THE DIRECT BRAND REVOLUTION

Presentation at IAB Annual Leadership Meeting

Phoenix, Arizona

February 11, 2019

[COVER SLIDE VISIBLE]

What a difference a year makes!

Exactly one year ago at the IAB Annual Leadership Meeting, I introduced a 180-page study and promised to unveil to you "an enduring shift in the way the consumer economy operates" – a framework we dubbed "the Direct Brand Economy." And so many of you came to me over the next 12 months and said, "Very interesting, Randall – but what does this have to do with me?"

The point of the research I am unveiling for you today is to show each and every one of you – publishers and platforms, ad tech and mar tech, disruptor brands, and incumbent brands – what the Direct Brand Economy means for you.

In broad strokes, the business of our business is changing.

We – all of us - are no longer the business of banner ads and video spots. We are in the business of brand creation, brand sales, and brand replenishment.

[SLIDE: INDIRECT BRAND ECONOMY]

We are no longer the business of brands creating value in the rarefied confines of their owned-and-operated supply chains, protected from the extremes of competition that they could afford to extract value through a series of imprecise, expensive, third-party handoffs, ending in the brick-and-mortar retail stores that accounted for 97% or more of consumer brand sales.

[SLIDE: DIRECT BRAND ECONOMY]

Today, we are in a business where value is created in a promiscuously available “stack-your-own” supply chain, where ideas can become physical products virtually overnight. And value extraction happens less and less in third-party retail stores, but in the direct relationships brands have with their millions of individual end consumers.

[SLIDE: IAB 250]

Last night, we introduced you to a certain set of brands - the 2019 IAB 250, the 250 Direct Brands to Watch in the U.S. economy. Kopari cosmetics and Dagne Dover handbags and Plated meal kits - Madison Reed and Brooklinen… Peloton and Dirty Lemon… Baublebar and Allbirds - these thought-leading and practice-leading brands are carving new paths to value in the consumer economy. They are creating new ways of marketing. New ways of selling. New ways of competing.

Today, I will power through highlights of our 2019 IAB Direct Brand Economy Report – the trends and tendencies we have observed over the past year in the ways direct brands are innovating their way to growth.

We also will show you how the world’s largest brands, buffeted by an army of barely perceptible quarter-point disruptors, are evolving their own strategies and investments to adapt to this new competition.

[SLIDE: THE DISRUPTED CONSUMER ECONOMY TITLE SLIDE]

This is what the IAB Direct Brand Economy Market Report shows for 2019-2020:

Number 1: Physical retail shopping is declining as a share of total shopping, as digital shopping grows.

Number 2: The giant consumer brands of the 20th century maintained their supremacy by dominating scarce physical shelf space. As brick-and-mortar shopping declines, the primary source of incumbent-brand dominance also decays.

Number 3: Digital media consumption and digital brand consumption are correlative: The more time a consumer spends in digital media environments, the greater that consumer's propensity to purchase challenger brands.

Number 4: With mobile media consumption overtaking linear television consumption, the 70-year-old television-to-store marketing playbook is being replaced by a new standard: mobile-to-etail.

Number 5: Because disruptors know their consumers individually at scale and are not subject to intermediation by third-party stores, they are able to customize communications, products, and services to their audiences more effectively and efficiently than legacy competitors.

Let's explore exactly what happened in the Direct Brand Economy during the past year.

[SLIDE: 2018 RETAIL CLOSINGS]

In 2018, more brick-and-mortar stores closed their doors in the United States than in any year since modern retailing began in the late 19th Century.

Keep in mind: This all was occurring the in the midst of a U.S. economic recovery.

[SLIDE: COMMERCE DEPT. ETAIL GROWTH STATS]

The brick-and mortar meltdown was accompanied by the ongoing, astonishing growth of etailing. This Commerce Department eyechart has one big message: E-commerce – of all varieties, from Amazon to Away luggage's native site – grew three-to-five times faster per quarter than total commerce in the U.S.

[NEW SLIDE: "STEADY UNINTERRUPTED"]

And while etailing remains but a fraction of total commerce, its share of the retail economy has been growing without interruption for a decade.

