DIGIDAY

WINTER 2018

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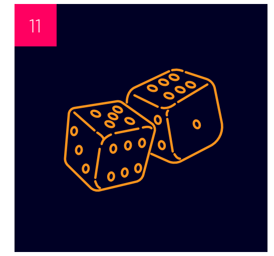

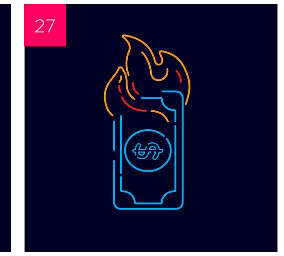

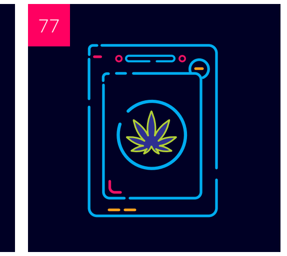

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Year In Preview

BY SHAREEN PATHAK

Those in media and marketing are no strangers to drastic changes, but 2018 brought much more of it than expected. After years of lead-up, many things finally came to a head. Facebook began the year by breaking up with news, and ended it with far fewer publishers pinning their hopes to the platform. It also brought into sharp focus the troubles that lie ahead for both sides of the industry.

For agencies, the year saw a shift towards consolidation, where bloated structures have finally become big enough to fail.

For publishers, a reckoning has come, and those with strong, sustainable brands may thrive next year while those without flounder. And in retail the growth of so-called direct-to-consumer brands, born online and raised on a steady diet of Instagram ads, has forced many traditional brands to take a long hard look at how they do business.

For brands, the clarion calls for control might be getting closer to an answer. Control means many different things to different companies, of course. For some, it means decreasing reliance on external partners by opening up agencies within their walls. That's meant a rethinking of their internal organization, and at times a rude awakening to how slow and shoddy their internal structures really are. For others, it's meant taking closer control of their data and their media spend as they attempt to avoid online ad fraud, ballooning ad tech fees and unsavory content.

In this issue of Digiday Magazine we explore what the year ahead may bring, and lay out the industry's agenda for 2019. Kerry Flynn also writes about why next year will be the year of reckoning for Snap, and why it may bode well for Pinterest and its long-awaited coming out party. Retail editor Hilary Milnes covers Amazon, and the next battlefield for retail dominance: the grocery aisle. Brands editor Seb Joseph also writes about why brands' call for control over their agencies may actually end up in a U-turn of sorts, with in-house agencies hitting a wall.

We've also got look-ahead Q&As with The New York Times' Mark Thompson, Le Monde chief Louis Dreyfus and Nike's Adam Sussman, as well as a CES preview that includes an oral history of the famed MediaLink CES floor tour.

We hope you enjoy this issue of Digiday Magazine, part of our premium membership program, Digiday+. As always, please reach out with any feedback. Thanks for reading.

Our Predictions For 2018, Graded

One of the best parts of the new year is the wild and crazy predictions one gets to make about the future. But how often do those predictions turn out to be true? Here's a review of what we saw in the crystal ball last year, graded for accuracy.

	GRADE
Amazon will emerge as a worthy ad-tech foe for Google Not yet. Amazon built itself a $3 billion ad business in the blink of an eye. But ad buyers say its tools are still clunky, and observers remain unclear how non-endemic advertisers will be able to use the	C
Publishers will get swept up in a wave of consolidation The fire sales at the end of 2017 seemed to portend major M&A activity among publishers. But even though a lot went on the market -- Gizmodo Media Group, the Skimm -- and a couple major brands, like Quartz,Time and Fortune found new homes, the major moves many anticipated feel likely to come in 2019.	C
AI won't replace media buyers The 26-year olds can rest easy, for now. Even with more brands bringing their programmatic ad-buying in-house, this process still requires a human touch, and will continue to for the foreseeable future.	A
Facebook Watch will change online video Depends who you're asking. Video remains important to Facebook, but a lot of publishers have stopped pitching Ricky Van Veen et al, who have been focused on the platform's premium video play around news, sports and shows made by celebrities.	D
Agencies, brands and publishers will all start doing each others' jobs Yes and no. More publishers launched or expanded their content studios, more agencies expanded their content capabilities, and "in-housing" was one of the year's big buzzwords. But major challenges remain with recruiting talent, changing cultures and overhauling internal structures.	B
Blockchain won't amount to much Hodl the phone: You mean a technology that no one can explain didn't gain traction in media's already complex ecosystem?	A

DTC By The Numbers

Retailers are running scared of the direct-to-consumer movement. Experts say 2019 could be the year when more and more traditional brick-and-mortar retailers see deep cuts to their bottom lines from increased DTC competition, and there could be an increase in businesses going bankrupt -- like Mattress Firm this fall -- that can't shift strategies quick enough to keep pace. Meanwhile, vendors such as the Canadian e-commerce Shopify are making it easier than ever for new DTC brands to get off the ground. Here's the global DTC industry, by the numbers.

34% — The growth of consumer spending with DTC companies in 2017, according to The NPD Group.

$1.2 billion — The amount of funding invested in direct-to-consumer startups in the first seven months of 2018, according to CB Insights.

22,000 — Number of DTC fashion and beauty brands worldwide, according to researcher PipeCandy Inc.

$16 billion — Nike's projected DTC sales volume by 2020, a 250 percent rise from the $6.6 billion in DTC sales in 2015.

13% — The volume of ecommerce sales attributed to DTC companies in 2017, according to The NPD Group.

Ad Overload

The anatomy of a programmatic publisher's page.

Publishers that rely on programmatic advertising revenue are facing an uphill battle. CPMs are constantly under pressure as middlemen and technology fees eat into their yield, and they're struggling to compete with the data-fueled ad targeting might of huge platforms such as Google, Amazon and Facebook. To compensate, many publishers are resorting to stuffing their pages with more and more ads, and forcing valuable video ads on users whenever they have the chance. Here's a look at a typical web page of programmatic-dependent publisher, Daily Mail.

Six ads above the fold.

Retargeted banner ads.

Advertising trackers from 78 different companies.

Syndicated content from Reuters.

Autoplay video ads.

Multiple ads stacked on top of each other.

What Consumers Think Of Online Ads

Marketers say a lot about what consumers do and don't want when it comes to advertising and media. "People want more targets ads," they say. "Millennials want brands to be more authentic," we're told. Rather than take markers' word for it, we decided to ask 1,000 consumers what they think of online ads. Here's what they said:

54% **said they want "more targeted and relevant" online advertising**

46 percent said they didn't, or it's not something they think about.

43% **said they click on banner ads**

57 percent said they don't, or they didn't know either way.

50% **said they think online ads influence the products they buy**

34 percent said they don't, and 16 percent said they didn't know.

68% **said they wish brands were more "authentic"**

32 percent said they didn't have an opinion on the matter.

43% **said they want to form more meaningful connections with brands**

15 percent said they don't, and 42 percent are on the fence.

The Definitive Digiday Guide To What's In And Out For 2019

In	Out
Nanoinfluencers	Microinfluencers
Worrying about brand safety	Worrying about bots
Artificial intelligence	Blockchain
Bragging about EBITDA growth	Bragging about audience growth
Memberships	Ad models
Cheddar in elevators	Cheddar on gas pumps
Instagram Stories series	Podcasts
In-house marketing	Agencies
TikTok	Snapchat
Facebook as a threat to civilization	Facebook as a threat to publishing
HQ2	HQ Trivia
CBD	Organic
Gen Alpha	Gen Z
Agencies losing talent to Amazon	Agencies losing talent to Facebook
Vice as cautionary tale	Vice as role model
DTC	CPG
Consolidation	Startups
Selling products	Selling magazines
SEO	Clickbait
Envying the New York Times	Envying BuzzFeed
Selling	Taking venture capital
Wellness	Hustling
Branded products	Branded content
Publishers merging	Publishers competing
Product labs	VR studios

Confessions Of A Young Media Buyer: 'I Got PTSD'

The agency world is plagued by long hours and small paychecks for young employees. In our latest Confessions, where we exchange anonymity for honesty, a young media buyer describes the lack of work-life balance at an agency.

So you have a new job now, what made you make the switch?

At my old agency, we had too much work and not enough people. There wasn't enough time in the day to get everything done. We needed like six more people to do all the work. It was crazy. My old agency was known to pay lower salaries, but had a good work-life balance. But the longer I worked there, the worse the work-life balance got. People kept leaving and then they were losing clients. When I first started, there were 35 people and when I left there were like 14, and we were still expected to churn out the same amount of work. Two people were let go, the rest left and they weren't able to rehire fast enough. People got offers from other agencies that would pay them more so they left, and so did I.

How much were you making then?

We were definitely underpaid and overworked. When I left, I was making $47,500. I negotiated myself a 25 percent increase when I moved to my current job.

How much better is your current job?

I got PTSD from my old job when I left for my new one. My body didn't know how to cope with not constantly being stressed and also being treated poorly by my boss. My old boss used me as a whipping post. If anything went wrong, I was somehow the one who got yelled at. He took all his frustration out on me. It was not fun.

What is your current agency doing differently?

Work-life balance used to be an issue at my current job, but they've made a lot of strides to make it better. Work is now structured so that there's a period time where we have to work more hours and over the weekend. It's about four stressful months out of the year. It's very manageable because you know there is an end in sight and it's not a forever type of thing.

Overall, do you view a lack of work-life balance an issue that permeates the industry?

There are some people who are paying attention making the necessary changes, but I wouldn't call it a trend. I'm one of the lucky ones now.

Signs Your Media Company Is Going Under

Times are tough for many media companies, particularly those that raised millions in funding and whose employees got used to a certain standard of perk. Here are six signs the media company you work for might not be doing quite as well as management claims:

This year's holiday party is in February.

The weekly snack delivery starts showing up once a month instead.

You're told to move your desk because your company is subletting office space to a DTC startup.

The beer fridge has mysteriously vanished.

There's a spontaneous company party after layoffs to boost morale.

There's a "strategic restructuring" three times a year.

Facebook's Up And Down Year With Publishers

January 11
One week after an audience development head confesses to Digiday that Facebook says it will "completely de-prioritize" publisher content in Newsfeed, the platform releases a blog post saying that it will "prioritize posts that spark conversations and meaningful interactions between people."

January 25
Facebook makes the first of several changes to its branded content policies, barring Facebook page owners from accepting "anything of value" in exchange for sharing content they did not have a direct hand in creating. Influencers who'd been earning five- or six-figure sums every month from sharing publishers' content begin "panicking," according to sources.

February 22
Facebook announces the Facebook Journalism Project: Local Subscriptions Accelerator, a three-month pilot program designed to help metropolitan newspapers in the U.S. learn how to boost consumer revenues.

February 27
Little Things, the digital publisher that rode Facebook engagement to most of its traffic and revenue, announces it is shutting down, citing the "material" impact that Newsfeed changes had on its reach, which declined 75 percent. At its height, Little Things was spending $500,000 per month on Facebook distribution.

March 28
Facebook announces that it is testing Today In, a dedicated section of Facebook that will show users more local news content. Months later, some publishers will grouse that the test fails to meaningfully improve the volume of referral traffic they get from Facebook.

April 6
Facebook announces that it will be labeling all political ads shared on its platform and storing the ads in a publicly available archive. "We know we were slow to pick-up foreign interference in the 2016 US elections," Rob Goldman and Alex Himel write in a blog post. "Today's updates are designed to prevent future abuse in elections."

May 18
David Chavern, CEO of the News Media Alliance, publishes an open letter protesting Facebook's decision to include publishers' promoted posts in its archive of political ads, accusing the platform of "dangerously blurring the line between real reporting and propaganda." One week later, a pair of publishers, including New York Media and The Financial Times, announce they will stop buying ads on Facebook in protest.

June 6
Facebook announces the first slate of news shows funded by the platform; participating publishers include ABC News, Attn:, Fox News, Quartz and Univision. Those shows, with budgets that range from $10 million per year for daily programs to $1-2 million for weekly ones, come from a reported $90 million budget.

June 11 - 13
A coalition of seven publisher organizations, representing some 20,000 titles across 120 countries, publish an open letter "strongly encouraging" Facebook to amend its issue ads policy. Campbell Brown publishes a blog post saying that exempting news publishers from the policy "would go against our transparency efforts," before explaining that it is building out a separate section of the archive specifically for news publishers' promoted posts. The new section launches less than two weeks later.

June 27
Facebook announces that its subscription tools, which allow publishers to convert subscribers directly inside Instant Articles, drove a 17 percent improvement in the likelihood of a subscription on average, in a test with 12 publishers. Some participants call the results "promising."

July 26
Facebook misses quarterly earnings estimates and reports flat or declining daily active user numbers in its two most lucrative markets. Shortly after CFO David Wehner cautions that revenue growth is expected to slow in the second half of 2018, the share price skids 20 percent, wiping over $120 billion in market value.

