decades gives way to the more fluid pattern of the cloud.

• The change shows up in employment of nearly 3x increase from 2012 to 2016.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
Soft Infrastructure refers to software and services built on the Hard Infrastructure to make it technologically feasible to perform commerce online.

Soft Infrastructure firms are either predominantly service providers or software vendors.

1. Service providers, including IT consulting, researchers, domain registry services

2. Software vendors including analytics software, CRM, network security, video software, etc.

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<tr>
<td>Soft Infrastructure</td>
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</tr>
</tbody>
</table>

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
• Enterprise IT consultants reposition as marketing and operations consultants.

• Oracle acquired Datalogix and BlueKai (small startups in the 2012 study) and created the Oracle Data Cloud and Marketing Cloud, broadening its consulting authority to include marketing analytics and programmatic advertising.

• IBM—by internal development of the Watson analytic engine and by acquisition of data suppliers such as the Weather Channel—has so evolved the nature of its consulting services.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
Previously two discrete lines of business, domain registry and web hosting services are now often provided by a single entity.

Notable changes in this industry include the launch of firms such as Squarespace, Weebly, and Wix, which combine domain registry and hosting with build-your-own website services, providing one stop shopping for individual proprietors and small to medium sized businesses setting up a web presence.

Domain registry is estimated to be a $1.8 billion annual business in the U.S. Web hosting is estimated to be responsible for about $6 billion in annual revenues in the U.S.

IBISWorld Industry Report, “Internet Hosting Services in the U.S.,” April 2015
5x growth for consumer services support

Firms in the Consumer Services Support layer perform services that must be tailored to particular clients in the Consumer Services sector. They have increasingly delivered their solutions through the Software as a Service (SaaS) model, in which the software is only accessible through the cloud.

1. Marketing Support: firms that help facilitate and promote the flow of commerce, entertainment, information and social interaction over the internet.

2. Operation Support: firms that provide solutions that enhance customer productivity or enable them to deliver a good or service they could not otherwise do efficiently.


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The consumer services support layer is the unsung hero over the years of innovation. Employment more than doubled every four years.

Consumers get the benefits of the Internet at low cost, and often for free, because entrepreneurs are building out analytical tools and support services to run them leaner, and to create new revenue sources that let even free services be profitable.

The firms and technologies that make advertising services available—advertising agencies, ad networks and exchanges, data and analytics companies, and measurement firms.

1. Full Service Advertising Agencies: 52,953 jobs
2. Digital & CRM Vendors: 53,733 job
3. Online Ad Networks & Exchanges: 3,788 jobs
4. Measurement & Analytics: 4,272 jobs

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
Operation support is a new category within the consumer services support layer in 2016. This speaks to the increasing demand from the direct consumer-facing brands and services to facilitate their business operations.

### Sub-categories within Operation Support

<table>
<thead>
<tr>
<th>Sub-category</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial services support</td>
<td>7,569</td>
</tr>
<tr>
<td>E-learning Support</td>
<td>4,656</td>
</tr>
<tr>
<td>Travel Services Support</td>
<td>1,906</td>
</tr>
<tr>
<td>Healthcare Information Solutions</td>
<td>11,783</td>
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<tr>
<td>Shipping enabled by e-commerce</td>
<td>353,315</td>
</tr>
<tr>
<td>E-government Support</td>
<td>2,105</td>
</tr>
<tr>
<td>Other Web enabling services</td>
<td>182,284</td>
</tr>
</tbody>
</table>

**Shipping**

Particularly relevant to the fulfillment stack of the DTC brands, a large package shipping industry has developed to support the steady growth of e-commerce. In 2015 about 11.6 billion packages were moved in the U.S., About 4.6 billion of these packages were e-commerce packages.

The internet as a consumer-facing experience is now over 20 years old.

These consumer touchpoints include websites, apps, and messaging services. The content ranges from news to information, music, audio, photos, and video to services, and is accessed on phones, tablets, laptops, desktops, and living room screens.

In the 2016 report, the following categories were included within the consumer services layer.

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<td>885,000</td>
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</table>

Over time, new consumer-facing internet dependent platforms, devices, features, and use cases have emerged and more subcategories are now included in this layer, which illustrates the ever expanding capabilities of the internet. Consistently, the internet dependent employment in the consumer services layer has tripled from 2008 to 2016.
Online retailing growth is exponential

- Retail e-commerce powers both internet-dependent employment within these e-commerce firms, as well as individual sellers that make a full or partial living out of selling products on these e-commerce platforms.

- This thriving community of workers illustrates the economic opportunity created by the internet, not just to mobilize individuals, but to build the software structures they rely on for trading, payment, and fulfillment.

Note: Amazon, Apple, and Dell are not recorded here because they have other lines of business. Amazon is treated as an Integrated Firm, and Apple and Dell are included in the Hard Infrastructure layer.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
E-commerce accounts for 976,000 jobs, almost a quarter of the entire direct employment base of the ad-supported internet ecosystem.

- In 2016, retail e-commerce accounted for just 7.1% of all retail sales. However it was where over 60% of retail growth took place.

- Amazon has shifted from being primarily a platform for traditional retail conducted in the online environment to a platform for small online sellers as third party merchants.

- Shopify, an e-commerce platform company for small businesses, had over 500,000 customers as of Aug. 1, 2017, which is up more than 50% from September 2016.

This thriving community of workers illustrates the economic opportunity created by the internet, not just to mobilize individuals, but to build the software structures they rely on for trading, payment, and fulfillment.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
From 2012 to 2016, online financial services industry has experienced significant shifts with a broadened definition from online banking to a wide range of services including day-to-day-banking, investment, digital payments and currencies, and the new sector of FinTech, or financial technology.