[SLIDE: "DIGITAL SHOPPING'S RETAIL SHARE"]

In fact, when you remove items that can only be purchased in physical locations – things like gasoline, and restaurant meals – you discover that etailing is even larger, already accounting for 13% of all consumer sales.

[SLIDE: "DIGITAL SHOPPING GROWTH"]

And etailing's share of the pie will only continue to grow, as it sucks up all the growth – every last dollar of growth – in the consumer economy. You think that's hyperbole? Well, let's look at the dollars, then.

[SLIDE: "ACROSS CATEGORIES"]

Across the full range of Fast Moving Consumer Goods categories, absolute dollar growth from etail sales vastly exceeds brick-and-mortar growth – in some cases, such as pet care products, as much as 10 times the dollar growth is coming from e-commerce, according to Nielsen.

Make no mistake what this trend line shows: American shoppers are shifting their buying habits from physical retail stores to digital stores. While physical stores will still comprise the greatest share of "brand fulfillment," their singular power over consumer choice and brand strength is eroding. No longer will consumers be forced to choose only from among the handful of brands that can buy their way onto scarce physical retail shelves.

[SLIDE: CPG GROWTH]

In some consumer-facing categories, the companies that have reduced their brick-and-mortar dependencies, or never had them to begin with - are already reaping outsized benefits.

Consider consumer packaged goods. In a slow CPG marketplace, 82% of total market growth is coming from e-commerce. And as soon as consumers start shifting to e-commerce channels, their brand-consideration set naturally enlarges, and their purchasing patterns change.

[SLIDE: "e" HELPS EMERGING BRANDS"]

As this analysis by Ryan Caldbeck, the CEO of fintech company CircleUp, shows, the market shares of store-dependent brands starts shifting to disruptor brands.

[SLIDE: NESTLE]

The most powerful activist investors in the world have noticed the same phenomenon, and are subjecting some of CPG's largest companies to punishing attack. Last July, Dan Loeb, the founder of the hedge fund Third Point, amped up his attack on Nestle S.A., the world's largest FMCG company, attacking its "muddled strategic approach" and calling the group 'insular, complacent and bureaucratic." Among Loeb's biggest complaints: "New brands took share, while Nestle has fallen behind."

Who are these new brands and what are they doing to the market?

[SLIDE: MATTRESSES]

For example, there are now more than 100 "bed-in-a-box" companies like Casper, Leesa, and Purple they doubled U.S. market share between 2016-2018, to about 10%. Meanwhile, in the past year, the largest American mattress retailer, Mattress Firm, declared bankruptcy, and incumbent Tempur Sealy – itself the product of a merger between incumbents - saw sales slide 4.6% in the first half.

[SLIDE: DOG FOOD]

The US pet care industry grew by 4% in 2018. Online pet product sales were up 30% in the first half of 2018. Sales for direct brand dog walking services Rover and Wag! grew 30% and 165% respectively.

[SLIDE: COSMETICS:]

U.S. personal care and beauty product sales grew 4.5% in 2018. Online personal care and beauty sales grew 24%. Kylie Cosmetics generated $420M in revenue in its first 18 months.

[SLIDE: BEER]

The $111 billion U.S. beer market declined 1% by volume in 2017, but craft brewer sales grew 5% by volume, and now account for more than 23% of the market. The 50 fastest growing craft brewers had median growth of 216%. Even though they still sell primarily through grocery stores and bars, these craft brewers specialize in direct-to-consumer communications – driving online reviews, as Alaska Brewing has done, or partnering with home delivery apps, as Louisiana's Crying Eagle Brewery has done.

[SLIDE: FURNITURE]

The total U.S. furniture market was flat from 2017 to 2018, and is expected to grow annually by only 0.7% through 2023. Digital sales accounted for a quarter of all dollars spent on home goods & furniture in 2018. "Fast furniture" startup Burrow has been growing 20% per month

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[NEW SLIDE: "THE DIRECT BRAND PLAYBOOK" TITLE SLIDE]

First, there IS a playbook for Direct Brands. And this is what it looks like.