August 21
Nearly two years after ProPublica revealed that ad buyers could use Facebook's ad platform to illegally discriminate against minority or ethnic groups, Facebook announces it will remove 5,000 unnamed targeting options that could be used to keep certain groups of consumers from seeing specific ads. Ad buyers remark that the effort can easily be circumvented. "It's all about the optics for them," one buyer says.

October 16
Plaintiffs in a federal lawsuit claim that Facebook, which admitted to providing advertisers with faulty video consumption metrics in 2016, knew its metrics were faulty for an entire year before it attempted to address the problem. Facebook calls the accusation "without merit."

October 26
Nearly a year after Facebook's launch of a trial version of its subscription tools for publishers, Digiday reports that Facebook has cut the implementation time in half, to four weeks, and that it has begun working to integrate into popular paywall solutions, including Piano.

October 31
U.K. MP Damian Collins sends Facebook another letter imploring Mark Zuckerberg to testify before an international committee on the subject of Cambridge Analytica on Nov. 27. "The hearing of your evidence is now overdue," the letter reads.

November 19
Five months after rolling its ad breaks program out to creators across its platform, participants tell Digiday that the program is failing to deliver meaningful revenue, with one creator revealing that over 6 million video views earned them "less than the cost of a McDonald's Happy Meal."

November 24
The Guardian reports that the British government has seized internal Facebook documents from the founder of U.S. firm Six4Three while he was on a business trip in London. Damian Collins describes the move as a response to an "unprecedented situation."

Snake Eyes

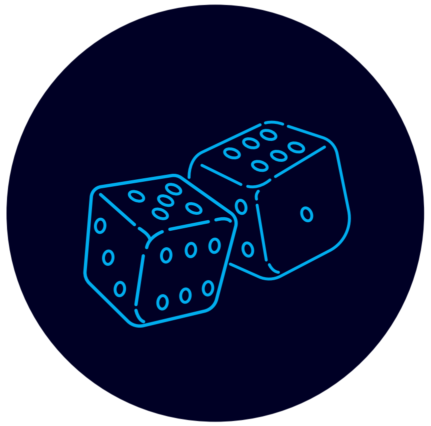
Digital media's rough 2018 portends an even more uncertain year ahead. ***BY BRIAN MORRISSEY***

The tone for 2018 was set early on. At the beginning of January, Facebook used the annual media and tech gathering in Las Vegas for the Consumer Electronics Show to break the news to publishers: It was effectively breaking up with news be deprioritizing news in the, yes, News Feed. The move wasn't a shock -- this was one of our forecast items in last year's Year in Preview issue -- but it still landed with a thud, with one publishing executive giving the the bleak assessment to Digiday that they were "losing hope."

The algorithm changes, and typical Facebook gyrations in strategy and priorities in the face of a harsh investigation into its role is society and politics, rolled across the publishing landscape in the year leaving wreckage behind. Just a month after Facebook's change, LittleThings, which had bragged of reaching a 50 million audience seemingly overnight thanks to Facebook, was no more. It was the first of many publishers to succumb, or at least reach dire straits, thanks to relying heavily on Facebook. Upworthy, another poster child for Facebook-charged publishing, was taken to the brink of collapse. Mashable was sold in a fire sale. The year ended with Mic, a millennial news publisher, evaporating after a key video programming deal with Facebook was canceled.

The era of Facebook reliance definitively ended in 2018. Even the strongest and most optimistic of digital media companies, BuzzFeed, spent the year carping about Facebook (and Google) needing to pay publishers directly far more. Peretti himself seemed to have had enough waiting and banking on Facebook to see the light, unveiling a new multifaceted revenue strategy that would take BuzzFeed's brand in many directions, wring revenue where it could and not rely on the good graces of Palo Alto. "Digital media companies have to figure out how to get lean, make money on their own and find business models that work," he said on the Digiday Podcast in July.

For many in digital media, the wrenching change, while unfortunate, was a needed reckoning. The era of cheap VC money and cheap Facebook clicks led the market astray. It was hard to operate a profitable media business doing the basics when you had venture-funded competitors will to trade losses for audience growth. The media business has never been easy -- indeed, as Skfit CEO Rafat Ali commented it should be hard -- and that's set to be the case in 2019. As a general once said of Iraq



during the insurgency, it was "all hard, all the time."

The story was no different for traditional media companies. Condé Nast ended the year reeling, facing $120 million in losses and the departure of the CEO who just months before had unveiled a company-wide austerity plan to turn around its fortuned. Time was swallowed by meredith and saw the Time Inc name disappear. Time magazine itself ended up in the hands of Marc Benioff, as traditional media continued its march to be a trophy for billionaires. Sibling Fortune, meanwhile, was scooped up by a Thai businessman.

The gyrations of 2018 and the prior years have taken place against the backdrop of an unprecedented economic expansion going on a decade-long. Rising interest rates, trade wars and stock market drops all point to a recession. As money comes out of the economy, so too will it come out of ad budgets, already disproportionately dumped into Google and Facebook, leaving digital media companies with a tough hand.

It is no surprise that Peretti himself floated the trial balloon late in the year that the biggest digital media companies -- BuzzFeed, Group Nine, Vice and Refinery29 -- should merge operations. The stated rationale was about negotiating better terms with Facebook and Google. But the real reasoning is more prosaic: Merging back-office and tech operations will wring lots of cost savings (jobs of people) from these companies that need to rationalize their cost bases. The irony, of course, is the original competitive advantage of digital upstarts was that they didn't carry with them the bloated costs of legacy media. Everyone grows up to be their parents, it seems.

It is not all doom and gloom in media as a new year starts. There are those who have built solid businesses -- not just money-losing audience engines -- by nailing the basics of having strong brands and making money in a variety of ways. Publishers like Complex Networks, DotDash, Bleacher Report, The Information and even old-timers The New York Times and The Washington Post have all, in their own ways, showed the path forward. As Ali points out, this path has never been, and never will be, easy. But the publishers that have quietly laid the groundwork for sustainable businesses will be rewarded in the year ahead as more

The Consolidation Complex

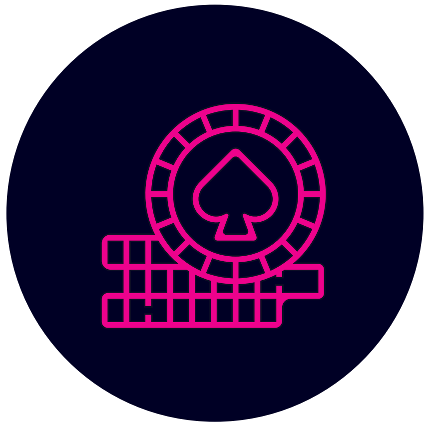
Complex CEO Rich Antoniello has emerged as a clear voice of those who have done the hard work to build media businesses that are sustainable. Early on in 2018, he said that the digital media world was a game of musical chairs, only hundreds were playing for a few chairs. Venture capital was the open bar at this musical chair party, with some people kidding themselves that the good times would last forever. But even before this year, the VCs closed their wallets to new funding -- or cut onerous deals with bloated, unprofitable media companies that are now stuck.

The only solution, as Peretti said, is to consolidate. Left unsaid in Peretti's call for consolidation to take place among digital media players is that the obvious strategic buyers -- Comcast in BuzzFeed and Vox Media's cases; Disney for Vice; Discovery for Group Nine; Turner for Refinery29 -- are not going to shell out money for these companies. That leaves fewer options since the loose talk of IPOs is over. The most likely exit for common VC backers is to roll together companies; Group Nine, which combined Thrillist, NowThis, The Dodo and other Lerer Hippeau-backed properties was a forerunner of this approach.

The lifeline of platform payments, an issue that unites Peretti with old guard like Rupert Murdoch, is unlikely to pan out. Facebook has proven time and again to be an unreliable partner. Mic bet its business at the end of a news program for Facebook Watch for which it got a $5 million fee. Facebook canceled that project as it again reassesses how it approaches video. Publishers have scrambled time and again to respond to the whims of Facebook, only to regularly be left playing the role of Charlie Brown flying through the air as Lucy removes the football at the last minute.

The overall ad market, as dominated by these platforms, will also force together big players. Antoniello talks of a handful of big companies in the market. And most markets do tend to coalesce around five to seven competitors. Beyond that markets tend to operate inefficiently. The digital ad market right now is the opposite: it is functioning as a duopoly (maybe a troika with Amazon's emergence) and then a bunch of others fighting for scraps.

There is little evidence this will change, no matter the scandals that come out about Facebook. Advertisers have shown time and again, they will not back up tough talk with action when it comes to pulling spending from platforms. Until there is a user revolt, Facebook is unlikely to be hurt with advertisers since it's trove of data, sheer scale and targeting capabilities far outstrip alternatives. Any declines seen on Facebook itself will be made up for with Instagram's continued strength.



That leaves an ad market that is bound to be tough going overall, made possibly tougher by an economic downturn many see coming. The many missed forecasts this year -- Vox Media and Vice Media both racked up big misses -- have cemented the conventional wisdom: relying on advertising for the overwhelming majority of your business is a fool's errand.

The death of the middle class

Underlying the eulogies for publishers who went away or became shells of themselves was a stark fact: Many brands were part of the vast undifferentiated middle class. Everywhere in the economy we see the middle squeezed. The actual middle class that powered many middling publishers is itself going extinct, as society divides between the 1 percent and the army of Uber and Lyft drivers hoping to make ends meet. 2018 proved how bad the middle was to occupy.

This was telegraphed in late 2017 with the collapse of Mashable, which started its life as a focused publisher devoted to the emerging social media marketing sector to then, once fattened with venture capital and bigger dreams, start covering Russian incursions into Ukraine. It, and others like it, tried to be everything to everyone, only to find itself meaning very little to anyone.

The only solution for middle class publishing brands is to verticalize. This is the path New York Media smartly took early. Instead of a magazine monolith, the company spun out vertical brands like The Cut, Vulture, Grub Street and now The Strategist and Intelligencer. Complex, too, has developed franchises like First We Feast and Sneaker Shopping. Verticals will continue to provide some measure of safe haven in the years ahead, as deep ties to specific audiences can give some hope to getting out of the commoditization trap that's faced most independent publishers.

The ad market will continue to be unforgiving to the undifferentiated middle class, as ad buyers look to continue pushing more of their budgets through programmatic channels. Many have blamed programmatic for the predicament many publishers face, but programmatic -- like reliance on Facebook -- has just exposed many publishing brands for having weak ties to their audiences. In many cases, in fact, the publishers didn't truly have audiences, they had traffic they rented from Facebook. Among the biggest lies publishers have told in the past few years, "We don't buy traffic" ranks rather high.

The diversification push

2018 was the year of diversification. For most publishers this was already well underway. The Facebook heyday was over.

The display ad market cratered long ago. For some publishers, this came to late. But others have worked for years to have a variety of ties to their audiences, ideally direct, as well as a variety of ways to make money.

The rise in subscription models gave some hope. The New York Times crossed 4 million subscribers. The Washington Post is making the model work. The Athletic is proving out the model in sports, attracting rare digital media venture capital in October with a $40 million round to continue building out its local sports verticals with high-quality sportswriters poached from newspapers.

There is, naturally, danger to getting too giddy about the prospect of recurring revenue directly from people. At some point, there is subscription fatigue. Just how many accounts are people expected to have? And more critically, subscriptions tend to top out at less than 5 percent of an audience. That means many subscription programs for big publishers won't make up for the loss in ad revenue. Hopes that platforms will aid in driving subs have, of course, not panned out. There have been middling results from both Google's and Facebook's programs. Apple News remains a platform firmly in the "lots of traffic, not much revenue" bucket. The push for subscriptions will expose many publishers for not having deep enough ties to their audience to warrant a paying relationships. That will mean more cost cuts.

The Trump bump many news publishers saw in subscriptions will continue to cool. Subscription programs tend to start off strong and then settle into a battle of acquisition while trying to mitigate churn. The sheer variety of subscription models, from meters to memberships to donations, speaks to how difficult it is to find the right fit. Some news publishers, from The Guardian to BuzzFeed News, are seeing traction in basically asking for donations as a virtue signaling exercise. Others, like CNN, are looking past paywalls to find membership programs for extra access targeted as specific audience segments.

The race will continue in the year ahead to find other ancillary revenue streams. Commerce emerged as a growth area in 2018, as publishers scrambled to drive affiliate revenue with their own versions of product catalogs. Others pushed out branded merchandise like t-shirts and mugs. This gift shop approach, with some exceptions, is likely to remain firmly in the "incremental" bucket. BuzzFeed bragged about driving $50 million in product sales, but considering typical affiliate fees that's not going to move the needle at a company the size of BuzzFeed.

Others are betting on events, which don't scale well but can be done at good margins, and licensing intellectual property. The sheer number of festivals from the likes of PopSugar, Girlboss, Ozy, and New York Media's Vulture speak to this opportunity -- and a crowded space. Many hope to somehow replicate the success of a ComplexCon, which has grown into a sprawling cultural celebration of streetwear and hip hop culture -- and now accounts for nearly 10 percent of Complex's annual revenue. More are looking to a version of the Disney model, building franchises that can be used to make money in any number of ways.