Major shifts since 2012 include:

- The eclipsing of the opening of financial products in the online vs. the branch environment.
- The top five banking activities—bill payment, viewing balances, viewing statements, retrieving transaction histories, and transferring funds—took place primarily online, increasingly on mobile.
- New in the 2016 reporting, the FinTech sector has attracted vigorous venture capital funding and experienced exponential growth in consumer uptake and revenues, ranging from ‘robo-advisors’, peer-to-peer lending, digital payment systems, micropayments, and crowdfunding platforms.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
smb’s and self-employed workers = 44% of the internet employment base

Large firms made up a little over half of the internet’s employment base in 2016.

Mid-sized and small firms accounted for 30%.

Self-employed workers such as sellers on Etsy individuals trading on eBay, Craigslist sellers, on-demand economy workers, and freelance individuals doing coding, content creation, and other services for web sites made up 14%.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
Characteristics of the on-demand economy include:

- Access over ownership (consumer point of view)
- Flexibility over fixed hours (worker point of view)
- Options and modularity of choice – e.g. a spare room instead of a hotel, a shared ride instead of a cab

These platforms match workers to employers in a range of industries. People who drive for ride-hailing services, and part-time workers in the so-called gig economy, are in aggregate a full-time equivalent workforce of 147,000 people and likely to grow much larger.

Our estimate for **Platforms & Services** is $2.4 billion and 12,803 jobs.

Our estimate for **On-Demand Economy Worker** is $6.04 billion and 134,160 jobs.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
shifting structure of the internet and emergence of integrated firms

2012

**Customer Services**
- Content sites including online versions of traditional publications, digital publishers, music, online games, review sites, question and answer sites, eLearning and online video

**Commerce sites such as retailing, online travel agencies, airline booking, bank, and financial services**

**Social networks including social media and online dating sites**

**Consumer Support Services**
- Advertising, media, planning, ad networks, measurements, and social media dashboards

**Search directions, navigation**

**Soft Infrastructure**
- Internet enabling services such as Web hosting, Web conferencing, IT analysis, and IT consulting

**Internet software, mobile software, software as a service**

**Hard Infrastructure**
- Transmission
- Connectivity
- Hardware

2016

**Customer Services**
- Content
- eCommerce
- On-Demand Economy
- Social Networks
- Business Services
- Government Services

**Consumer Support Services**
- Marketing Support
- Operation Support

**Soft Infrastructure**
- Services
- Software

**Hard Infrastructure**
- Transmission
- Connectivity
- Hardware
- Data Centers

Source: Economic Value of Advertising Supported Ecosystem, 2012 and 2017, IAB
Platforms = the new vertical integration

Integrated firms are vertically integrated firms that did not fit tidily into one layer of the internet or another and have highly intertwined internet-dependent revenues among discrete layers. This is a newly classified layer in the internet ecosystem.

The patterns of integration are not identical, there are three main groupings:

• Content marketers integrating into transmission – Facebook, Google

• Transmission companies acquiring content – AT&T, Verizon, Comcast, Cox

• Integrating Vertically into Cloud Transmission and Data Services – Amazon, Microsoft

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
**Geography:** internet employment is spread across the entire U.S.

- The **Bay Area** of California accounted for **4%** of 2016 jobs.
- Other tech centers – Manhattan, Seattle, Virginia, Boston – accounted for another **10%**.
- But **86%** of the jobs are found spread across every state and county of the nation.

Source: 2017 Economic Value of Advertising Supported Ecosystem, IAB
the stack-your-own supply chain: an overview

PRODUCTION STACK

ATTENTION STACK

FULFILLMENT STACK

Collect & Use Signals

DATA STACK

Repeat/Iterate
06. understanding the production stack
**activities included** in this stack ...

<table>
<thead>
<tr>
<th>MANUFACTURING</th>
<th>LOGISTICS</th>
<th>WAREHOUSING</th>
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</thead>
<tbody>
<tr>
<td>make the product</td>
<td>move the product</td>
<td>queue the product</td>
</tr>
<tr>
<td></td>
<td></td>
<td>for sale</td>
</tr>
</tbody>
</table>
the production stack

<table>
<thead>
<tr>
<th>Warehousing</th>
<th>Logistics</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td>WAREHOUSE</td>
<td>FREIGHT</td>
<td>FACTORIES</td>
</tr>
<tr>
<td>3PL</td>
<td>FREIGHT FORWARDING &amp; VISIBILITY</td>
<td>ADDITIVE</td>
</tr>
</tbody>
</table>

| PGL          | DB SCHENKER | DB SCHENKER |
| KENCO        | DHL          | DHL          |
| BALLYO       | KUEHNE+NAGEL | KUEHNE+NAGEL |
| AEGER.COM    | GEODIS       | GEODIS       |
| 6 RIVER SYSTEMS | PENSKE     | PENSKE       |
| XPO Logistics | Ryder       | Ryder        |
| Ali Logistics | Flexe        | Flexe        |
| Saddle Creek Logistics Services | WSI | WSI |
| Saddle Creek Logistics Services | PCC | PCC |
| Saddle Creek Logistics Services | Kineo | Kineo |
| Saddle Creek Logistics Services | Blackbuck | Blackbuck |
| Saddle Creek Logistics Services | Convoy | Convoy |
| Saddle Creek Logistics Services | DHL | DHL |
| Saddle Creek Logistics Services | FedEx | FedEx |
| Saddle Creek Logistics Services | UPS | UPS |
| Saddle Creek Logistics Services | XPO Logistics | XPO Logistics |
| Saddle Creek Logistics Services | Freightera | Freightera |
| Saddle Creek Logistics Services | Freightera | Freightera |
| Saddle Creek Logistics Services | Freightera | Freightera |
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| Saddle Creek Logistics Services | Freightera | Freightera |
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| Saddle Creek Logistics Services | Freightera | Freightera |
| Saddle Creek Logistics Services | Freigh...
Manufacturing: global output has been increasing steadily this century.