[SLIDE: NEW PURCHASE FUNNEL]

Direct Brands have replaced the purchase funnel of old with a new purchase funnel. Instead of a long-term process that brings consumers from brand awareness to preference to intent to purchase, the Direct Brand Playbook begins with cost-per acquisition, and ends with lifetime customer value.

This CAC-to-LTV chain is the essence of the direct brand lifecycle. It also characterizes their primary difference from incumbent brands.

[SLIDE: CAC]

Disruptor brands are collecting and managing individual customer relationships at scale – something incumbent brands cannot do, because their primary relationships have been with stores, not individual consumers. Direct Brands are much more sophisticated in managing the LTV of these individual relationships, and measuring the contributions of the playbook’s other components to raising LTV.

So too, incumbent brands can only infer CAC – for example, from the relationship between advertising flights and store traffic. Direct Brands know it exactly, because they are collecting names, driving sales, and gathering data entirely or primarily on the Web. Hence VC Daniel Gulati’s now-famous phrase: “CAC is the new rent.”

Keeping their cost-per-acquisition low is the first pre-requisite for Direct Brands. It frames their media strategies, the where and when of their advertising, and their experimentation with new media and marketing channels. If you can’t go to them with an effective and provable CAC strategy, you will not become their partner.

[SLIDE: CONSUMING ON MOBILE]

And that CAC strategy must be mobile first.

Consumer time spent on mobile devices has grown 133% during the past three years, while time spent on television devices has declined 14%. Television remains vitally important, but the ability for consumers to reach, physically and directly, through their mobile devices right to the product, right to the sale, makes mobile the acquisition medium of choice.

[SLIDE: M-COMMERCE]

Already, nearly 40% of e-commerce is mobile commerce.

The lesson here is that other media matter – but mobile matters first.

[SLIDE: STORYTELLING]

Mobile is only a medium, of course. It turns out the message is equally important. Hence the third lesson we've learned from Direct Brands this year: Storytelling lowers acquisition costs.

All the Direct Brands we have studied tell us, virtually without exception, that customers acquired through storytelling channels have higher lifetime values. It's intuitive that better stories create better and longer consumer engagement. But we also have observed a front-end, shorter-term benefit, the relationship between the story and CAC.

For example, the Direct Brand sock company, Bombas, says that in any given week, between 15-40% of their paid acquisitions come from podcast advertising. Why? Bombas CMO says that's because "there's a little more air space to talk about how the company started."

[SLIDE: COMMUNITY]

But how does low CAC turn into high LTV? One word: community.

"Community" is not a soft "nice-to-have." To the contrary, community has become an essential part of the Direct Brand playbook because it ties directly to acquisitions, sales, and repeat purchases.

The cosmetics disruptor Glossier, for example, says that 70% of its online sales come via peer referrals. Matches Fashion gets 35% of its revenues from user-generated content that is shoppable.

[SLIDE: SHOPPABLE SOCIAL]

The role of community in revenue growth is the reason “shoppable social” marketing is expanding nearly 150% per year, and is on a path to generate $165 billion in sales by 2021.

[SLIDE: DISRUPTOR AGENCIES]

Disruptor brands call the CAC-to-LTV bridge “performance branding.” In their playbook, Brand advertising must perform – and selling activities must contribute to enhanced brand perceptions, sufficient to maintain the community and foster repeat purchases.

As disruptor agency founder Jesse Derris says, “We don’t think that something like ‘impressions’ means anything. Since these brands are selling direct-to-consumer, we’re able to understand how certain stories work, and how placement and communications work, and then replicate the things that work.”

[SLIDE: LEGACY AGENCIES]

Derris is among a burgeoning set of new agencies that are overturning the holding company model that took hold in the 1980s. In that model, media planning and buying was separated from creative strategy and execution. Other specialist agencies were launched or acquired by the holding companies to concentrate on particular functions, including PR, trade promotions, analytics, relationship marketing, and production. The holdings operated on an eat-what-you-kill basis, with little cross-unit collaboration.