The road ahead

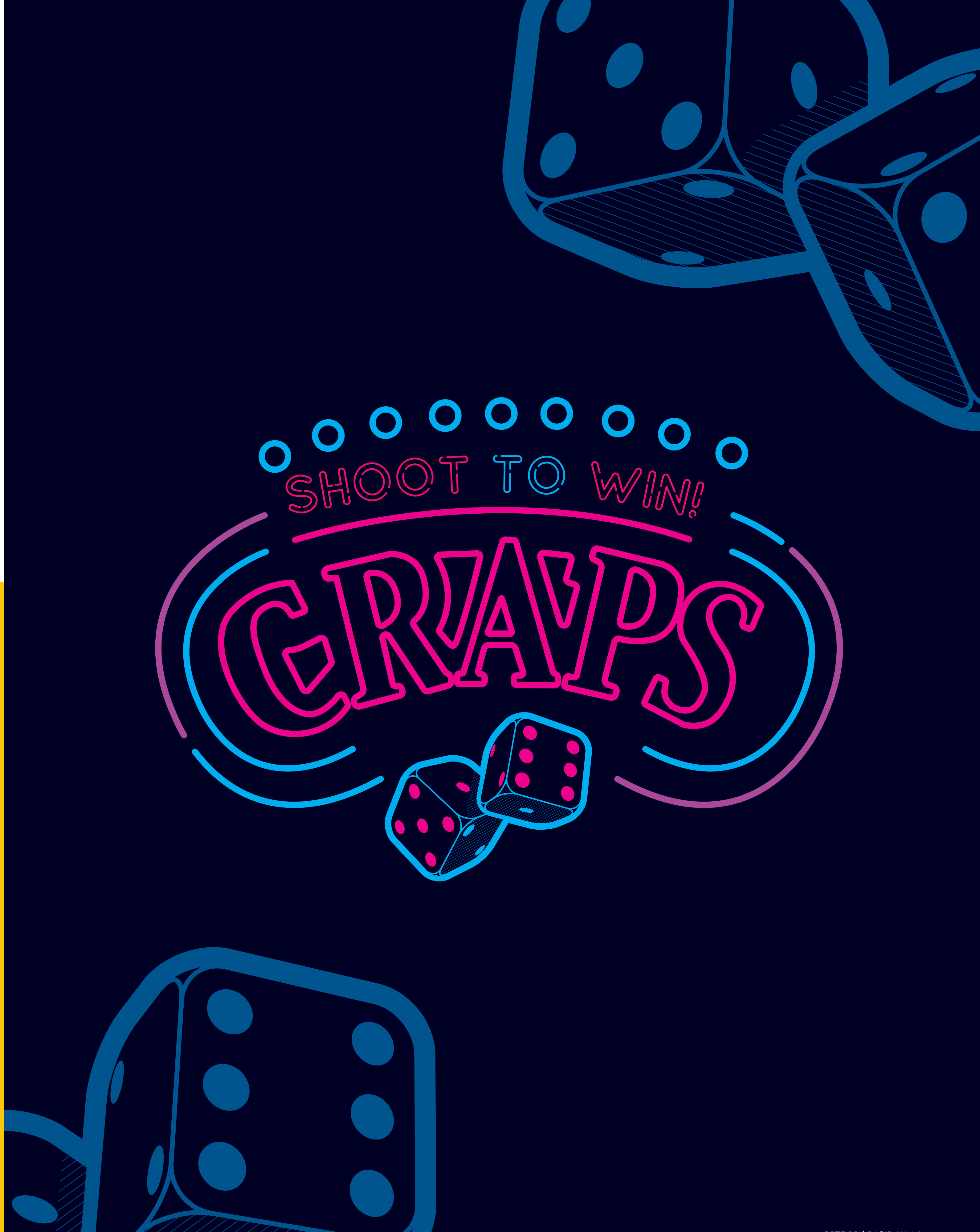
The year ahead promises to be a lot quieter. There will be less talk of exploding view counts and chest-thumping over Comscore numbers. Instead, publishers will turn to the hard work of making numbers work. In some cases, this won't be possible. The closings of 2018 will be joined by others in 2019. There will be more cutbacks driven by the cruel math of a depleted ad market.

And there will be bright spots. Differentiated media with diverse business models -- and strong audience ties -- will continue to do well.

PREDICTIONS

Alan Rusbridger, Author and Former Editor-in-Chief at The Guardian

"Next year we need to keep changing the relationship with reader, viewer or listener, that's at the heart of it. They don't need us in quite the same way that they did, those of us that started in the age of the printing press didn't have to think much about the options the reader had, because they didn't have many. Now they have multiple options and are perfectly free to engage with discussions of their own, that has changed things. Some journalists have been quite resistant so almost the reverse is happening. Some have said 'our readers are morons, we met them in the comments sections, speaking to them is not our job.' That's the wrong way of building trust. Just saying 'come back when you want to pay' seems to be a misreading of the debate and discussion of 2018."



'The Threat Of Being Dismantled Has Shaken Them'

Le Monde's Louis Dreyfus sees a turning point in the pressure mounting on Facebook and Google.

BY JESSICA DAVIES

For French newspaper Le Monde, it's been a good year for both advertising and subscriptions revenue.
The newspaper's advertising alliance with domestic rival Le Figaro has generated €5 million ($6 million) within ten months, while digital subscriptions continue to surge. Le Monde's Louis Dreyfus is bullish on continuing that momentum through 2019, spurred by a belief that advertisers will become less tolerant of brand safety issues with the platforms, eventually.

What have been the most pressing challenges for French publisher business models in 2018?
If you want to be an alternative option to the GAFA [Google, Apple, Facebook and Amazon] for advertisers, then we must promote the quality of the content and environment in which their ads are published. Advertisers have got used to being able to buy cheap reach on Facebook and clients are still fascinated by the strength of Google and Facebook. We believe that the best way for major publishers to see digital ad revenues grow is to emphasize our differences versus GAFA, in terms of the environment.

How have you gone about proving that to advertisers?
It is one of the main reasons we why built an exclusive alliance called Skyline with Le Figaro. Through that we can offer big advertisers very high brand safety within high-quality environments. Our combined audiences puts us in third place in the French market, just after Facebook and Google, and much closer to Facebook.

What revenue have you made from Skyline?
Within ten months we have made €5 million ($6 million) combined with Le Figaro. My bet is that with the increasing question marks around brand safety and data on Facebook we will get more and more major advertisers coming to us. In future we believe that advertisers' main drivers for allocation of ad revenues will be the desire for more media transparency and what brand safety guarantees can be provided by media owners.

Whenever advertising spend has been pulled from platforms for brand safety issues, it isn't long before the money returns there.

Yes, although advertisers are starting to speak out more, we don't yet see revenues coming back to us. But we are convinced it will come back.

How would you describe publishers' relationships with Facebook and Google in 2019 compared with 2018?
Publishers are starting to have more mature relationships with both platforms, meaning they are less and less mesmerized by their performance and more focused on where they could be a big danger. The threat these companies have faced of being dismantled by regulators — whether in the U.S. or Europe — has shaken them. One of the solutions they may have for this is to show they could be of some help to us [as publishers] to invent a new business model. We are trying to be pragmatic at Le Monde, and with Facebook we have started developing a good relationship with them around developing digital subscriptions. That's a change Facebook volunteered to address, and it has helped. With Google we just launched an artificial-intelligence project, similar to what The New York Times did, to better manage comments below the articles. We are fully aware of the strength those companies have in terms of developers and that they are getting better at helping major publishers to find a new business model.

Some believe that the General Data Protection Regulation just handed more power to Google in particular. Do you agree?
I don't think GDPR has given more power to the platforms. But what happened in May showed how small and far away Europe was from Google's concerns. It also showed the weight of Google's legal department. At the time, publishers were astonished by Google's dogmatic, legal answers, along with the last minute changes it made without taking into account the needs of publishers. That is the demonstration of the difficulties of working with Google.

What is Le Monde's current split of advertising versus subscriptions revenue?
Currently, 75 percent of my overall revenue comes from readers, which is a very good split. That's for print and digital subscriptions, and it helps me show everybody externally and internally that my main driver is the content. Within digital specifically, advertising is 55 percent of digital revenues, and has grown 20 percent this year.

In the U.S. people talk about the Trump bump for subscriptions publishers, in the U.K. it's been Brexit. In France, what big news moments in 2018 drove subscriptions?
Thanks to the success of Spotify and Netflix over the last two years, and thanks to the presidential election in the U.S. and then in France through 2017, we saw a surge in digital subscriptions. And it is starting to be a real driver in terms of transforming our business model. That coverage drove a 32 percent surge in digital subscriptions by the end of 2017. Although 2018 there was less news intensity, our digital subscriptions have continued to grow. When there are really big stories that require deep investigation we pool resources with other international publishers in order to increase our understanding. Not with domestic rivals, but with international publishers -- sometimes as many as 30 other publishers depending on the length of the investigation. Each publisher dedicates resources towards it. The end products are deeply investigated stories that also help drive subscriptions.

Did the noise around the spread of misinformation around political campaigns help drive subscriptions?
I wish, but no I'm not sure that helped us. That said, my bet is that it will help us in future. For subscriptions, but also advertising. There is a growing distrust in Facebook that will help advertisers to understand that they are dispersing money on social platforms where the data appears to be wrong, and there is no context, and that's irresponsible.

What are your goals for 2019?
To continue to invest in the technical architecture of my websites. We recently launched a new platform for Le Monde, designed to increase our reader loyalty and drive more visits and page views per visit, and better promote our subscriber-only content. I want to better understand our subscriber needs and how to address them. Companies like Netflix are an example to us. Having such big subscriptions surges has helped me prove internally the importance of our editorial and the need for continued product innovation. We have launched Le Huit, which is a similar platform to The Washington Post's Arc. In 2019 we will continue to invest in products like this, that help drive our subscriptions.

PREDICTIONS

Meredith Levien, CRO, New York Times

"We'll put more resources in business journalism. The way tech is reshaping every aspect of how the world works and what power looks like is a giant story. Work as the last remaining public square is a big idea. Business journalism is at the beginning of a very important renaissance. It is going to become even more important in the world and at the New York Times."

'You Have To Make Multiple Bets'

The heads of Complex Networks, Group Nine Media and Dotdash discuss how to succeed in publishing today. ***BY LUCIA MOSES***

At Digiday's Moguls event in Key Biscayne, Florida, in September, we gathered Rich Antoniello, CEO of Complex Networks; Christa Carone, president of Group Nine Media; and Neil Vogel, CEO of Dotdash, for a conversation about the current challenges and future opportunities in digital media. An edited and condensed transcript of our conversation follows.

Lucia Moses: We've heard people have declared the year of the platform, the year of the decreasing reliance on platforms, the year of the consumer. Where do you see things for companies trying to succeed in media?

Rich Antoniello: Everytime someone says it's the year of something, we're guaranteed to run away from that. If you think of anyone who's doing well, they're vertically focused on one thing. We look at the one thing we do -- whether it's pivot to video or licensing or subscription models; we are deliberate about whatever we enter or don't. A lot of people chase markets and segments without a strategy.

Neil Vogel: This whole idea of the year of something is people trying to pivot from bad ideas. It's created this narrative that publishing is broken. What you're seeing is companies chasing bad ideas, and the outcome is people who raised too much money and old-line media people that can't quite let it go. That covers like 80 percent of the business. The others are accruing all the benefits. We are one of them.

LM: How do you look at risk?

Christa Carone: I do agree on the year-of-anything, but there's a "but." I joined Group Nine from outside the media world -- Xerox, Fidelity. I bought a lot of media and this is the first time I'm selling it. I see how much our product portfolio has changed. We're focused on responsible growth. That's a totally different filter in how you scale a business. People pivoted to video and laid off a massive edit staff and hire video producers -- all of a sudden they were in complete dependence on Facebook and then Facebook changes the algorithm. Now you're looking at a much more expensive video production team.

RA: You can't afford to take one bet anymore. You have to have multiple ones. [Jeff] Bezos gets credit for lot of things, but one thing he doesn't is, he has so many new revenue lines. People forgot the Fire phone. That was a multi-billion dollar mistake. People aren't being diversified in their strategy. And I don't mean diversifying revenue streams; I mean hedging bets across the board.

NV: It's more important to know where not to invest. What are we going to be. And when. We have five brands -- health, personal finance, tech, health. We spent $26 million in content in the last two years and it's worked because we figured out how to make the best content on the internet for the need. The bets become obvious. I'm not going to bet on Facebook. I am going to bet on Google, Pinterest, Apple News and Flipboard. I might bet on Insta, I'm going to play around with Snap.

LM: It sounds easy now, but what were the challenges along the way?