Manufacturing: U.S. domestic output also has been growing

the smaller the business, the bigger the tech payoff

cloud solutions even more important for smaller companies

Percentage of SMB and large-enterprise respondents who say the adoption of cloud/hybrid cloud system has significantly improved company performance in the following areas:

- Time to market: 47% (SMB), 38% (Large enterprises)
- Business/revenue/profit growth: 48% (SMB), 32% (Large enterprises)
- End customer experience: 39% (SMB), 26% (Large enterprises)
- Ability to manage security: 39% (SMB), 28% (Large enterprises)
- Ability to mitigate risk: 39% (SMB), 28% (Large enterprises)

Source: https://hbr.org/resources/pdfs/comm/insight/HBRASHybridCloud.pdf
manufacturing: is evolving toward flexibility and scalability

Manufacturing Ecosystems

Distributed Local Manufacturing

Hyper-Local Manufacturing
manufacturing: aggregated industrial ecosystems concentrate resources

- Special Economic Zones (like Shenzhen) have achieved a critical density of infrastructure and talent.

- Networks of smaller manufacturers (many started by former workers of large mega-factories) are sufficiently nimble and interconnected to allow for rapid prototyping, iterating, and scaling.

- Even giant Foxconn has launched a microfactory targeting initial product runs of 1K-10K units in order to compete for this segment of business.

- Each SEZ has a specialty, be it electronics (Shenzhen), footwear (Fujian), or motorcycles (Chongqing).

manufacturing: local industry centers let startups bootstrap production

• Local manufacturing typically leverages both technology and community to keep costs down.

• At the same time, manufacturing tools have become both smaller and less expensive, allowing for small shops to have the same basic toolkit as larger, more capital-intensive facilities.

• This combination of immediate proximity to local markets, and technological flexibility, allow for rapid response to consumer needs.

• Platforms like OpenDesk allow for multiple facilities to share tools and talent, further reducing overall costs.

• Initial capital outlays for additive manufacturing (AM) are decreasing as the technology develops, and because they don’t require tooling of molds or fixtures, their relative cost is already appealing.

• For small production runs, as well as for rapid iteration, AM is more cost effective than conventional techniques.

• Materials science has also increased the viability of AM, taking it beyond colored plastics and into materials that can simulate wood, bronze, iron, or ceramics.

In 2015, venture capital investments in supply chain and logistics start-ups was more than **four times higher** than in 2014 ($1,202 million versus $388 million), and venture capital dollars invested in the same space in the first quarter of 2016 alone was $1.75 billion.

**Supply chain & logistics corporate annual global financing history**

<table>
<thead>
<tr>
<th>Year</th>
<th>Disclosed funding (SM)</th>
<th>Deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$38</td>
<td>9</td>
</tr>
<tr>
<td>2013</td>
<td>$82</td>
<td>13</td>
</tr>
<tr>
<td>2014</td>
<td>$215</td>
<td>24</td>
</tr>
<tr>
<td>2015</td>
<td>$517</td>
<td>47</td>
</tr>
<tr>
<td>2016 YTD (10/21/16)</td>
<td>$1,742 (Full year projection)</td>
<td>57 (Full year projection)</td>
</tr>
</tbody>
</table>

“With last year’s soaring air freight market defined by e-commerce as a new and likely long-term trend, with less-than-containerload (LCL) ocean shipments propelled by growth in small package shipments, and with North American trucking also redefined by e-commerce, 2017 was arguably the year when e-commerce most greatly impacted the entire supply chain.”

Source: https://www.joc.com/logistics%E2%80%99-commerce-evolution-transforming-transportation_20180111.html
Global demand for air freight, measured in freight tonne kilometers (FTKs) grew 9% in 2017—more than double the 3.6% annual growth reported in 2016—driven by the restocking cycle and buoyant demand for manufactured exports.

Global container port throughput is estimated to have **grown by 5.8 percent** in the first quarter of 2017. If the current strong momentum is maintained, the full-year figure may be adjusted further upwards and could surpass the 5.1 percent volume increase that was recorded in 2014.

logistics: freight trucking is getting bigger

shipping from global manufacturing partners is getting cheaper

Nearly 70% of the freight shipped throughout the US travels by truck at some point in its journey. Shipments grew 7.7% in 2017 year-over-year, making it the best year on record.

logistics: IoT driving costs down within existing infrastructures

shipping from global manufacturing partners is getting cheaper

• Several startups are turning to the cloud to drive logistics costs down while still using existing infrastructure

• Firms like Flexport, Freightos, and Haven automate processes within a client’s logistics stack, from scheduling to routine paperwork

• These firms also employ IoT and sensor technology to generate real-time data feeds on the location and status of inventory

• Flexport, in particular, is investing $110MM in warehouses around the world to keep freight within their ecosystem

Source: https://www.supplychaindive.com/news/logistics-industry-pulse/443618/
**Largest U.S. warehouse leases in 2017**

Breakdown by industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Leases</th>
</tr>
</thead>
<tbody>
<tr>
<td>E-commerce</td>
<td>22</td>
</tr>
<tr>
<td>Manufacturer</td>
<td>9</td>
</tr>
<tr>
<td>Retailer</td>
<td>6</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>5</td>
</tr>
<tr>
<td>Other</td>
<td>4</td>
</tr>
<tr>
<td>3PL</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: CBRE Research, 2017


**warehousing: e-commerce dominates new leases**

**shipping from global manufacturing partners is getting cheaper**
warehousing: direct consumer delivery forcing greater efficiencies ... shipping from global manufacturing partners is getting cheaper

National distribution model (Pre-2007 vs. present)
Changing consumer preferences and expectations forced supply chain models to become more efficient nationwide

… which is driving warehouse leasing activity nationwide

50 largest leases by market

warehousing: increased demand pressuring warehouse costs

shipping from global manufacturing partners is getting cheaper

Source: https://researchgateway.cbre.com/MyGatewaySearch.aspx
CBRE estimates that for every $1 billion in new e-commerce sales, 1 million square feet of warehouse will be needed.

Platforms like Flexe are creating storage space markets to connect those with unused warehouse capacity with those who need it.