[SLIDE: NEW DISRUPTORS LIST]

By contrast, the new disruptor agencies manage the performance-branding lifecycle for disruptor brands – and, we predict, for increasing numbers of incumbent brands that must mimic the successes of their smaller competitors.

Several of these new-form agency leaders – J.B. Osborne from Red Antler, and Peter Kim and Martin Sorrell from MightyHive – will be presenting at this conference, and will undoubtedly be able to add to and correct my analysis.

[SLIDE: MEDIA PROMISCUOUS]

Whether its from the influence of these new agencies or – more likely – because of changes in the CAC landscape, we have found that disruptor brands are growing more promiscuous: They are looking for more channels to acquire long-term customers.

Five years ago, even three years ago, this was a Facebook story. As our IAB Direct Brand founders' benchmarking study showed, 90% of these brands, regardless of category, launched off the back of Instagram, Facebook, or both, and for several years, they devoted upwards of 90% of their paid media spend to the Facebook family.

There were active and passive reasons for this preference. Disruptor brands appreciated the power of the Facebook pixel to help them build audiences, track conversions, and remarket, and they liked the seamless way advertising creative flowed, particularly in non-anxious environs of Instagram. But there was also the fact that, until a year ago, Facebook was among the only publishers that had targeted disruptor brands as an advertising category.

Much has changed in a year. Platforms and publishers like Pinterest, Hulu, Turner, Hearst, Google, and Spotify are actively pursuing and working successfully with disruptor brands. And some brands began to publicly express concern about channel dependency. As Glossier President Henry Davis told Digiday, "If you don't want to be disintermediated by a retailer, why would you want to be disintermediated by a platform further up the funnel?"

[SLIDE: COLONIZING MAIN MEDIA]

Equally notable is how direct brands are now colonizing main media, especially television. The Video Advertising Bureau, working with Nielsen, surveyed 50 disruptor brands and found that these 50 alone spent $1.3 billion on television commercials in 2017, an almost-100% increase in one year!

As you know from our IAB 250 research, there are more than 3,000 disruptor brands in the United States. And we know they have been spending more on digital channels than in main media. It is logical to conclude that there already are several billion dollars in advertising and marketing spend up for grabs as the disruptor brand market matures.

Our speakers Linda Yaccarino of NBC Universal and Laura Correnti from Giant Spoon will describe how they have partnered to bring disruptor brands into the television universe.

[SLIDE: STREAMING TV]

We believe that much of the new paid media spend will find its way to advanced TV. Consumers of ad-supported streaming video already show a much greater propensity to buy from disruptor brands. IAB research shows they are currently spending more than twice as much as linear TV viewers on disruptor subscription products, for example.

[SLIDE: THIRD LOVE]

Lingerie company ThirdLove started investing in TV in 2017 with a budget of $286,000 for the first month. Within 3 months, they had spent $3 million. ThirdLove's monthly TV budget has more than quadrupled since then. It spent over $13.2 million on TV in 2018, per Nielsen.

Third Love founders Heidi Zak and Dave Spector will be here today to provide more insights on how they are building their brand.

[SLIDE: BIG MEDIA STREAMING WARS]

But we think it inevitable that, as the world's largest media companies start coming online with their own streaming services, advanced TV viewership will expand, as well as its targeted advertising opportunities.

[SLIDE: OMNICHANNEL]

But if you walk away with one lesson about the Direct Brand Revolution and what it means to the world economy, let it be this: It is <u>not</u> an advertising story.

In fact, if you go back to the way I described the first premise – that the new consumer economy is an intricate, intimate, ongoing cycle of creation, communication, consummation, and continuation – you must internalize one of the greatest shifts the Direct Brand Economy represents: Omnichannel shopping is the new normal.

Already, IAB research shows, 1 in 3 in-store purchases are made after first shopping digitally. 1 in 4 digital purchases are made after shopping in a brick-and-mortar store.

The days of physical retail hegemony are over. There are multiple, hybrid retail formats that live between pure brick-and-mortar and pure e-commerce. They are complementing and supplanting the dominant formats of the past several decades, such as department stores and big box stores.