NV: There were a lot of people saying, 'I don't understand what you're doing, how come 2 percent of your traffic is from Facebook.'

RA: Those are extremely fun conversations.

NV: IAC is populated by extremely smart people that have had incredible success. To tell them I think they're wrong, you gotta stick to your guns. First couple times we did everything wrong. When we had a thesis, they said, 'you think you're right, do that.' I had runway.

LM: Is it hard to explain to your investors what you do and why?

CC: In a way, they're in our business and we help them with their future. Managing expectations of the investors is not a primary concern of ours. It's the benefit of patient money. I had the fortune of working with Fidelity which many people don't realize is a family-run business. They are the most diversified business I've ever been part of. They own a freaking tomato farm in Maine. They have no investors. If you looked at their business story, logical diversification along with patient money really does over time turn into the most successful businesses.

LM: What are some of the other advantages you need today?

RA: There's so little business acumen in the digital space, lack of discipline to believe in the marketplace you're in. I said no to programmatic for so long, and it was the right move because it allowed us to keep premium. We moved into it only when you could do big direct deals.

NV: Of our entire management team, no one ever worked at a publisher before. That's our biggest advantage. So we go to show up and say, why would you possibly do it this way? We're really careful about bringing conventional wisdom into our organization.

CC: The client perspective is hugely advantage for me. You rarely in publisher sales have someone with client-direct experience. When you talk about the client, I'm actually talking about the capital-C client. Agencies are super important. They're needed in our business, but increasingly, they're saying, "I want to understand your audience, help me develop a big idea that's going to resonate with the idea I'm trying to pursue." The second is the business acumen. Striking a balance between when you need procedures without being overly bureaucratic.

LM: Getting back to Facebook, are publishers too defensive when it comes to Facebook?

CC: To Facebook's defense, we overly criticize them because they're not working out of a playbook.

RA: They should bring us into it way more -- but have you ever seen a bigger company that iterates faster than them? That complicates the situation because the minute you get good at something, they change it -- the algorithm, the monetization strategy.

NV: Why should Facebook or any platform give a shit about any of us? I don't understand why publishers expect Facebook needs to, wants to or has to bring them in the tent.

RA: Because the content fuels these platforms.

NV: I agree but if Facebook's mission is to connect the world, make their users happy, why would they have any bias as to whether great publishing content makes people happy? If dog pictures make people happy, do that.

RA: They want TV dollars. TV dollars are not coming from dog pictures. It's going to come off of our backs -- our IP that we develop on that platform.

NV: People got a lot of easy traffic they didn't have to pay for, and now they don't.

LM: Facebook's made a big bet on Watch to get TV dollars. How do you see it panning out?

RA: It's where everyone spends their time. You use three to five apps on your phone. Facebook is a whole bunch of verticalized communities -- cricket, lacrosse, the niche-oriented super fan bases -- that are not really served on other platforms. Those are the ones that are going to win. I do think Watch is going to work but it's going to be a completely different iteration. It's going to look like a true skinny bundle, a much more verticalized version of YouTube.

CC: I completely agree. These communities of interests -- there's a tremendous amount of purchasing power. Marketers need to shift from demographics to psychographics and be much more nimble with their spend. I also think, look at Instagram. There's learnings from Watch that Facebook will be maniacally looking at that can be applied to the platform where they have the audience.

LM: OK, prediction time.

NV: A reckoning is coming. You're going to finally see a lot of the large, traditional guys with great brands that haven't quite made it to where they should be get in the hands of people that are going to do stuff with them. On the other side, there's a lot of guys who raised too much money that aren't going to get their return for their investors, but they're going to have to do something, and they're going to end up in the hands of someone who can do a more thoughtful job.

RA: I'm going to go big. One thing that's not been covered is that a lot of the money that was raised in the last 18 months came with a lot of teeth -- and I don't think people realized they took money thinking I'll never have to worry about this. You have no clue -- it's beyond strings attached. Clawbacks. Ownership structures. Takeovers. There is only one person getting money. That is the core of the reckoning. The other side is, I bet advertisers finally make a delineation between scale and audience. And, you will see for first time ever advertisers, clients, having direct-to-consumer conversations and the people able to bring that to the table are going to be the winners.

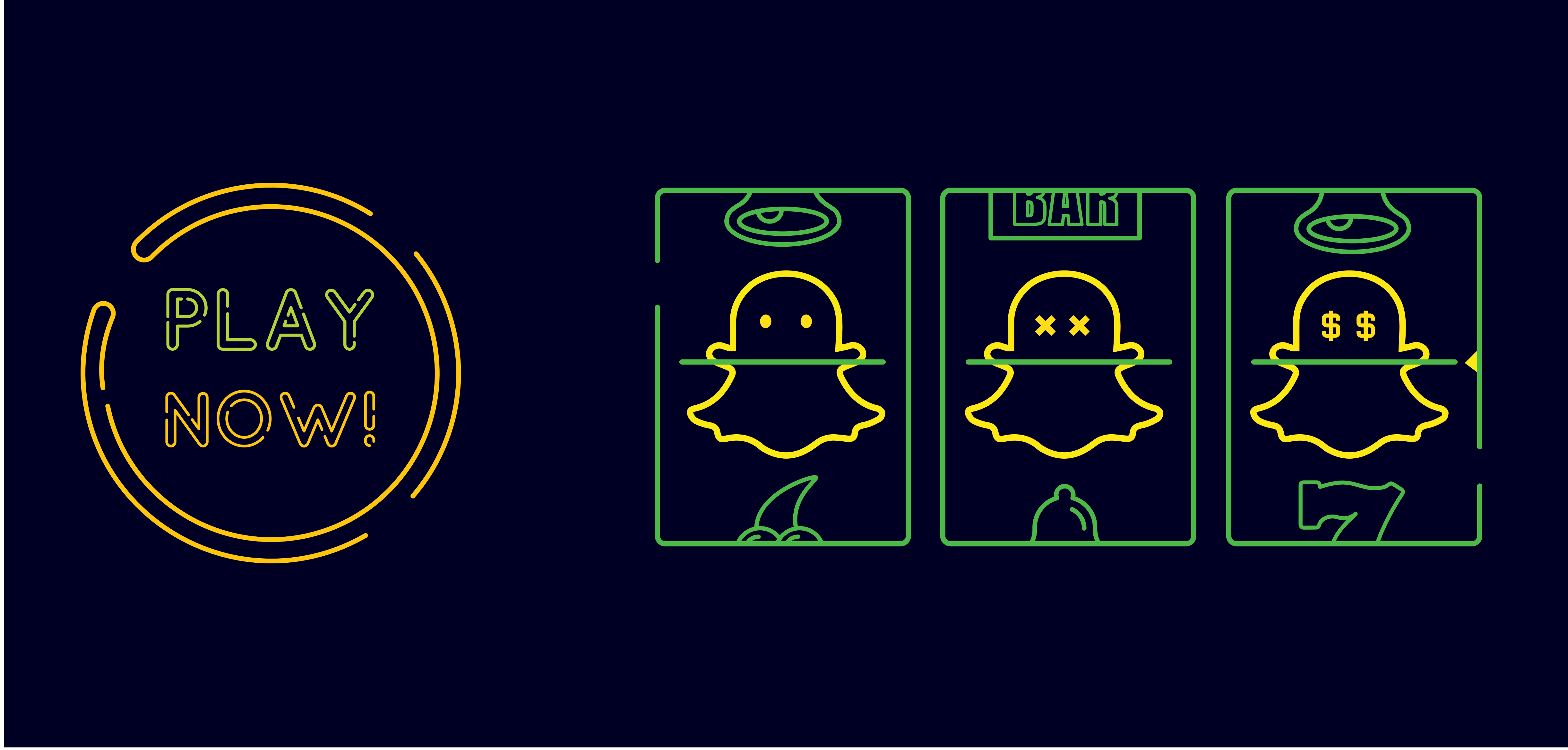
CC: We're already starting to see this trend play out with advertisers. It's just going to build in 2019. The advertiser is taking a bit of a winner-take-all approach, putting their money with fewer partners. Before, it was a lot of experimentation. I'm so used to my spots and dots and my print ads and banners and buttons. Now you're telling me I need to have all these creative partnerships with all these publishers. I'm not staffed to manage all of that. The KPIs really aren't aligned with bottom-of-the-funnel conversion, and I'm overwhelmed with all of the options. So now there's a bit of a back to the future here where I just start with the big idea. Who can connect me with the audience, based on personas and not traditional demographics.

> "You can't afford to take one bet anymore. You have to have multiple ones."

PREDICTIONS

Justin Smith, CEO, Bloomberg Media

"The big bet for 2019 is not making any more bets when you already have so many bets on the table and focusing. We've made four very big bets [this year]. There's huge execution risk when you make four big new things, that involve new people, transformation, creation and invention. It's important to know when to stop and focus on the things to watch. 2018 was executing and 2019 is building on the success. Hopefully, all four will work wonderfully. The cycle is so rapid. Look to us in second half of 2019 for new ideas that are big and scalable. You can't whine about media disruption, you have to join it."



Ghosting

As Snap collapses and more users go to Instagram, advertisers and publishers share what's left of Snapchat. ***BY KERRY FLYNN***

Snap's stock reflects a collapse. On Oct. 26, the day after its third-quarter of 2018 earnings, the price fell to $6 per share, far from its peak of $27 from the day it began trading on the NYSE. But the stock doesn't tell the full story.

At Cannes 2017, a giant yellow Ferris wheel mesmerized advertisers. But for one agency executive, looking back, it was "symbolic of them being full of themselves. All of the sudden Snapchat woke up. We were like you were too cool and wouldn't have a meeting with me two years ago. Well, there's a bigger, better option now."

Since Instagram copied Stories, Snapchat has struggled with a perception problem. Some users have decreased their frequency of use or abandoned the app. In February, shortly after Snap's big redesign, Kylie Jenner tweeted, "sooo does anyone else not open Snapchat anymore? Or is it just me... ugh this is so sad." In June, Instagram Stories reached twice as many daily active users than Snapchat. Snap was sinking. Ironically, that Ferris wheel at Cannes was previously conceived as a yellow submarine, a publishing executive in attendance says. A Snap spokesperson denied that to be true.

But not all has vanished at Snapchat. More media companies are publishing on the app and seeing better engagement than other platforms. More advertisers are experimenting with new formats, and while they may not be investing more dollars, they haven't given up. And while many executives have left Snap over the last year such as advertising lead Imran Khan and content head Nick Bell, new hires -- notably from Amazon -- could help the company.

Snapchat Discover, the app's publishing platform, has grown from 11 media outlets in January 2015 to now more than 100. It looks overcrowded, compared to how it used to be, and is quite full of tabloid-esque content. But new partners are finding success. WorldStarHipHop debut on Snapchat in September and touts hundreds of millions of opens per month. A poll on a recent edition received 400,000 votes.

"There's nothing we see that has this level of fan commitment and fan engagement on the internet, period. On Instagram and YouTube, you literally compete with all the world's information. You are in a foot race with humanity, and the algorithm doesn't care if you have the Super Bowl," says Reza Izad, CEO of Studio71, which manages the channel.

Culture Trip joined Discover in October as part of Snapchat expanding Shows, its TV-like product, to the U.K. To start, the publisher is reformatting its series Hungerlust rather than invest in something exclusive for the platform. The goal is "brand awareness," especially in the U.S, says Mike Fox, CMO of Culture Trip.

"I have a lot of empathy [for Snapchat]. They're in a similar phase to when I was at Facebook. They're trying to build the platform. What I'd like to see them do is evolve where the partnerships are deep and more two-way where we can drive traffic from Snapchat into other experiences," says Fox, who was director of marketing at Facebook from 2009 to 2014.

At some agencies, clients have stopped asking about Snapchat. But large agencies have seen many of clients continue to invest. Jenny Lang, svp, managing partner of integrated investment at UM Worldwide, says her clients have been interested in Snapchat's unskippable ad format and swipe-up to view a trailer.

While Snapchat has a reputation for attracting millennials and Gen Z, the young parent demo has interested entertainment and CPG brands, Lang says. New targeting capabilities from Nielsen helps these clients link actual consumer purchase data.

"If your budget is limited you might just be going to the highest reach which is obviously Facebook, YouTube. But with our larger clients who want to be innovative, want to extend their reach, we recommend Snapchat. Nobody's saying I'm going to blow up on Snapchat this year, but they keep trying with it," Lang says.

Turnover at Snap has been a blackmark for the company. In the last year, Snap's chief financial officer, chief strategy officer, vp of product and vp of content have resigned -- to name a few. Kristen O'Hara, vp of U.S. global business solutions, left after an offer for her to become chief business officer was rescinded. It wasn't a good look for Snap CEO Evan Spiegel, but advertisers say hiring Jeremi Gorman, former lead of Amazon's ad sales, is a smart choice for the time being.