Flexe currently offers space in more than 750 warehouses nationwide.

Wide national distribution primes inventory for efficient and fast last mile delivery.

Brands like Casper and Toms use Flexe for high-demand times like summer moving season (Casper) or holiday season pop-ups (Toms).

**Flexe Network by region**

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of Warehouses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northeast</td>
<td>112</td>
</tr>
<tr>
<td>South</td>
<td>108</td>
</tr>
<tr>
<td>Midwest</td>
<td>187</td>
</tr>
<tr>
<td>West</td>
<td>209</td>
</tr>
<tr>
<td>Canada</td>
<td>71</td>
</tr>
</tbody>
</table>

the 21st century brand economy

07. understanding the attention stack
activities included in this stack ...

CREATE
your brand voice

CONNECT
with consumers

ENGAGE
in a value exchange
create: massive platforms start at free

Cost to have account

2017 Average Users/Month

YouTube 221MM
Facebook 202MM
Instagram 122MM
Twitter 117MM
Snapchat 102MM
Pinterest 102MM

create: social media is central to brand development

social media accounts are free to set up, but benefit from investment nonetheless

- The Glossier brand was introduced with a series of posts on Instagram.
- 10 months of development were compressed into a few weeks of posts.
- By the time the first products were sold online, Glossier already had 13K followers on Instagram.
- One day later, the count surpassed 18K.

“Six weeks after its launch, [Glossier] announced $8.4 million in Series A funding led by Thrive Capital. [Founder Emily] Weiss used the money to invest in technology and data analytics that would study Instagram and other social platforms, measuring not just how well certain Glossier posts performed but how well each product performed”

**create: once thought dead, blogs resurfaced as brand-launch platforms**

### Range of blog and hosting options:

<table>
<thead>
<tr>
<th></th>
<th>WP org</th>
<th>WP com</th>
<th>Blogger</th>
<th>Tumblr</th>
<th>Medium</th>
<th>Ghost</th>
<th>Squarespace</th>
<th>Wix</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Price</strong></td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$8-$24 per month</td>
<td>$0-$18 per month</td>
</tr>
<tr>
<td><strong>Hosting included</strong></td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓ / ✗</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Custom domain included</strong></td>
<td>✗</td>
<td>✗ ***</td>
<td>✗ ***</td>
<td>✗ ***</td>
<td>✗</td>
<td>✗ ***</td>
<td>✓</td>
<td>***</td>
</tr>
<tr>
<td><strong>Mobile-friendly</strong></td>
<td>✓ **</td>
<td>✓ **</td>
<td>✗</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Designs available</strong></td>
<td>1000+</td>
<td>100+</td>
<td>Nearly none</td>
<td>100+</td>
<td>✗</td>
<td>100+</td>
<td>10+</td>
<td>100+</td>
</tr>
<tr>
<td><strong>Plugins and extensions</strong></td>
<td>1000+</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>✗</td>
<td>100+</td>
<td>10+</td>
</tr>
<tr>
<td><strong>Ease of use</strong></td>
<td>7/10</td>
<td>9/10</td>
<td>9/10</td>
<td>10/10</td>
<td>10/10</td>
<td>6/10</td>
<td>10/10</td>
<td>8/10</td>
</tr>
</tbody>
</table>

*hosting included for pro, no hosting for open source
**depending on the specific design you choose
***you get a subdomain; you can hook up your custom domain as well*
create: minimal investment can turn a blog into a company

$12,240 is estimated cost to launch professional blog in first year

<table>
<thead>
<tr>
<th>BLOG BUDGET CALCULATOR</th>
<th>SETUP COSTS (ONE-TIME)</th>
<th>RECURRING COSTS (ANNUAL)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hardware</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer</td>
<td>$2,000</td>
<td></td>
</tr>
<tr>
<td>Digital camera</td>
<td>$750</td>
<td></td>
</tr>
<tr>
<td>Video camera</td>
<td>$1,500</td>
<td></td>
</tr>
<tr>
<td>Webcam</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Microphone</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td>Tripod</td>
<td>$250</td>
<td></td>
</tr>
<tr>
<td>Lighting</td>
<td>$1,000</td>
<td></td>
</tr>
<tr>
<td><strong>Hosting, Tools &amp; Software</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domain name</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>Email hosting</td>
<td>$10</td>
<td></td>
</tr>
<tr>
<td>Email list provider</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td>Blog hosting</td>
<td>$360</td>
<td></td>
</tr>
<tr>
<td>WordPress theme</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Premium plugins</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Spam protection</td>
<td>$60</td>
<td></td>
</tr>
<tr>
<td>SSL certificate</td>
<td>$50</td>
<td></td>
</tr>
<tr>
<td><strong>Contracted services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Custom logo and header</td>
<td>$250</td>
<td></td>
</tr>
<tr>
<td>Additional custom design</td>
<td>$500</td>
<td></td>
</tr>
<tr>
<td>Virtual assistant</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td><strong>Training &amp; Education</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Books</td>
<td>$100</td>
<td></td>
</tr>
<tr>
<td>Blog audit</td>
<td>$250</td>
<td></td>
</tr>
<tr>
<td>Online Training</td>
<td>$300</td>
<td></td>
</tr>
<tr>
<td>Conferences</td>
<td>$1,500</td>
<td></td>
</tr>
<tr>
<td>Coaching/mentoring</td>
<td>$2,500</td>
<td></td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td>$7,200</td>
<td>$5,040</td>
</tr>
</tbody>
</table>

Source: [https://docs.google.com/spreadsheets/d/1-U_BCkNt1bMh9yspzDFqxD3GcLEnlAZuy9Lw4B9WWVrU/edit#gid=0](https://docs.google.com/spreadsheets/d/1-U_BCkNt1bMh9yspzDFqxD3GcLEnlAZuy9Lw4B9WWVrU/edit#gid=0)
create: partnering with influencers amplifies a brand’s message

Content creation/curation
Influencers can efficiently bring creative concepts to life through the lens of their social media influence, adding insights and producing original text, photo or video content that can be shared on their networks and also leveraged across platforms.