[SLIDE: POP-UP STORES]

I'd even go so far as to say that pop-up stores are the new advertising creative revolution – the source of the energy animating consumer markets, from mattresses to shoes to food and beyond. Pop-ups are the dominant retail format of our era.

Some pop-ups appeal to associational psychographics, as Glossier did with its San Francisco pop-up inside Rhea's Café.

Snowe's New York City pop-up is a combination shoppable loft, event space, and registry, designed to inspire.

Away created "Terminal A," pop-up in New York's SoHo, to mimic a fantasy travel moment, with a TSA-style checkpoint, luggage scanners, a NYC-themed souvenir area, and the company's luggage line.

[SLIDE: SHOPIFY]

There will be more. Digital shopping powerhouse Shopify is enabling hundreds of its online etail partners to launch pop-ups, with plug-and-play point-of-sale systems that integrate into its existing sales enablement technology.

Shopify is but one part of a thriving sub-industry of real-estate developers, infrastructure providers, and technology consultants that is helping digitally-native brands carve out spaces in the physical world.

Why pop-ups?

First and foremost, understand that pop-ups are about the data. They provide a low-investment way for brands to reinforce their existing community - or gain access to new customers, and bring them into a voluntary relationship that continues to exist in the form of first-party data.

Customer data is the core asset of the contemporary enterprise, as important as the manufacturing footprint or channel relationships were in decades past. Doing pop-ups provides small disruptor brands a way to build direct connections even as they grow through important middleman channels.

[SLIDE: EXPERIENCING]

That heralds a change in the purpose of stores. Today, brick-and-mortar locations are as much for experiencing as they are for selling. Consider Casper mattresses' "Dreamery" locations, where fans of the brand can schedule a nap on one of Casper's mattresses – replete with a sleep mask, robe, earplugs, makeup wipes, as well as a cup of coffee afterward.

Such well-crafted experiences persuade people to turn over key bits of data about themselves, then enter into a digital relationship from which more data can be gleaned and long-term benefits accrued.

[SLIDE: OPENING STORES]

The centrality of relationship data to the Direct Brand Playbook will endure, even as disruptor brands open their own permanent brick-and-mortar locations, as they are doing by the hundreds on their own…

… and in many cases, aided and abetted by established retailers, seeking to freshen up their own offerings, or simply get some of that disruptor brand pixie dust sprinkled over them.

There is a role for marketing and advertising in this new omnichannel retail environment, but it's a changed role. Media won't be used as much to shape brand image in discrete 30-second and full-page bites. To the degree that conventional advertising formats remain an important tool, they will be measured increasingly on acquisition cost, and experience management – driving subscribers to a short-term pop-up, for example.

[SLIDE: FAST FASHION]

Media and other marketing partners will be judged as well on another quality: Speed. For disruptor brands and the incumbents that will compete with them, fast is the new fashion, in every category.

On average, across all categories, Direct Brand founders we surveyed said they can launch a product in 4 months. That compares with 22 months for the median FMCG company, according to the Boston Consulting Group.

Fast fashion brands may have 52 weekly "micro-seasons" per year. The fashion site Boohoo adds 300 new products each day.

Speed is a loop. It means getting products created faster, getting them in the hands of consumers faster, getting the preference, occasion, and use data back to the company faster, and integrating that data back into operations faster.

Such speed links directly to profits. McKinsey says the top 20% of fashion brands – the ones that accounted for all the real profit in the industry – are distinguished by their speed to market, and their ability to use data analytics to develop concepts and plan lines.

[SLIDE: 3PL CAGRS]

The speed needs of Direct Brands and incumbents forced to compete with them helped quadruple the revenues of third-party logistics providers in one year, and drove the 3PL industry's compound annual growth rate from negative 5% to almost 6% positive over the last four years.

[SLIDE: 2-DAY DELIVERY]

But where consumers see the speed most clearly is in direct delivery to the home – the "2" in D2C.

Pressured by Amazon, all brands must now offer free, 2-day delivery of their goods to consumers. New logistics solutions, such as the 3PL alliance Monarch FX, are being created to offer omnichannel sellers one-stop shops for meeting the demand for fast delivery of their products.