"It used to be that everyone wanted people from Google and Apple. Now everyone wants people from Amazon. She isn't gonna stay that for long unless some miracle happens," an advertising executive says.

The pressure around Snapchat, including the threat of Instagram, begs the question: Will Snapchat stay independent? When Andrew Ross Sorkin asked what it would take to sell during The New York Times' Dealbook conference on Nov. 1, Spiegel paused for 5 seconds and then said, "I'd have to talk to [my cofounder] Bobby about that one. I think for us we have a real belief in what we're trying to accomplish. We believe it's fundamentally different than what we're seeing in the world."

'Every Big Tech Company Is A Competitor'

Nine months on the job, ESPN boss Jimmy Pitaro talks about 2019, the future of TV and that looming battle with tech giants.

BY SAHIL PATEL

ESPN president Jimmy Pitaro chats with us about 2019 priorities, going direct-to-consumer and the dual issues of cord-cutting and rising sports costs.

Heading into 2019, what are your top priorities?
We had a priorities meeting a couple of weeks ago here in Bristol -- with people from around the world including our international team, all of our North American areas, flying in for a day-and-a-half summit. We fleshed out that our core business priorities are for the next year and beyond and we were able to hone in on four: direct to consumer; audience expansion; quality storytelling and programming; and innovation.

Direct-to-consumer is a top priority for Disney, which formed the Direct to Consumer and International division earlier this year to oversee such efforts. How does that play out with ESPN+?
We're responsible for content, programming, production, rights acquisition and partnerships. We work in concert with DTCI on the tech front and building the platform from the front end to the back end. It really is two units collaborating as one team.

More than a few people were surprised that ESPN+ had passed 1 million paying subscribers just five months after launch. What's driving sign-ups? Exclusive live sports? Original content?
I'd love to tell you it's one thing, but it's not. Our goal is to serve the sports fan and that includes live events, but also includes original programming and studio programming. Soccer is resonating really, really well within ESPN+ because if you're a soccer fan, you're going to want MLS, and Italy's Serie A and UEFA. Combat sports is also apriority. Our UFC deal is not launching until January on ESPN+, but we've seen top-ranked boxing move the needle. In terms of originals, we created a series called "Detail" with Kobe Bryant, which has been a very big success for us. We decided to expand it into other sports and now have Peyton Manning for the NFL. At the same time, this is just the first inning. We're pleased with the performance of the service, but there's a lot more to come. We're excited about the rights we're contemplating about bringing to the service.

All of that -- live sports, original series -- is costly. And yet ESPN+ is only $5 per month. Is this sustainable?
We have the best rights-acquisition team in the business. And our people have been doing this for a long time and they've always faced tough competition. They operate with an incredible amount of financial discipline. But we are in this for the long term, and we will continue to focus on serving the sports fans, anytime, anywhere.

ESPN lost 2 million cable subscribers in the past year and is now at 86 million. Can ESPN+ replace losses due to cord-cutting?
We are running parallel paths here. We're making investments on the digital side, which includes ESPN+ and the ESPN app in general, which had 20.6 million unique users in October and was up 19 percent year over year -- and that's Comscore data. And that goes back to one of our other priorities, which is audience expansion. Comscore numbers for Octobers have us at 101 million unique users across platforms. We're number one and we're growing. And this includes the traditional MVPD model, which remains a priority for us because it's a model that has been good to us.

But cord-cutting is still on the rise. Can anything -- even YouTube TV, Hulu's live TV and the other virtual MVPDs -- replace lost traditional subscribers?
Our CFO spoke about this on the last earnings call. We have now had five consecutive quarters of improvement in the rate of net subscriber declines. Beyond that, I can only speak to where we are today. On the digital MVPD side, these products are growing faster than I think the industry anticipated. We're believers.

Many of these services promote skinnier bundles. Can ESPN remain a vital part of those base bundles -- especially as some services are even offering non-sports bundles?
We love that we are part of these products today. I can't predict going forward, but I will tell you that live sports remains incredibly powerful. I don't see that changing. Just look at the Rams-Chiefs Monday Night Football game -- we were up 53 percent [in viewership] versus the same game last year. Monday Night Football overall has been up about 9 percent this year. Even MLB was up 1 percent year over year.

Live sports are only getting costlier. But if the current pay-TV trends continue, does that mean at some point ESPN will have to say no to some live sports -- especially if Amazon and other tech giants also start bidding up the prices for these rights?
There's no doubt that there's competition out there, but we like our hand. We've always had competition and our team has done a very good job closing deals in a smart, disciplined way despite all that. If you look at the breadth of offerings that ESPN brings to the table: not just the best production team in the business, but we bring a broadcast network with ABC, we bring in promotion from various areas of the Walt Disney Company. If you're a league and your rights are coming up for renewal, you have to think long and hard about going anywhere other than ESPN because we're very good partners. We're not being naive here, we understand the competition that's out there. But we are great at what we do and I believe the leagues see that.

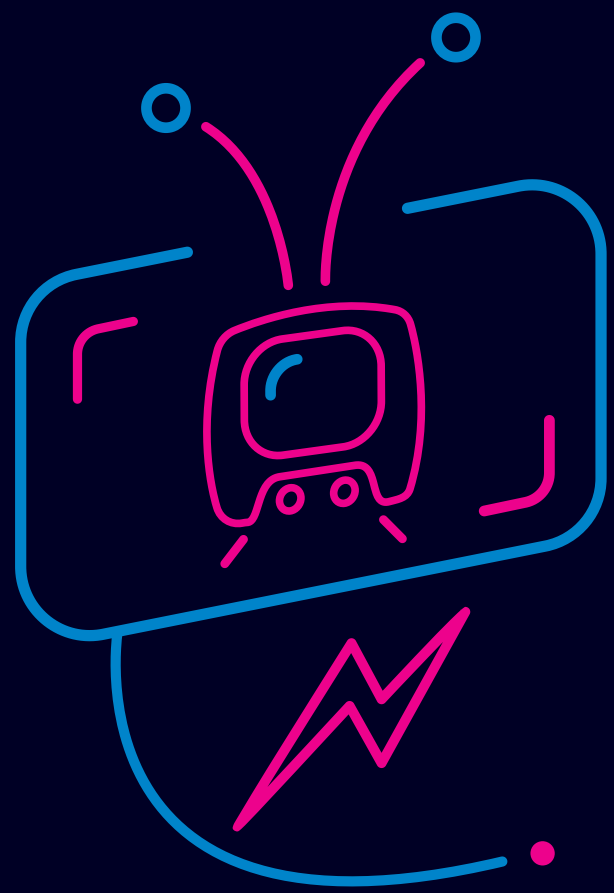
Do you see Amazon, Facebook and others as legitimate competitors?
I do. Every big tech company is a legitimate competitor as we move forward in this landscape.

You've said ESPN has to be everything for all sports fans. Why? Why not just focus on a few key areas?
It's who we are. When I grew up, I didn't turn on ESPN just to get baseball highlights. It brought me up to speed on all sports. We're not going to deviate from that. We want to be the starting point and the destination.
It also goes back to our other priorities: quality storytelling and programing -- not just on TV but everywhere including platforms such as Snapchat. We also want to maintain a spirit of innovation and not being afraid to try new things and fail. That's what ESPN has been for the past 39 years and we want to make sure we continue to do that.

PREDICTIONS

Andrew Morse, Executive Vice President & General Manager of CNN Digital Worldwide

"The industry needs to serve, protect and defend great journalism and great content. The way to do that is by building exceptional user experiences and investing in product and technology. Because we talk about platforms with such disdain, there's this false construct that there is a choice between content and technology. Let's not see technology to the platform. Let's hire technologists and engineers to build great user experiences so we can deliver great content to users directly."



War Footing

Disney, HBO and Apple are getting ready to duke it out with Netflix and Amazon.

BY SAHIL PATEL

In 2018, the big TV companies finally got serious about streaming video. In 2019, it will be an all-out war as Disney, WarnerMedia and others make big, expensive bets in their escalating battle against Netflix and the other streaming giants. It's go big or go home.

Disney and AT&T and WarnerMedia are all set to launch major new streaming video services in 2019. For Disney and WarnerMedia, the fight comes from a place of existential dread: Netflix has completely remodeled the entertainment industry in its seemingly unstoppable quest for subscribers. Amazon is another giant threat, ready to spend billions on original content while also being responsible for a huge chunk of TV networks' existing subscription streaming revenues. And then there's Apple, another well-funded new competitor that's spending more than a billion dollars for high-profile TV shows.

Here is a breakdown of the three new big-pocketed entrants in the streaming video turf war, and how they hope to take time and shares away from the established tech giants:

Disney

Disney CEO Bob Iger has publicly said that going direct-to-consumer is the top priority for the company, which internally reorganized and created a new business unit specifically for its streaming video ambitions. The Mouse House believes there are enough people who would be willing to pay to watch movies and TV shows centering on Disney intellectual property, which include Disney's own storied library of animated classics but also Marvel, Pixar and Lucasfilm. It's a compelling pitch and Disney is willing to cut off a lucrative revenue stream -- the $2.6 billion the company makes from the licensing of its films and movies to other distributors (including Netflix) -- in order to see if it's hunch is correct.

Bright spot: Disney is off to a promising start with ESPN+, its sports subscription streaming service, nabbed 1 million paid subscribers in five months. With its Fox acquisition, Disney also will own 60 percent of Hulu, which has 20 million subscribers. Those are great options for a company that has to learn how to program and operate a subscription streaming service.

But the big bet for Disney won't just be on Disney+. Is there a subscription product that bundles everything from streaming video to discounted tickets or other access to Disney theme parks and events? What does a Disney brand subscriber look like? That's the ultimate question Disney is attempting to solve with the help of arguably the best programming brands on the planet.

AT&T and WarnerMedia

AT&T will have spent upwards of $100 billion to buy Time Warner and has announced that it plans to launch a streaming service in 2019 based around the HBO brand. The telecommunications giant has shared very little information about how AT&T plans to program and bundle this service and how other products and brands -- including Turner, Warner Bros., Otter Media companies such as Crunchyroll and DirecTV Now -- will fit into this new streaming service.

Sources inside WarnerMedia don't even know what AT&T is thinking. "No one knows what the bigger thing is going to be," says one executive. "We're all just trying to figure out ways to work with each other because you don't want to be the one feeling left out when the thing finally comes."

AT&T's bet is on making sure people still buy their wireless service. Exclusive programming from brands such as HBO, Warner Bros. and Turner is one way to incentivize people to go to AT&T versus its competitors. And WarnerMedia CEO John Stankey has committed to the idea that this will require more investment, even growing the $2 billion content budget that HBO was previously armed with. As far as AT&T is concerned, there are only going to be a handful of apps that people regularly use (and pay for), WarnerMedia has to be one of those, according to comments made by WarnerMedia CEO John Stankey during an HBO company event in the summer.

Apple

Apple is at least honest: it does not know how to make TV shows. So in 2017, the company with the most money in the world went out and hired two content execs from Sony Pictures Television, the studio behind hits such as "Breaking Bad," and gave them a $1 billion budget to work with. The directive: Big shows, with big names, such as Reese Witherspoon, M. Night Shyamalan and Oprah.

So far, Apple has more than two dozen TV projects in development and continues to take pitches. But there have been some hiccups along the way. Apple wants its programming to be as uncontroversial as possible, which has meant axing a show about Dr. Dre and requesting that M. Night Shyamalan remove religious imagery from his program, according to reports. One Hollywood source says Apple "marketing people" offer their own notes about how Apple products can be integrated into the programming, which has led to some conflicts with the creative talent.

All that aside, Apple remains an intriguing player in streaming video. It has enough cash to buy Netflix, it's willing to spend a ton of money on high-profile programming and it plans to give away this content for free. These shows will reportedly be available inside the existing TV app available on iPhones and Apple TVs. The app will reportedly also offer subscriptions to services from other programmers -- and directly compete with Amazon's Prime Video Channels program. (This is good news for OTT companies that have become a bit too reliant on Amazon for subscription revenues.)

But the most fascinating thing about Apple is, similar to Disney, the potential for an Apple bundle that includes streaming video but other products and services ranging from Apple Music to AppleCare. For Apple, video will just be a means to an end.

PREDICTIONS

Heather Dietrick, CEO, The Daily Beast

"2019, for us, is the year of building a daily habit for our readers. We do that with our newsletters and our cheatsheets. We want to make sure they keep coming back to the Daily Beast for more."

Buying Time

A recession is coming, time for media to hunker down.

BY MAX WILLENS

Everyone has decided that consolidation won't save publishers in 2019.

But a wave of it is coming anyway, as large digital players seek to make themselves more attractive to legacy giants, legacy print players hunt for more savings and everybody tries to diversify away from an advertising market that seems stacked against them.

Just hours after BuzzFeed CEO Jonah Peretti suggested in late November that the five biggest venture-backed digital publishers, including Vice, Vox Media, Group Nine, Refinery29 and his own company might improve their fortunes by merging, a consensus emerged that it wouldn't improve their fortunes.