Content credibility
A well-chosen influencer’s content will provide instantaneous relevance and high credibility within a targeted group or market, which will reflect well on both the publisher and the brand.

Content amplification/distribution
Influencers are the masters on the platforms where they are most likely to reach the intended audience. From their own blogs or social media accounts, to paid amplification on their posts on social, their content will resonate and provide greater scale.

Content as extension of a publisher’s thought leadership
Publisher’s internal staff, in their own right, can be effective influencers for brands given their association with the publisher. Likewise, a publisher may have a list of available influencers, a “speaker’s bureau” of sorts who are well versed on a publisher’s unique DNA who can be readily called on to unite the brand with the publisher’s unique reason for being.

create: content marketing growing as influencer-partner

native content brings marketer and media brands together

create: video production costs are plummeting

video production costs have declined significantly

Dollar Shave Club vs Typical TV Commercial

Production Cost

$354,000

$4,500

Dollar Shave Club Launch Video (2012)

:30 TV Spot (2011 Average)

connect: media access was concentrated in a few gatekeepers

1977

3 Networks accounted for 93% of all television viewing

connect: access into media ecosystem has exploded

2017

>1BN Websites
~5MM Apps
~224MM Social Media Users
>60% Watch OTT Video

connect: digital is the modern mass medium ...

US internet users 2018-2022:

- 2018: 279.7 millions, 85.0% of population
- 2019: 284.0 millions, 85.6% of population
- 2020: 287.9 millions, 86.1% of population
- 2021: 291.4 millions, 86.4% of population
- 2022: 294.8 millions, 86.8% of population

Source: eMarketer, January 2018
... and digital is modern mass marketing

low-friction/DoitY digital touchpoints have significant reach

% of total digital population reached monthly by:

71% Blogs
87% Social Networks
90% Search/Navigation

Source: comScore Media Metrix Multiplatform, U.S., Desktop P2+ and Total Mobile P18+, Dec. 2017
connect: consumers’ time with digital screens is growing

U.S. consumers are spending ever-more time with digital screens

Total Minutes (MM)

connect: 50-60%+ of that time = entertainment + social + search

entertainment, search, and social activities dominate digital screen time

Share of gross minutes by category:

**Computer**
- Entertainment: 26%
- Search & Social: 23%
- Telecom & Internet Services: 12%
- News & Information: 8%
- Commerce & Shopping: 7%
- Computers & Electronics: 5%
- Finance: 4%
- Home & Fashion: 3%
- Family & Lifestyle: 3%
- Education & Careers: 3%
- Other: 6%

**Smartphone**
- Search & Social: 29%
- Entertainment: 26%
- Communication: 11%
- Productivity & Tools: 11%
- News & Information: 5%
- Travel: 4%
- Commerce & Shopping: 4%
- Family & Lifestyle: 4%
- Telecom & Internet Services: 1%
- Finance: 1%
- Other: 3%

**Tablet**
- Entertainment: 43%
- Search & Social: 20%
- Communication: 11%
- Productivity & Tools: 5%
- News & Information: 4%
- Travel: 2%
- Commerce & Shopping: 6%
- Family & Lifestyle: 4%
- Home & Fashion: 1%
- Finance: 1%
- Other: 2%

connect: digital consumers are video consumers

US digital video viewers 2018-2022:

Source: eMarketer, January 2018
**Video** is expected to make up **82%** of internet traffic over the next **3 years**.

**Global IP traffic**

By 2020, video on the internet will eat up a bigger share of increased web traffic.

Source: Cisco

**2016**

- Total traffic: 98 exabytes
- Internet video: 51%
- IP VOD: 22%
- Web/data: 18%
- File sharing: 8%
- Gaming: 1%

**2021**

- Total traffic: 278 exabytes
- Internet video: 67%
- IP VOD: 4%
- Web/data: 3%
- File sharing: 11%
- Gaming: 15%

Source: https://www.recode.net/2017/6/8/15757594/future-internet-traffic-watch-live-video-facebook-google-netflix
connect: many paths to the videos consumers want ...

the paths to, and creators of, video content are increasingly diverse...

Video delivery and consumption 2017:

<table>
<thead>
<tr>
<th>MVPDs</th>
<th>Streaming Devices</th>
<th>Smart TVs</th>
<th>Game Consoles</th>
<th>Platforms &amp; Delivery</th>
<th>Ad Networks</th>
<th>Web TV Services</th>
<th>Streaming Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comcast Spectrum</td>
<td>Roku</td>
<td>LG Smart TV</td>
<td>XBOX</td>
<td>Facebook</td>
<td>YuMe</td>
<td>Sling TV</td>
<td>Hulu</td>
</tr>
<tr>
<td>Dish</td>
<td>Chromecast</td>
<td>Samsung</td>
<td>YouTube</td>
<td>AT&amp;T AdWorks</td>
<td>BrightRoll</td>
<td>Pluto</td>
<td>WWE</td>
</tr>
<tr>
<td>DirecTV</td>
<td>Amazon Fire TV</td>
<td>Sony</td>
<td>Telaria</td>
<td>YouTube TV</td>
<td>Teads</td>
<td>DIRECTV Now</td>
<td>Netflix</td>
</tr>
<tr>
<td>Cox</td>
<td>Apple TV</td>
<td>Panasonic</td>
<td>SpotX</td>
<td>Vimeo</td>
<td>Collective</td>
<td>Yahoo</td>
<td>Crackle</td>
</tr>
<tr>
<td>AT&amp;T</td>
<td>Verizon FIOS</td>
<td>NVIDIA</td>
<td>FreeWheel</td>
<td>YouTube TV</td>
<td>videology</td>
<td>Watch</td>
<td>A&amp;E</td>
</tr>
<tr>
<td>Apple TV</td>
<td></td>
<td>SHARP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

How do you watch your favorite show?