[SLIDE: 2-HOUR]

Not to be outdone, Amazon is investing billions of dollars to optimize for 2-hour delivery. It already has multiple patents for drone-feeding warehouses, fulfillment centers, and maintenance facilities. It was recently granted a patent for an "Aerial Vehicle Delivery Shroud" that cloaks the noise of unmanned delivery drones.

McKinsey says that autonomous vehicles, including drones, will account for 80% of all delivered items within 10 years.

[SLIDE: DELIVERY IS DISCOVERY]

Until then, you will see the continuing perfection and spread of human delivery services – GrubHub, Seamless, and others – which already are optimizing for immediate delivery. These services are replacing the store as a hub for product and brand discovery. Alcoholic beverage disruptor Flaviar has a try-before-you-buy sampling program for its bourbon, scotch and gin. Gwynnie Bee and Birchbox are among the many pioneers in deliverable discoveries.

If you are a provider of marketing services, you too must service the need for speed. Brands increasingly are like newsrooms – rushing out products on a moment's notice; trying to attract consumers with bold headlines; grabbling them with quickly produced, compelling visuals that have to change by the day, and by the hour; and bringing the news to their own social communities – and those of their partners.

This is the performance branding environment of 2019… and beyond.

[SLIDE: BIG BRANDS BATTLE]

Where are the world's largest brands in all this? They are following the direct brands, and they are following fast.

For many of you in this room – brands, publishers, and technology companies alike – the battle of the big brands, their "counter-revolution," may be the most material fight of the next few years. For however battered they may be, they still represent the lion's share of consumer sales, and advertising and marketing expenditures. As they go, so go your businesses.

And they are going direct.

[SLIDE: FMCG ACQUISITIONS]

First, they are acquiring. From P&G's $100 million acquisition of the deodorant disruptor Native…to Serta Simmons acquisition of six-year old Tuft & Needle, incumbents are now surfing the Direct Brand wave.

[SLIDE: PEPSICO]

Even more prevalent are strategic investments, accelerators, and incubators, such as Pepsico's partnership with the Chicago-based food incubator The Hatchery…

[SLIDE: L'OREAL]

…. And L'Oreal's trio – the Founder's Factory for high-potential early-stage startups; its Digital Incubator Labs in New Jersey, San Francisco, Paris, and Tokyo; and its AI Center of Excellence in Montreal.

[SLIDE: MARS PETCARE]

Mars Petcare has its Leap Venture Studio, focused on the future of pet care…

[SLIDE: IKEA]

And Ikea has its Bootcamp, for 20 startups focused on product, supply chain, and retail transformation.

Underlying the acquisitions is a quest for capabilities. Some aggressively want to become first-party relationship and data companies. That's why AB Inbev has invested in e-commerce delivery systems, beer-rating applications, and home brew suppliers.

Some giants are looking to develop recurring revenue streams. That's why Colgate invested in our IAB 250 member Hubble Contacts, to dip five toes into a consumer subscription business.

[SLIDE: DIGITAL RELATIONSHIPS]

But by far the greatest articulated need of big incumbents is aggressively developing digital relationships with individual consumers – the widest chasm they must cross. Nike CEO Mark Parker calls this being "more personal at scale."

In 2017, Nike announced an initiative called the "Consumer Direct Offense," aimed at doubling innovation, doubling product speed to market, and doubling direct connections with consumers. The company created an entirely new organization, Nike Direct, to lead it.

[SLIDE: STARBUCKS]

Make no mistake what this means: the world's largest consumer brands – companies that did not know their end-consumers, because the retailers controlled the consumer relationship – are competing against the retailers and against their disruptor competitors to own those relationships.

Starbucks has found that mobile ordering combined with its digital loyalty program were the drivers of an 11% year-over-year increase in same-store sales in the third quarter of 2018. Yet only one-fifth of the 75 million people who visit a Starbucks store each month are members of its rewards program. The company aims to flip that around.

"Establishing digital relationships with many more customers represents a significant growth opportunity," said Starbucks CEO Kevin Johnson last year.