It wouldn't deliver enough scale, critics said, or enough savings, or enough diversification,. It also wouldn't satisfy those companies' backers, who have poured hundreds of millions of dollars, combined, into these once-hyped businesses.

"You're going to have to sell all your board members and people that have stakes that no one is going to emerge at the value they last invested in," an executive at one medium-sized publisher said.

But those quibbles don't change the realities of the market, either. Competition for ad dollars continues to stiffen. And investors, well past the exuberance that got them to invest in media, are eager to cut their losses.

"If you've raised $55 million and your revenue is $13 million, then you are in an apocalyptic situation," said one chief executive at a venture-backed digital publisher. "That middle of the market, where you've raised tens of millions of dollars but you haven't built a business to that scale, that whole category is getting squeezed, hard."

Over the past two years, many publishers have been trying to mitigate by getting smaller.

In 2018, layoff announcements among publishers were so frequent that bloodbaths started to feel like a steady drip. They were also a continuation of the previous year's carnage; almost a quarter of all digital-native news outlets and more than a third of all newspapers had experienced layoffs dating back to the beginning of 2017, according to the Pew Research Center.

But eventually, every publisher finds a limit to that strategy. "You can only cut so deep, until you get to the bone," said Jim Norton, the former chief business officer of Condé Nast. "Some of these places have found the bone."

That's most likely the impetus behind BuzzFeed CEO Jonah Peretti's recent trial balloon about merging BuzzFeed with other digital media upstarts like GroupNine, Vice Media and Refinery29.

In 2019, the list of publishers available will be long. But a look at its biggest names reveals how little established brands seem to matter to buyers.

The television broadcaster Univision has been dangling Fusion Media Group since the summer, undeterred by its failure to find a buyer by the fall of 2018; Sports Illustrated, the biggest remaining jewel in Time Inc.'s old crown, has been available since Meredith acquired its old rival in 2017; Tribune Publishing is examining its options, which include acquisition offers from companies including rival McClatchy and Active Interest Media.

Instead, what determines whether something is bought or sold, in some ways, may depend on how those assets help the acquirer diversify its business. "I think it would be smarter to go with diversifying revenue streams than doubling down on media," the head of sales at one mid-sized publisher said.

Those same publishers hoping to get scooped up may have to hope that their competitors, seeking to diversify their businesses, won't spend their money acquiring something else.

"If I'm using capital, I'm not using it on a new content brand," Norton said. "If I'm running one of the big magazine groups I'm looking to acquire what I'd call brand services: creative agency, insights and analytics, data capabilities."

And those products will cost extra. "Data science firms or market research firms, especially those with subscription revenue, will command valuation multiples that the publishers will likely find difficult to swallow," said Anand Sanwal, founder of CB Insights, which tracks M&A activity. "Buying a higher multiple asset just to ingest it and give it a low valuation publisher multiple might not be a great idea, unless of course the publisher is choosing to pivot wholly into the higher multiple business."

In the end, the best hope for publishers who might be on the market may be the same it's always been: that a benevolent billionaire like Marc Benioff, Laurene Powell Jobs or Jeff Bezos, might come in and scoop them up.

"Somebody may come along and say, 'I'd love to have that as a painting to hang on my wall,'" Norton said. "A lot of these [publishers], you don't buy as a direct business benefit."

Sara April, a partner at the consultancy Dirks, Van Essen, Murray & April, an M&A advisory that focuses on the newspaper industry, said she thinks that sales activity will resemble what her firm tracked in 2018, with sales heaviest among the smaller, family-owned papers will feel the heaviest strain. "It's getting increasingly difficult for them to be competitive on the expense side," April said.

But everyone who's for sale can always count on the looming recession to spur someone to buy. "If they miss the window now they may have to wait two or three years, or longer, for the market to rebound," said Reed Phillips, managing partner at investment bank Oaklins DeSilva+Phillips.

'Great Content Is What Drives Subscrip- tions'

New York Times CEO Mark Thompson discusses 2019's focus on podcasting and international subscribers.

BY ILANA KAPLAN

In 2018, The New York Times rightfully crowed about a milestone, when on Nov. 1, the Times crossed the 4-million subscribers threshold. The achievement was a marker in the company's transition from being mostly advertising reliant to now being majority funded from consumer revenue.

"We've taken the same view as the companies who have grown the biggest digital subscriptions in other fields like Netflix and Spotify, and I think that's paid off," Mark Thompson, chief executive officer at The Times told Digiday.

Thompson, who came to The Times in 2012 after serving as the head of the BBC for eight years, revealed the publication's grand plans for podcasting, their subscription strategy for 2019 and what their relationship with Facebook looks like.

Reaching 4 million subscribers is a huge achievement. What do you think accounts for the increase in 2018?

Number one, it's Times journalism. I mainly think that 2018 is the year that the investment in journalism has really paid off. We've seen the last few days great reporting about Facebook, brilliant reporting out of Washington D.C. in the broader sense the aftermath of the midterms and the latest drama out of the White House. We had great coverage of Brexit in the UK. To me, I think we're getting better at getting people to recognize the extent at which our journalism is different and distinctive, the amount of money we put into investigative journalism which is really paid dividends this year. There have been so many great, big, breaking stories, the fact that when somebody in the White House decides they want to write something about what it's actually like there and they choose The New York Times as the place to do that with the anonymous article at the end of the summer. To me, the really big thing is, the investment in great content is what's driving the subscriptions. I think we've also gotten better with our marketing tactics and our digital product work. The work we've done, for example, in trying to understand how to drive engagement and also convert people to subscriptions on smartphones have paid off.

> We hope in 2019 our international subscribers will grow even faster than our domestic ones.

Which types of subscribers will you be targeting in 2019?

I think you'll be seeing the same themes in 2019. In the U.S., we're looking at the ways we can broaden our base of U.S. engaged users with younger people. Our podcast, The Daily, is really good at engaging our younger audiences who maybe don't have as clear a view of the brand as our older, more heartland audiences would. More than two-thirds of that audience is under the age of 40 and nearly half is under the age of 30. These are far, far younger audiences than most newspaper audiences. When we launch our TV show next year, "The Weekly," which is coming to FX and Hulu, that again will be looking to introduce the brand and our journalism to younger audiences. We are continuing to focus in our journalism and in our marketing strategies toward encouraging more women to think about the Times as an essential daily read and listen. We used to have a pretty heavy male skew in our audiences, so continuing to figure out news, opinions and features that appeal to women is going to be part of what we do geographically. We're also going to continue with our efforts to grow our international subscribers, and we hope in 2019 our international subscribers will grow even faster than our domestic ones.

What are some of the biggest challenges the Times faced in 2018?

The biggest internal challenge for us has been how we effectively coordinate lots of different disciplines to deliver solutions to digital challenges quickly. Like many media organizations, we've got a deep tradition and muscle memory for departmental working. The cultural challenges aside are moving from fairly specific vertical responsibilities into much more flexible team-working. In terms of journalism, my colleagues in the newsroom and opinion [are] continuing to react to the most intense news cycle any of us can remember. It's an incredible moment in terms of news both domestically and internationally.

The Times has placed a larger emphasis on digital advertising. What prompted that shift?

We want to create a digital advertising business that plays to our strengths. We are a high-quality brand which brings valuable, thoughtful people who come to us to be deeply engaged. That engagement and the quality of the audience is something we think is worth advertisers paying more for. In a world where an awful lot of digital advertising is being sold above in bargain basement CPMs, we believe we've got something special to offer. We think that particularly for smartphone, great commercial messages from advertisers have to be themselves engagements and really worthwhile for the end-user, which is why we launched T Brand Studio nearly five years ago and why we're doing partnerships with brands who are partnering on Times journalism. We've been trying to create something that really plays to our strengths. The last part is that we aim to be a really brand-safe environment where brands know they can sleep peacefully knowing their content is on our brand.

How did Facebook's algorithm change specifically affect the relationship the Times has with the platform?

We had a very specific issue over the summer with Facebook, which I talked publicly about, which was Facebook's initial proposal to label all of the marketing messages from The New York Times and other publishers as if they were political advertising. We said we don't think that news journalism is political advertising and when we use journalistic stories from the Times as a way of reaching potential subscribers, we don't think you should label it as political advertising. So, we had a dispute about that. Ultimately, Facebook, under public pressure, changed their views somewhat. Our main use of Facebook is to get our journalism distributed widely -- we also use it as a paid marketing channel to promote our subscriptions -- and we're perfectly happy with that relationship. We don't have a deep partnership with Facebook, but we have a cordial and effective partnership where it makes sense for both of us.

What are some of the Times' big plans for 2019?

You should look to us to take podcasting to the next stage. We're incredibly excited about what we've achieved with The Daily. We'll look to scale the number of podcasts and the way we think about podcasting. "The Weekly" will be launching in the first half of 2019 and our physical newspaper platform is going to become one of an ever-larger number of effective platforms. We acquired Wirecutter, the consumer-testing site, and again, it's not out of the question that we'll also find other acquisitions add to the portfolio of value.

Open For Business

With new ad formats, more analytics and a first CMO, Pinterest shows it's finally ready to grow its business. ***BY KERRY FLYNN***

Over a sponsored lunch during ANA's Masters of Marketing conference in October, a tech executive admitted that not everything in his industry is great. "While there have been a lot of advances in technology, it's probably pretty clear we have a problem. I predict the next shift will not be the devices itself but rather how we use them," he says.

This admission didn't come from Facebook or Google, both of which have faced massive scandals in data privacy and user trust. Rather, it was Jon Kaplan, global head of partnerships at Pinterest.

Pinterest, long considered a slow mover among the big tech platforms, has been making moves. It released new ad formats like shopping, max width video and carousel and new tools for third-party platforms that helps with content creation and analytics. For the first time, Pinterest has expanded its ads program to non-English speaking country, France. In November, Pinterest hired its first CMO, Andréa Mallard, most recently of Gap's Athleta.

With all of these tools, brands say they are investing more in Pinterest. TechStyle Fashion Group, the e-commerce company behind Fabletics, JustFab, and ShoeDazzle, spent about 3 percent of its social marketing budget on Pinterest in 2017 and expects that to grow to about 10 percent for 2018. Flight-booking app Hopper has allocated about 10 percent of its total marketing budget to Pinterest and plans to expand in 2019.

Pinterest is expected to generate more than $500 million in U.S. ad revenue in 2018, a 44 percent increase from last year, according to eMarketer, which released its first-ever Pinterest report in October. Pinterest is also rumored to be going public in 2019. The company's latest funding round in 2017 valued it at $12.3 billion.

Aubrie Richey, senior director of media and acquisition, says TechStyle was motivated to look beyond advertising on Facebook's properties because of Cambridge Analytica as well as the increased competition from other advertisers on those platforms.

"While we were able to test, dabble on Pinterest [in the past], we never thought it was something we could scale because it was so much harder. Really this year has been the turning point for us," Richey says.

Richey says she believes Pinterest to be as intent-driven as Google and other search engines, and it differs by being so visual. Snapchat has been rising as a competitive option for retail brands, most recently with its partnership with Amazon for visual search. Pinterest introduced a similar visual search feature last year, but without a direct tie to Amazon. Still, Pinterest remains strong in the shopping category, at least for now.

"You can target all day for CrossFit and things like that on Facebook, but if someone's searching gym clothes on Pinterest being able to show up in those intent-based searches with relevant creative has been unlike anything we can really do," Richey says.

This year, Pinterest opened up its ad platform to Smartly.io, a tool known for optimizing creative for Facebook and Instagram. Now brands like TechStyle and Hopper can create thousands of ads at once, personalized and based on searches. For instance, if Hopper buys a search ad for the keyword "Rome," they can run an ad showing a trip offer from the nearest airport of the user to that destination.

"You can't buy the millions of keywords you can do on Google, but that's changing. Pinterest opening up to partners like Smartly allow us to be more granular with targeting and granular with creative," says Hopper's head of user acquisition Simon Lejeune.

Analysts have long argued that Pinterest struggles from a perception problem -- for one, it's not a social network, according to Pinterest CEO Ben Silbermann, and it's also not just for moms. This year, Pinterest's sales team has been working to appeal to brands outside of retail and travel.

Liz Lapp, head of social media marketing at Verizon Media Group (formerly Oath), says a Pinterest representative came in to her office recently to pitch Yahoo Sports.

"There's a whole education curve that happens with sports -- perhaps people who don't want to have the everyday chatter they can have those conversations and learn something about the sport [on Pinterest]. We're trying to wrap our head around what is the sentiment and what is the best way to share," Lapp says.

Lapp has worked on Pinterest campaigns in her previous role at Shutterstock and says she considered it before for Flickr. But she chose not to immediately test the platform for Yahoo until she had a better understanding of the return on investment.

Pinterest's Kaplan and the rest of the leadership team are aware of those concerns. He told Digiday that "mak[ing] it easier for businesses around the globe to achieve measurable results through their Pinterest investment" is his company's primary goal for 2019.