<table>
<thead>
<tr>
<th>Year</th>
<th>Set top box (live TV, VOD, or DVR)</th>
<th>An online source</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>64%</td>
<td>31%</td>
</tr>
<tr>
<td>2015</td>
<td>57%</td>
<td>38%</td>
</tr>
<tr>
<td>2016</td>
<td>53%</td>
<td>40%</td>
</tr>
<tr>
<td>2017</td>
<td>48%</td>
<td>52%</td>
</tr>
</tbody>
</table>

connect: ad spend patterns validate digital’s power to connect

Digital Media’s ability to connect brands and consumers is reflected in the consistent growth in marketer spend year after year.

Source: IAB/PwC Internet Ad Revenue Report, FY 2016

engage: interactive marketing builds brands, relationships, and buzz

• Casper’s ‘Late Night Snap Hacks’ featured video clips designed for users to play, record, and post on social media as evidence they were doing something other than lounging in bed.

• The site had hundreds of thousands of views within the first few days of launch, and was featured on sites like Mashable, Teen Vogue, Billboard, and The Next Web.

**engage: interactive messages** allow for data exchanges

- Harry’s encouraged people to spread the word in exchange for prizes.
- **10K people** gave Harry’s their email addresses.

Source: https://www.cbinsights.com/research/direct-to-consumer-retail-strategies/#harry2
**Engage: 1st party data** is the goal

which in turn drove additional earned reach

Harry’s: Number of referral sign-ups by day

- **5 friends:** free shave cream
- **10 friends:** free handle with blade
- **25 friends:** Winston shave set
- **50 friends:** a year supply of free blades

Referrals accounted for over 65,000 sign-ups, or 77% of the campaign total

Source: https://www.cbinsights.com/research/direct-to-consumer-retail-strategies/#harry2
Thinx created a unique URL “hellothinx.com” for its subway campaign and tracked online traffic from different cities.
the 21st century brand economy

08. understanding the fulfillment stack
activities included in this stack ...

**TRANSACT**
sell the product

**DELIVER**
get the product in the consumer’s hands

**TOUCH**
maintain and grow the relationship
the fulfillment stack …
transact: online shopping is already a mainstream activity

~70% of U.S. adults already buy online, and this is expected to increase.

Source: eMarketer, July 2017
transact: many platforms exist upon which to build a storefront

<table>
<thead>
<tr>
<th>PLATFORM</th>
<th>MARKET SHARE</th>
<th>CLIENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Magento</td>
<td>20%</td>
<td>Zumiez, Weber</td>
</tr>
<tr>
<td>WooCommerce</td>
<td>18%</td>
<td>Greats, Lowe's</td>
</tr>
<tr>
<td>Shopify</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>PrestaShop</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>OpenCart</td>
<td>4%</td>
<td></td>
</tr>
</tbody>
</table>

Source: https://pagely.com/blog/the-top-ecommerce-platforms-of-2017-compared/; clients per each platform’s website
**Transact: buying directly from a brand’s content feed is growing**

- Visual platforms like Instagram and Pinterest have been rolling out in-feed shopping tools.
- Brands are using these platforms to allow for their customers to move more quickly from discovery to purchase.
- This does not yet replace a brand’s ecommerce site, as users are directed there to complete transactions.

Source: https://www.recode.net/2017/2/8/14549836/pinterest-shopping-discovery-update
transact: physical stores have a role to play, particularly as brands grow

**Glossier.**

Glossier’s store has more sales/sq. foot than the average Apple Store, and a 65% conversion rate.¹

**AWAY**

Plans to use a recent $20MM funding round to open at least 4 retail stores³

**WARBY PARKER**

By June ’17 had 50 stores, and was planning to open 19 more by year’s end⁴

“Recognizing the demand-generating power of physical engagement, numerous online retailers have opened up their own bricks-and-mortar stores.”

HBR 12/7/17

Sources:
²https://www.entrepreneur.com/article/298014
³https://skift.com/2017/05/26/travel-startup-funding-this-week-away-may-26-2017/
transact: digital payment platforms are plug-and-pay

payment gateway providers’ projected growth points to increasing transaction volume

- Payment Gateways, which allow ecommerce sites to connect to banks and credit card companies, processed nearly $20BN in 2016.

- That is predicted to grow to nearly $58BN by 2022, a CAGR of nearly 20%.

- Payment gateway provider Stripe, who’s customers include Facebook, Amazon, Pinterest, Lyft, Fitbit, and Instacart, was recently valued at $9.2 billion dollars.

deliver: free > fast (but fast is important)

Shipping Options that Would Encourage US Internet Users to Purchase Digitally, March 2017
% of respondents

<table>
<thead>
<tr>
<th>Service</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Free shipping</td>
<td>80%</td>
</tr>
<tr>
<td>Next-day shipping</td>
<td>36%</td>
</tr>
<tr>
<td>Same-day shipping</td>
<td>35%</td>
</tr>
<tr>
<td>2-hour shipping</td>
<td>22%</td>
</tr>
</tbody>
</table>

Note: ages 18+

deliver: last mile delivery is seeing demand increase

How has demand for last mile services changed over the last 18 months?

+50%

Where has this demand come from?

- B2B: 33%
- B2C: 67%

Source: https://www.joc.com/international-logistics/logistics-providers/analysis-pressure-ramps-large-couriers-7-day-b2b_20180103.html
1998: Residential deliveries represented 20% of the total domestic parcel market, or $5 billion.

2017: B2C deliveries will exceed 50% and represent $40 billion in market size.

This is larger than the total parcel market size in 1998.

Source: https://www.joc.com/international-logistics/logistics-providers/analysis-pressure-ramps-large-couriers-7-day-b2b_20180103.html
deliver: platforms like Fulfillment By Amazon lower barriers to entry

- Small and Medium Business sold 2 billion items through Fulfillment by Amazon.