[SLIDE: PROGRAMMATIC IN-SOURCING]

The drive to create digital relationships at scale is underpinned by perhaps the largest structural trend inside big brands' marketing organizations today: the in-sourcing of programmatic advertising capabilities.

Programmatic advertising already accounts for nearly 85% of digital ad display spending. And among marketers deploying programmatic, about two-thirds say they already have insourced part or all of their programmatic capabilities.

[SLIDE: PROGRAMMATIC REACH]

To this point, the use of programmatic technologies by marketers has been largely premised on getting better, targeted reach. That is, it's about making conventional advertising more effective.

[SLIDE: ACTIONABLE INSIGHTS]

But the action increasingly is about insights. Which is to say: For big brands, programmatic capabilities are becoming the bridge between acquiring individual consumers – something they never have done before – and building the lifetime value of those consumers. Effectively used, insourced programmatic is what will allow giant incumbents to compete with disruptors in the journey from low CAC to high LTV.

[SLIDE: RADISSON]

You see this strategic intent at such programmatic brand leaders as Radisson Hotels, which says the objective of its insourced programmatic stack is to "own a direct relationship with our guests."

[SLIDE: IOT]

For these reasons, even more data will be integrated into customer understanding. Most certainly, the experiments currently taking place with the Internet of Things – IoT – such as Colgate's connected toothbrush and Diageo's connected cocktail shaker – will become fixtures, by which brands will learn more about their consumers and the way they use products.

[SLIDE: DMP GROWTH]

Which is why DMPs – already a $500 million industry in the U.S. – are projected by Forrester to grow 43% annually through 2021. Somebody has to make sense of all that data.

[SLIDE: GDPR]

And with all that data is coming regulation. New regulations, such as the European Union's General Data Protection Regulation   and the California Consumer Privacy Act — are driving an expanded, industry-wide focus on data transparency and quality, with a growing focus on establishing clear new standards for the benefit of *consumers,* as well as both marketers and data compilers

The larger trend, we believe, is less about regulation and more about consumer expectations. Consumers are more educated, more aware, and more wary. They are rapidly acclimating to the idea that their digital identity is a right – and it will be <u>their</u> right to offer up access to some of it, all of it, or none of it.

We said it last year – brand safety and consumer safety are not optional. This year, we will rephrase it: We have entered the era of digital suffrage, where each consumer will own his or her identity as a right of citizenship in the transnational geography of the Internet. Play by their rules, or stop doing business.

[SLIDE: STORES FOR EXPERIENCING]

The new rules of consumer data not only will mean that first-party data will have to be voluntarily offered by consumers. It means that the data will be even richer if giant brands can offer something back. And one of the most powerful things they can offer back are cross-channel experiences.

To partner with the disruptor brands for which millennial consumers display growing affinity, large retailers are becoming "experience centers." Macy's acquired the brand consultancy "story" last May. It partnered with Facebook to launch The Market @ Macy's which curated 150 e-com brands on a 2-week rotation at nine Macy's stores during the holiday season.

[SLIDE: 2-DAY DELIVERY]

But let's not shade the trend. As important as the resuscitation of physical retail is, the trend is toward data-rich "directedness" – including the direct delivery of products to the home. This is prompting a wave of acquisitions and partnerships as significant as the acquisitions of disruptor brands themselves.

Target acquired the same-day delivery ervice Shipt a year ago December, and began rolling out same-day in-store pickup, expanded curbside order pickup, and free 2-day shipping with no minimum purchase or membership to meet the Amazon standard.

[SLIDE: MCDONALD'S]

McDonald's expanded a global partnership with Uber Eats, and had 9,000 U.S. stores offering delivery at the end of 2018.

[SLIDE: DRIZLY]

And one mobile app – Drizly – accounts for three-fifths of all online alcoholic beverage sales. Drizly has become an essential partner with the largest beer and spirits brands, including MillerCoors, AB Inbev, and Brown Forman, to encourage product trial. Remember: Delivery is discovery.

As these delivery partnerships and acquisitions should indicate, the world's largest brands are also investing furiously to foster agility throughout their supply chains – not only to get things delivered more rapidly, but to get them made and socially penetrated more quickly.