"Our collective goal is to help people live an inspired life and their time spent in technology time well spent," Kaplan said to end his presentation at ANA. Shortly thereafter, an advertiser in the financial industry said aloud to her table that she didn't know Pinterest had ads. An advertiser in the toy industry sitting next to her replied, "They're still trying to figure it out."

"While we were able to test, dabble on Pinterest [in the past], we never thought it was something we could scale because it was so much harder. Really this year has been the turning point for us."

Going, Going, Gone

Auction dynamics go under the microscope.

BY JESSICA DAVIES

If 2018 was the year publisher and marketer tolerance of ad auction-dynamics manipulation was tested, 2019 will be the year when it's truly smoked out.

There is a reason this hasn't happened sooner, and it comes down to how much visibility publishers or media buyers, have of the ad auction. The answer: to date, not enough.

But that's changing. More publishers are getting savvier about the fact they need oversight of log-file auction data. Armed with this level of transactional data, they can see what mechanics are driving the price of winning bids. That means they will no longer be flying blind on any kind of undisclosed auction-dynamic changes. It also means they can more clearly see how much of an advertiser's media dollar is being chipped away by ad tech intermediaries. At least, in theory.

The snag is that this level of data has typically been held by ad tech vendors, and the majority of them have been unwilling to give it up. One ad tech vendor source was pretty candid about why they're not incentivized to cough up the data unless contractually obliged: they don't want to find publishers circumvent them and go directly to the advertiser. In reality, that's happening regardless.

Publishers like The Guardian have worked hard to unravel what has until now been hidden from them in their digital ad supply chain. That began in 2017 when the publisher sued Rubicon Project over hidden fees, a lawsuit which has now reached a settlement. Today the publisher is aggressively upfront about what it expects from vendor partners, and transaction data is top of the list.

"Legacy SSPs and exchanges have built their businesses around the bundling of low-cost utility with high-margin 'services;' the latter which are of questionable value to the publisher or advertiser," says Danny Spears, programmatic director at Guardian News and Media. These high-margin services are what Spears believes the crux of auction manipulation. "The extent of this issue has been brought to light through the exposure of buy-side fees, wrapper bias and bid caching."

Although Spears agrees that large programmatic publishers have already made good progress in re-establishing control of their digital ad supply chains, concerns remain around how SSPs continue to diversify with new buy-side services. Case in point: To mollify ad buyers who hate having to suddenly pay more for impressions because of the shift from second-price to first-price auctions, vendors have come up with a new method of establishing an in between cost: called bid shading. The gripe for publishers: with bid shading it's the vendors that determine the value of the bid.

In August 2018, it was the buy side's turn to be furious. Index Exchange drew the wrath of buyers and rival independent vendors for its use of bid caching -- a technique in which a lost bid from one auction is used to fill a subsequent auction, which it never disclosed to either publishers or media buyers.

Those that think bid caching was the first and final openly exposed example of undisclosed auction manipulation, had better think again. An inconvenient truth is that due to the extent to which supply-side platforms have been commoditized, for some SSPs survival may have to continue finding ways to leverage auctions in their favor to offset other pressures.

"Auction bias will continue to happen," says Andrew Buckman, managing director for Europe, Middle East and Africa, for ad tech vendor Sublime. "SSPs are being squeezed into such a position that they have to do all they can to generate a response to a bid request because they're being commoditized and there isn't much differentiation between them. A publisher will always press them for who can provide the highest yields, performance, and best anti-fraud tools, and how much will they slow down latency."

Nevertheless, the stakes will be higher in 2019 for anyone who attempts it, as agencies, publishers and vendors scrutinize for any foul play. Agencies want to reassure advertiser clients who are demanding more transparency, that they can police such things, while publishers look to own more of the ad tech stack via joint collaborations like Ozone, and independent vendors themselves try to oust bad actors rather than risk further reputational damage to ad tech.

Vendors are already showing signs of self-regulation. Not long after the bid-caching scandal, six exchanges came together to pledge their commitment to a standardized set of rules around ethical, transparent, auction dynamics behaviors. Although there is skepticism from some publishers who prefer evidence of good practice over open letters, it is still an indication of vendors' attempts to self-regulate to a certain extent.

Some vendors are also cognizant, and even welcoming of the change in the status quo. The fact publishers and advertisers are using fewer ad tech vendors, is good news for the big players because less money will flow to lower quality exchanges, according to Gavin Stirrat, vp for European partner services at OpenX.

"There has been pressure for a long time from the buy side to increase quality, including everything from more transparent auction mechanics to ensuring partners are in compliance with the latest industry standards," says Stirrat. "2018 has felt like the year the pressure was born on the supply side, and next year things will be even more turbulent as things get shaken out."

GDPR 2.0

Just as marketers have adjusted to the GDPR era, ePrivacy looms.

BY LUCINDA SOUTHERN

To some extent, 2018 was General Data Protection Regulation Y2K, but that's not allayed fears that the coming ePrivacy Regulation could upend digital advertising. Again.

Plans are underway to update the current European Union ePrivacy Directive, known as the EU cookie law, into a Europe-wide regulation in 2019. This means all 28 member states will need to follow the same implementation, no wiggle room, with punchy fines of 4 percent of annual worldwide turnover for non-compliance. That's for all companies wishing to trade with the EU too. Here's the state of play and what it means for publishers and marketers.

Gaining explicit consent for cookie dropping

In its current guise, the ePrivacy Directive gives uses control over whether companies can use their personal data through dropping cookies, used for site analytics, reporting and advertising. Prior to GDPR -- which is broader in scope and aims to regulate the handling of personal data -- site visitors in Europe will have been familiar with pop-up banners asking, but not requiring, consent. But this doesn't go far enough.

The regulation will mean publishers and marketers will have to gain more explicit consent to drop any kind of cookie and provide clear opt-outs for the user, ultimately giving people more control over what data is collected. Wrinkles are being ironed out about how this looks in practice without causing huge user experience headaches, leading to droves of people choosing not to be tracked, damaging ad revenue and reporting capabilities.

Squeezing programmatic revenue for publishers

In Germany, which historically implemented a more relaxed version of the ePrivacy Directive, research from VDZ, the Association of German Magazine Publishers, found in early 2018 that the German media market will lose upward of €300 million ($341 million) in yearly ad sales if the proposed version of the ePrivacy goes through. In the same report, publishers said that requiring cookie consent would lead to a 30 percent drop in digital revenues.

A huge concern for publishers is that, in order to avoid more annoying, ineffective banners, the European Commission suggested users can decide whether they opt in or out of consent for cookie collection through their browser settings. Even if a user opts in at site level for a publisher to drop cookies, the decision is overridden by the browser setting. Publishers fear the browsers could use this to their advantage and offer publishers the chance to add their site to a whitelist for a fee. However, this isn't a feature that browsers are keen to enforce either, partly because they would likely have to shoulder additional costs and responsibility to respond to the changes.

Strengthening the walled gardens

Another issue getting publishers concerned is that the regulation will strengthen the hold of walled gardens like Facebook, Google and Amazon who already have a ton of user login data, don't rely directly on third-party cookies for advertising like publishers and have a direct relationships with audiences.

"Facebook and Google are already profiting from having specific consent," said Oliver von Wersch, CEO and founder of Von Wersch Partners, digital strategy consultant for publishers. "This is costing the programmatic landscape every day."

Like everyone, the platform's ability to collect and use consumer data will be hampered, for instance, they won't be able to target ads based on data from services such as WhatsApp, Gmail and Messenger unless they have consent from all parties. But companies with larger legal teams are also in a better position than others.

Good news for login registration strategies

Subscription publishers or companies with login strategies will fare better from the regulation. As well as having recurring non-advertising revenue, being able to demonstrate what the value exchange is for consumers would mean people would likely be more willing to give consent.

"We'd like to see it be made clear whether it's possible to collect data to be used as part of and a condition for a service," says Ingvild Næss, chief privacy officer at Nordic publisher Schibsted. "Going forward many of our news services will be personalized, we need data for that, provided transparency is assured so consumers can make informed choices."

Updating the rule book is already behind schedule: the law was meant to pass at the same time as GDPR in order to work as a complementary set of rules, but wasn't ready in time. Added to that, changing priorities and leadership in European Parliament next year could hold up proceedings further. Meanwhile, some lawmakers want to wait and see what the outcome of GDPR is before deciding on new data privacy regulations.

More money and legal workarounds are going to be needed for companies, think ad-tech vendors, as well as new strategies to make sure that advertisers can find audiences in effective ways. For these reasons, lawmakers are suggesting a three-year implementation process -- one more than companies had for GDPR -- once the finer details have been decided.

Slimming Down

The year of consolidation is upon us. ***BY SHAREEN PATHAK***

Inside a suite at the Carlton Hotel in Cannes this summer, a noticeably beleaguered marketing executive sat down for an on the record Q&A. But the first question -- which, naturally, is always "How's your Cannes going?" -- immediately set him off. After asking to go off the record for a minute, he recounted how like every year, he convened with a meeting of all of his agency partners while they were all in Cannes. Most years it's been business as usual.

This year, he said, it was anything but. "It was like like a UN meeting in there," he said, referring to the 20-odd agencies that were present. "Are you fucking kidding me? Why are there so many people involved?"

It's been a question that more and more people are asking. By all accounts, the marketing industry, and the structures around it, are noticeably complicated. Between multiple types of agencies -- digital, social, traditional, integrated, content -- and a plethora of other partners, from production to advertising technology to platforms -- the universe a marketer deals with on an everyday basis seems to constantly be expanding. For some, it's a necessary byproduct of how complicated marketing has gotten. For others, it's confirmation of bloat.

And following a year where agency brands have been hammered, big tech players continue to gain more control, and marketers continue to tighten their belts, it feels like the year of consolidation is finally upon us.

The numbers are starting to show some of that. An analysis by consultancy R3 in the first half of the year found an explosion of M&A activity that led to an 88 percent increase in M&A compared to the same time last year. The total number of deals were 199, and deal value was $9.3 billion. The consultancy, like most analysts in the business, expects this to continue.

'Has anyone been less surprised by anything in the history of advertising?'

WPP is often the bellwether of the agency services industry, largely because of its scale. After Sir Martin Sorrell departed as its chief executive earlier this year, it certainly seemed like the beginning of the end of the holding company era, a relic from a different time.

Which is perhaps why the death of J. Walter Thompson didn't come as much of a surprise to most in the industry. Creative networks, especially byzantine ones like JWT, have struggled all year, dragging down performance at agencies. They're expensive to maintain, with high overheads and expensive staff. And there's less business for them, with agency fees continually slashing. Merging JWT with Wunderman, or Y&R with VML, is one of the most obvious steps a behemoth like WPP has to take in order to cut down on ballooning costs and actually focus on businesses that are making it some money.

But that is hardly just the beginning. Already the market is rumbling over more mergers -- Ogilvy with Grey, perhaps. Even within Ogilvy there's been a whittling down, with a new organizational structure that merged together various disparate Ogilvy entities into a much slimmer shape this year. Whichever brands end up fading away, the blueprint is certainly starting to take shape: Fewer agencies that do less advertising, and are able to be strategic consultants.

"Special is going to win," says R3 principal Greg Paull. As this consolidation takes hold, there is a significant hollowing out of the bloated middle, he argues. "Much as in the consumer goods categories you're seeing special brands come through, the same is happening with services. There's probably 50 or 100 agencies in the creative space that continue to have problems." In Paull's mind, those who win will be the big scaled plays within holding companies, or alternately, relatively tiny independent agencies that offer something very niche to a very small group -- and hopefully get acquired early on during that process.

Whats happening at brands

The big change is that clients are now asking for business strategy and solutions. The marketing industry continues to get more and more complicated. Faced with new types of competition and new customer expectations, "advertising" has begun to take somewhat of a backseat, at least in priority, to hiring companies that will help them solve business problems.

Inside brand marketing departments, too, consolidation is happening. Michelle Peluso, chief marketing officer at IBM, has been on a mission inside her own departments to try and simplify. Because of how digital marketing grew up, marketing departments were organized around vertical disciplines, she says: paid search, advertising or email. But the customers are living differently. They're having experiences across channels -- and marketers have simply not kept up. At IBM, a new agile discipline organization has meant Peluso has multiple teams filled with experts from content marketing, paid media, product or events -- all working together.

For 2019, this leads to a couple of different roads, neither of which look like very good news for agencies.

One, of course, is the in-house trend. In public, most brand executives are insistent that agencies and external partners remain relevant to them. But sometimes the mask slips. "High five!" Progressive CMO Jeff Charney exclaimed from stage at the ANA annual meeting after the marketing organization released a new report showing that 78 percent of brands now have an in-house agency, up from 58 percent five years ago.