- This accounts for more than half of the products Amazon sells online.

- FBA allows smaller companies to leverage Amazon’s massive fulfillment infrastructure, and offer advanced delivery options like Prime two-day shipping.

- Amazon charges the small businesses fees for storage and shipping.

deliver: physical spaces can finish what digital spaces initiate

Webrooming is the flipside of Showrooming

Why do people Webroom

- I don’t want to pay for shipping – 47%
- I like to go to a store to touch and feel a product before I buy it – 46%
- I want to check an item’s availability online before I purchase it in-store – 42%
- I like the option of being able to return the item to the store if I need to – 37%
- I will ask the store to price match the better price I found online – 36%
- I don’t want to wait for the product to be delivered – 23%

BOPUS (buy online, pick-up in store) is growing

US Internet Users Who Buy Online and Pick Up In-Store, 2015-2017
% of respondents

2015: 35%
2016: 46%
2017: 50%

83% of US BOPUS users expect to wait no more than 24 hours for pickup

Source: Bell and Howell, April 2017
North American Contact Center Outsourcing revenues in 2015 were $9.4BN, up 22.3% from 2013.
The global chatbot industry is expected to grow at a **CAGR** over 37% to 2021 and the market share of chatbots in the retail and e-commerce industry will be **39%**
the 21st century brand economy

09. understanding the data stack
activities included in this stack ...

GATHER
1st party data

ACQUIRE
2nd & 3rd party data

DEPLOY
data to build business
the data stack ...

**Gather**

**Acquire**

**Deploy**

**PLAN**

**STORE**

**TRANSACT & DELIVER**

**REPORT/ANALYZE**

**OPTIMIZE**

- AppNexus
- criteo
- MediaMath
- OpenX
- RocketFuel
- AdBrite
- Integral
- theTradeDesk
- AdScience
- AdCon
- Dstillery
- Nielsen
- AppNexus
- criteo
- MediaMath
- OpenX
- RocketFuel
- AdBrite
- Integral
- theTradeDesk
- AdScience
- AdCon
- Dstillery
- Nielsen
- Acxiom
- EICO
- Experian
- Epsilon
- TransUnion
- CoreLogic
- Nielsen Catalina Solutions
- Epsilon
- TransUnion
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- Nielsen Catalina Solutions
- Acxiom
- EICO
- Experian
- Epsilon
- TransUnion
- CoreLogic
- Nielsen Catalina Solutions
- Epsilon
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- CoreLogic
- Nielsen Catalina Solutions
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- EICO
- Experian
- Epsilon
- TransUnion
- CoreLogic
- Nielsen Catalina Solutions
- Epsilon
- TransUnion
- CoreLogic
- Nielsen Catalina Solutions
- Acxiom
- EICO
- Expe
The U.S. alone generates 2,657,700 gigabytes of data per minute.

Mobile phone sensors

- Accelerometer
- Gyroscope
- Magnetometer
- GPS
- Barometer
- Proximity Sensor
- Ambient Light Sensor

Source: https://fieldguide.gizmodo.com/all-the-sensors-in-your-smartphone-and-how-they-work-1797121002; https://numbers-na1.emarketer.com/584b2602140307029093a20/5851918a0626310a2c186a7f
IDC predicts global digital data generated will total 180 zettabytes annually by 2025.
gather: data = brand-building signals

the consumer signals that emerge provide powerful tools to optimize relevance

Top criteria for targeting and personalization:

<table>
<thead>
<tr>
<th>% of respondents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Location</td>
<td>60%</td>
</tr>
<tr>
<td>Demographics</td>
<td>56%</td>
</tr>
<tr>
<td>Pages/content viewed</td>
<td>54%</td>
</tr>
<tr>
<td>Campaign source</td>
<td>50%</td>
</tr>
<tr>
<td>Previous visit behavior</td>
<td>48%</td>
</tr>
<tr>
<td>Persona</td>
<td>46%</td>
</tr>
<tr>
<td>Stage of customer journey</td>
<td>42%</td>
</tr>
<tr>
<td>Device</td>
<td>39%</td>
</tr>
<tr>
<td>Company</td>
<td>37%</td>
</tr>
<tr>
<td>Browser</td>
<td>34%</td>
</tr>
</tbody>
</table>

Note: n=109; top 10 responses; *78% of respondents were from the US
Source: Evergage, "2017 Trends in Personalization" conducted by Researchscape, April 25, 2017

**gather:** 1<sup>st</sup>-party data investments reflect economic importance

Activation solutions include hosting, cleaning, and modeling.

U.S. audience data activation investment:

$10.1\text{BN}$ in 2017

- Integration, processing and hygiene
- Hosting and management
- Analytics, modeling and segmentation

acquire: range of 2\textsuperscript{nd} & 3\textsuperscript{rd}-party data sources is as wide as the data itself

3\textsuperscript{rd} Party data is being aggregated from various sources

Public data, online shopping data, website registrations, in-store shopping, warranty data, and more is available for purchase