[SLIDE: AGILITY / GUCCI]

Luxury goods brand Gucci wants its wholesale revenue to account for no more than 10% of total sales. That way, store buyers won't control what consumers get to see, and Gucci will own more of its own destiny. Already, Gucci's direct sales account for 86% of its total sales, and e-commerce sales grew 88% in the first half of 2018.

To boost direct-consumer connectedness even more, Gucci is internalizing production: It plans to cut external suppliers to 40% of leather goods production, from 75% currently, with a goal of cutting in half the time between a product's conception and its delivery to consumers.

[SLIDE: GUCCI SOCIAL]

Gucci’s agile-production strategy is matched by an equally aggressive social media strategy. Already the most-searched fashion brand in the world, it has powered itself to a prime position on Instagram, with 23 million followers; Facebook, with 17 million followers; and Twitter, with 5.5 million followers. “Millennials tend to have an appetite for new things and they are driven by content, emotions and personal connections,” says Gucci CEO Marco Bizzari. “They value self-expression and they value sustainability.”

[SLIDE: NESTLE]

Take a pause on that last word, “sustainability.” Agile supply chains have an additional advantage beyond speed: they create the transparency that increasingly is central to the mission-based marketing strategies that the disruptors have pioneered, but in which incumbents have lagged.

Activist investor Dan Loeb has premised his attempted takedown of Nestle in part on what he says has been the incumbent’s inability to match disruptors’ cultural appeal to millennials. “Consumers increasingly prefer a variety of new product attributes,” he writes, including “non-GMO, authentic, craft, locally-sourced, and natural.”

Big brands are committing to sustainability because their millennial consumers want it. Starbucks is among many that are deploying blockchain-based "traceability technology" to follow coffee beans from Costa Rica, Colombia, and Rwanda straight into consumers’ cups - to positively affect small farmers within its supply chain, and also give it a mission-based marketing hook for its millennial consumers.

I promised to leave you with some specific rules by which you can take advantage of the Direct Brand Economy and grow your businesses. This is hard, because the IAB is diverse, and there are many different kinds of companies in this room.

The plays that apply to brands may not be directly relevant to publishers. Something that would spark a publisher might not seem useful to an ad tech company.

So I tried to develop some ideas that could spark all of you toward greater growth. There are six strategic guidelines I think you’ll all find relevant.

[SLIDE: HACK]

First, hack the CAC. If you aren't driving customer acquisition costs down – or you're not contributing to that on behalf of your clients – then you are not walking the talk of the Direct Brand Economy.

[SLIDE: LTV]

Second, at the back end of the new funnel, you need to show how you can add value to lifetime customer value – the only other metric that matters in the new brand economy.

[SLIDE: MI CASA]

One of the best ways to boost lifetime customer value, as we have shown, is to focus on community, for community helps lower acquisition costs, foster repeat purchases, and increase basket size. Hence our third principle: "mi casa es su casa" – which I will translate badly as "my community is your community." As media get more expensive, as customer acquisitions become more difficult, brands, publishers, retailers, and others will have to learn how to productively share their communities with each other.

[SLIDE: OMNICHANNEL]

Another way to boost LTV is by helping brands change their omnichannel and adapt to the new environment of of hybridized retailing. Everyone needs to bring a team of omnichannel retailing experts in-house.

[SLIDE: GET EXPERIENCED]

But it's not enough to know about omnichannel retailing. You need to know how to use those channels to foster enduring relationships, and encourage repeat visits both to physical and non-physical environments. That means brands and their partners must get experienced – become experts at experience design.

[SLIDE: NEWSROOMS]

Finally, our sixth actionable lesson for 2019 is to match the increasing speed of product development and delivery with speed and newsworthiness of communications. Brands, in effect, must become newsrooms – and their adept publishing partners can help them.

We are lucky to be alive and working in the digital marketing and media industry. For as disruptive as disruption can be, we have the great honor of helping bring new ideas to fruition, giving birth to new companies, and creating jobs by thousands, even millions. Thank you for letting me – and the rest of the IAB – serve you as you serve the world.

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