acquire: **full-journey** consumer data is available …

available data ranges across consumer behavior, identity, and transactions

<table>
<thead>
<tr>
<th>U.S. Audience Data Types</th>
<th>2017E ($BB)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>Omnichannel</td>
<td>• Personally identifiable (&quot;PII,&quot; including name, address, email address) and &quot;non-PII&quot; (interests, preference and certain behavioral) information used to identify customers and prospects and indicate ways to engage with them; typically for use across traditional (direct mail, offer optimization) and digital (email, display advertising, site experience, etc.) channels</td>
</tr>
<tr>
<td></td>
<td>$3.530</td>
</tr>
<tr>
<td>Transactional</td>
<td>• Purchase history associated with audience members/segments; often provided in aggregate, used to determine interests and needs and used to support segmentation for targeted marketing (includes credit, prescription and cooperative datasets that support marketing)</td>
</tr>
<tr>
<td></td>
<td>$2.997</td>
</tr>
<tr>
<td>Digital</td>
<td>• Online behaviors of customers and prospects (as transmitted through IP addresses, device IDs and other unique identifiers) indicating how these users interact and are likely to interact across digital devices and associated media channels</td>
</tr>
<tr>
<td></td>
<td>$2.078</td>
</tr>
<tr>
<td>Specialty</td>
<td>• Insights into customer and prospect behavior across new and emerging channels and specialty functions not easily integrated with other data types (including addressable TV, &quot;Internet of things&quot;/wearables, etc.), enabling customer/prospect profile enhancement, segmentation and marketing engagement planning</td>
</tr>
<tr>
<td></td>
<td>$0.886</td>
</tr>
<tr>
<td>Identity</td>
<td>• Information that supports the reconciliation of customer and prospect profiles built across a range of disparate touchpoints; can support onboarding of identity profiles in support of unification/optimization of cross-channel marketing engagements</td>
</tr>
<tr>
<td></td>
<td>$0.563</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$10.054BB</td>
</tr>
</tbody>
</table>

... and attracting significant investment

activation solutions include hosting, cleaning, and modeling

3rd party audience data investment:

$10.1BN in 2017

deploy: brands’ data goals vary

Consumer-related marketer capabilities:

<table>
<thead>
<tr>
<th>% of respondents</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Use data about our customers to find similar audiences</td>
<td>58%</td>
</tr>
<tr>
<td>Understand our customers' typical cross-channel buying journeys</td>
<td>48%</td>
</tr>
<tr>
<td>Deliver dynamic content across digital formats, such as display, mobile and video advertising, in response to individual's behavior</td>
<td>46%</td>
</tr>
<tr>
<td>Understand our customers' cross-device behaviors</td>
<td>39%</td>
</tr>
</tbody>
</table>

deploy: data targeting capabilities & spend growing

spending on targeting across various consumer signals is increasing

Change in ad targeting spend, by method:

<table>
<thead>
<tr>
<th>Method</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audience data targeting</td>
<td>50%</td>
</tr>
<tr>
<td>Retargeting</td>
<td>43%</td>
</tr>
<tr>
<td>Geotargeting</td>
<td>43%</td>
</tr>
<tr>
<td>Behavioral targeting</td>
<td>42%</td>
</tr>
<tr>
<td>Use of first-party data</td>
<td>40%</td>
</tr>
<tr>
<td>Contextual targeting</td>
<td>40%</td>
</tr>
<tr>
<td>Dynamic content</td>
<td>37%</td>
</tr>
</tbody>
</table>

**deploy: programmatic buying** still mostly about reach …

marketers are seeing benefits to automation

**Benefits of programmatic buying:**

| % of respondents | 1 | 2 | 3 | 4 | 5 | 6
|------------------|---|---|---|---|---|---
| Very important   |   |   |   |   |   |   |
| Important         |   |   |   |   |   |   |
| Moderately important |   |   |   |   |   |   |
| Slightly important |   |   |   |   |   |   |
| Not important     |   |   |   |   |   |   |
| Don’t know        |   |   |   |   |   |   |

<table>
<thead>
<tr>
<th>Feature</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better audience targeting</td>
<td>74%</td>
<td>22%</td>
<td>3%</td>
<td>1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Real-time optimization</td>
<td>52%</td>
<td>33%</td>
<td>11%</td>
<td>2%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>Ability to build audience reach</td>
<td>48%</td>
<td>42%</td>
<td>9%</td>
<td>1%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cost efficiency</td>
<td>45%</td>
<td>35%</td>
<td>12%</td>
<td>4%</td>
<td>4%</td>
<td>-</td>
</tr>
<tr>
<td>Reach customers at multiple points</td>
<td>45%</td>
<td>29%</td>
<td>18%</td>
<td>5%</td>
<td>2%</td>
<td>-</td>
</tr>
<tr>
<td>along the purchase path</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Managing buys across channels</td>
<td>37%</td>
<td>42%</td>
<td>14%</td>
<td>5%</td>
<td>1%</td>
<td>-</td>
</tr>
</tbody>
</table>

*Note: n=100; numbers may not add up to 100% due to rounding*

Source: Association of National Advertisers (ANA), "The State of Programmatic Media Buying," Dec 18, 2017

www.emarketer.com
... as spend on programmatic continues to grow

and automation continues to grow as a deployment method

Programmatic ad spend in U.S.

Source: eMarketer, September 2017

Source: https://numbers-na1.emarketer.com/584b26021403070290f93a55/5851918a0626310a2c186aad
dmp growth and competition is accelerating

In October, Oracle was dominant as the most preferred DMP. Salesforce is now a competitor

<table>
<thead>
<tr>
<th>Preference of Data Management Platforms (Top 3)</th>
<th>Percent of Respondents</th>
<th>% Change from Prior Wave</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Oracle</td>
<td>23%</td>
<td>-8</td>
</tr>
<tr>
<td>2. Salesforce DMP</td>
<td>19%</td>
<td>+18*</td>
</tr>
<tr>
<td>3. Adobe Audience Manager</td>
<td>9%</td>
<td>-2</td>
</tr>
<tr>
<td>4. MediaMath</td>
<td>9%</td>
<td>+1</td>
</tr>
</tbody>
</table>

- Oracle goes above and beyond to manage/integrate clients.” - Marketer Executive
- "Salesforce integrates with our CRM system. A true valued partner." - Agency Director
- "Adobe Audience Manager offers a collection of integrated online marketing and Web analytics that make my life easier." - Marketer VP
- "MediaMath’s DMP is quite easy and intuitive to upload campaigns, check the stats and also to have a good overview." - Agency Director

- The $500 million US DMP market is expected to grow 43% annually 2015-2021.
- Forrester has identified 25 types of data used in DMPs, including social, mobile, and CRM data.
- New sources of first-party data are emerging, including TVs (data sets from set-top boxes and over-the-top video), automobiles, and wearable sensors.