That brands would rather get it all done themselves isn't surprising. Some of this was driven directly by the ANA's own transparency report two years ago that showed large-scale issues of rebate and

fraud in media in the U.S. But some of it simply driven by simplicity.

In-housing agency services is simpler, and for many, it's faster. It means consolidating how many partners brands work with, and in many cases, moving projects along quicker. Even at marketing stalwart P&G, 2018 meant more was brought in house -- chief brand officer Marc Pritchard started the year with a vow to cut down agency relationships and create capabilities to do more production and execution within the company.

One of the less-clear but perhaps most compelling reasons for the sudden interest in in-housing, and the shrinking of the marketing world it is leading to, is the rise of digitally native brands. These born-online companies, which often began as direct-to-consumer but are increasingly looking like more mainstream retail companies, often eschewed traditional agency services from the beginning. Many are figuring out their own paths -- heavy Instagram advertising, done mostly by in-house teams (luggage brand Away famously has a 70-person-plus marketing team that does everything, including TV ads) or by reliance on armies of freelancers or permalancers. Few are hiring agencies the way legacy brands did.

In response, many are watching how these companies do business. Pete Blackshaw, the former global head of digital innovation at Nestle and now CEO at Cintrifuse, says that that's been somewhat of an obsession of his from the beginning. DTC brands are shaking up how marketing is done, working with e-commerce channels, great customer service, focusing on word-of-mouth marketing and doing it all very quickly. Big companies are seeing how they work, and how successful they are -- and are also seeking to emulate this.

But agencies are quick to say that if brands choose to in-house their services, they still need an external company to consult on business solutions. The fact is that more clients do want that -- and that agencies aren't really equipped to provide it.

Enter the consultants

The consultancy threat is not over yet. Plenty will seek to downplay it. Mike Sheldon, the chairman and CEO of Deutsch North America, for example, maintains that while the consulting giants, like Accenture, Deloitte and PwC, certainly are making their presence felt, he simply hasn't encountered them in pitches the agency hasn't participated in.

But consultancies aren't necessarily getting business by pitching. In most cases, the big consultancies already work with big brands for other things, like accounting or operations. In most cases, the marketing services are often layered on and into those existing relationships, either via the consultancies' themselves or via agency groups they've acquired.

Accenture invested more in acquiring companies in media than Dentsu and Omnicom combined did, according to R3 analysis. And plenty of that firepower is going to creating marketing for brands, but also helping them build their own in-house agencies. For example, at Accenture Interactive, one of the big core competencies includes helping advertisers do some of their media buying, mostly in programmatic, themselves. At Deloitte, managing director Todd Paris says that it's not about displacing agencies, but helping CMOs do their jobs better, which often does mean "owning" capabilities.

Alex Leikikh, the global CEO of Mullen Lowe Group, who himself lived through a couple of agency mergers, says it's the "great rebundling" that's been promised for so long that's finally happened. "Digital agencies, mobile agencies, all these specific agencies have become complicated for clients to manage."

Clients, he says, need more of a conceptual platform and a partner that can help them do that. Leikikh says there's no question of more consolidation across agencies. Where he's keeping a keen eye on is also consolidation across various marketing models: The platforms, the media agencies, consultancies, holding companies and creative independents or integrated agencies. "The next I look forward to next year is in some ways consolidation across those." Leikikh may be right: Already, agencies are rumbling about potentially buying or creating consultancies of their own; platforms are increasingly absorbing more agency talent.

Either way, 2019 will bring a much slimmer industry. What's not clear is if it will finally be more efficient -- or even nimble. For Paull of R3, it's a reckoning of sorts: "Go big or go special. It's going to be rough in the middle."

PREDICTIONS

Michelle Peluso, SVP and chief marketing officer, IBM

"We're at the early stages of artificial intelligence. Our profession will be shaped and reshaped by AI. It's incumbent on marketers who are curious and passionate about what the career is going to mean to start learning. We're in an era where we're going to constantly have to relearn. It's not like you start the job and it's going to be the same. You're going to have to retrain."

Raising The Bar

Bank of America's Lou Paskalis wants to play tough guy.

BY SHAREEN PATHAK

Lou Paskalis is one of the marketing industry's most outspoken executives. The Bank of America svp and enterprise media executive is also chairman at the Mobile Marketing Association and an IAB staff member. We asked him to take a look back at the realities of marketing in 2018.

If there's a phrase I'd pick for the year, it'd be brand purpose. Are you sick of it?
No! I'm a brand marketer by DNA. For me, I'm thrilled that everyone is talking about purpose. At Bank of America, we have a deeply rooted set of purposes. We've been walking the walk. But we are reluctant to talk the talk. It's the fear of self aggrandizement. What's changed is we're competing for attention. We need to create messages people will need to respond and relate to. We have tomes of stories to tell. There's now a requirement to tell those stories. There are companies like ours who have done it for years and others who will scramble to don that jacket. Customers will suss out the difference. But, brand marketing conversation comes front and center. The other piece is context. We're not running an ad in primetime saying we're great. There are events happening every day. If we have stories ready to go, that demonstrate us walking the walk. We can publish into those events.

I believe that was called real-time marketing at a time.
Yes, it was. I think that took on a patina of performance. But we see it as an opportunity to make a connection on emotional things. Like OK, our green bonds are helping make the environment better.

It's been quite a year across platforms when it comes to exposing serious issues with measurement, flaws in their systems, and fraud. What are you going to do about it?
I came to this industry with a job having two functions: go where the audience is and measure everything. For the first two-plus decades of my career it was pretty easy to do. For the first time in my career, I can't measure the things I need to measure. I've got platforms grading their own homework. Brand safety issues and accountability issues. They have different impacts on different platforms. I'm not calling out individuals yet but we're coming to a point where we need to. All the mathematical errors have benefited how the platforms work and not the marketers work. I'm called to task where I'm asked if investments are reaching who they should be. So OK, we need MRC accreditation and I need more than that. I need a level playing field than I've had with all media.

But are you going to pull spend?
This is an industry wide hygiene issue. The signals I want are uniquely in those walled gardens. I want to join those conversations. The algorithm gets smarter every day. We're not the beneficiaries of that. I think you're starting to hear the industry sing the same hymn on that. 90 percent of Alphabet's revenue comes from advertisers.
We want to do business with those platforms, but how do we do in a clean way that we feel good about?

Because pulling money isn't really an option. It's not a black and white option.
From a principle standpoint, from brand safety issues, we've had to pause. In the case of one platform, I'm still on red. When principles are clear and well established, there's no question we can and will. On the other end of the spectrum, there's a search player in there where all the other search players of the universe couldn't get through. I couldn't pull my spend unless the rest of my competitors did. It would be also be a disservice to a customer that I wouldn't be there in search results. We agonize about it on a daily basis. We used to give it a thought twice a year. But it's become front and center of every decision we made. It doesn't bode well for long-term partnership and co-development because everything is case by case and next incident could very well affect what we do.

In some ways, brand money is propping up a lot of really bad stuff in the industry. And more people are paying attention.
I'm excited about that. This should have always been a clean, well-lit environment. A covenant was entered into between the advertiser and the consumer. Programmatic is the single worst thing that ever happened to the ad industry and also the salvation moving forward. We turned it into this lowest common denominator bottom feeder. We just want to find shoe intenders, context be damned. I don't care if they were shoe intenders six months ago. But in fact the interest level will raise the bar for what customers expect.

OK, but all of this: Privacy, raising the bar, brand safety. It doesn't come cheap.
Every marketer is in a slightly different place. We've never asked our agency to not do something because of the cost of it. In banking, we've always been focused on brand safety. We recently announced someone entirely focused on it. Let's talk about cost. We were very sensitive about digital ad fraud and we set up a three tier system to catch it. And all of it, it's revenue positive. We can say all the fraud that we mitigate is more than paying for the additional diligence. On a pure mathematics level. It also raises the bar on fraudsters. It helps to constrict their access to dollars. Beyond that though, think about reputation. One or two screenshots of a bad brand adjacency have a cost that is astronomical and incalculable. Due diligence to us is on insurance models. Even if it wasn't revenue positive -- which it is by the way -- it was still be a worthwhile investment. We're also having conversations today around platform risk. Are there certain platforms that have gotten to a place reputationally that is a problem?

Are there?
Not yet.

PREDICTIONS

David Dancer, chief marketing officer, Medmen

"There are a lot of cannabis companies, whether they are product companies or retailers. The big players will survive. We are building an in-house agency. We can lead this industry from all different aspects: government relations, legalization, branding, cultivation, manufacturing capabilities, and even marketing. We haven't used advertising agencies and we'll continue to build that function out. We're getting overwhelming response from a recruiting perspective. We're ready for this explosive growth coming at us in the next 12 to 24 months."

PREDICTIONS

Wolfgang Blau, President, Condé Nast International

"2019 will be a great year for media managers who can't even remember stable times, for managers who expect to challenge their own assumptions and their leadership philosophy every day. We have now entered the era of the 'splinternet,' a world of growing political and technological fragmentation, a world of accelerating climate change and neo-nationalism in which intercultural awareness is no longer just nice-to-have but mission-critical, a world which favours clearly defined brands over brute scale and meaning over status. My resolution for 2019 is to support my teams with all I've got!"

Striking The Balance

Amazon needs to figure out where its priorities lie.

BY SHAREEN PATHAK

Amazon has an exploding opportunity in selling advertising. It's also got a potential reckoning on its hands.

As the retailer grows its ad inventory, adding new formats and sees demand (and budgets) rise at marketers, it's also going to have to figure out at what point there are too many ads.

Here's what happens when you search for "cookies" on Amazon.com The top rail is entirely sponsored by Oreo. The row below that, and basically the rest of the page, is three sponsored search listings, for Pepperidge Farm and Chips Ahoy.

Only after you scroll do you get top rated cookie listings, based on Amazon and customer ratings.

According to Merkle's latest digital marketing report, there are more ads than ever on Amazon: Amazon sponsored products spend grew 62 percent year over year, while headline search ads -- now known as sponsored brands -- grew 86 percent.

"Sponsored Brands stand to benefit from Amazon's recent layout changes that significantly increased the number of page locations where these ads may show," the report reads.

Amazon advertising search is also working -- Merkle also found that sponsored product conversion rate is higher than Google shopping, something that means that Amazon searchers in general may not mind seeing more ads because they approach Amazon with intent to convert.

"They're doing a test of what advertisers want," says Jessica Peltz, a partner at MDC Ventures, who has among her investments a couple of startups helping brands navigate Amazon. "Facebook and Google were in the same place of how many ads, whether to have ads in certain places.

Another buyer who chose to speak anonymously says that it's a question that's part of a larger theme, relevant to not just Amazon, but also others, like Google, Facebook or Twitter. "They all serve two masters. On one hand, they've built a model entirely dependent on consumer traffic and engagement. On the other hand, the business model is premised on advertising."

The caveat here is that Amazon is not Google. Google makes 90 percent-plus of its revenue from advertising, the majority of that from search ads. Amazon's $2.5 billion ad business is a drop in the bucket compared to its retail business, and its overall revenue, which is worth $56.6 billion. The ad business may be more profitable, and of course, more high-margin, but it works because people shop on Amazon.

Some of this is something Amazon seems to be cognizant of, not least because it's something even the market is watching. On multiple calls over the past year, analysts have quizzed chief financial officer Brian Olsavsky on how it plans to balance the ads with a good customer experience.

Mike Dossett, who heads digital strategy at RPA, says the reckoning is coming. However, it may be slightly softer than expected. "Customer attitudes to advertising on Amazon are that the're useful and relevant, and because they're shopping ads, they're somehow less interruptive," he says. Bobby Figueroa, a former Amazon ad employee and now CEO at a startup called Gradient, says that Amazon is customer obsessed -- and right now, ads actually serve the customer. For example, a search for iPad shows relevant results that happen to be paid ads. "These choices happen to be paid ads, but if in the end the choices are very good, would it matter?"

Perhaps not for now, but eventually, say buyers, there is a balance needed between Amazon's desire to relentlessly pursue great customer experience and make money from advertising that is sitting on the table. "And for now, that's a weird balance," says Dossett.

The likelier outcome is that Amazon is will have to begin pushing harder its less traditional sources of inventory -- video, for example. Unlike display or sponsored search listings, these are less likely to disturb the retail experience.

"The value capture right now is on the direct-response and performance side. But if they want to figure this out, they need to get into brand building and people's experiences," says Dossett.

Amazon's already pushing those -- what's unclear is whether marketers will bite. So far, buyers are more interested in DR where their returns are doubled and in some cases quadrupled. And "brand focused" placements aren't showing those results, say most marketers.

Whether that happens or not, one thing is clear: The ad industry is enamored by Amazon, and believes it'll shake itself out. "The thing Amazon is good at is trial and error," says Jeremy Cornfeldt, president at iProspect. "I remember when Amazon introduced free shipping, Jeff Bezos sent an email and said 'we'll try this,'" he says. "They figured that out, they'll figure this out."

'The Classic Agency Model Is Dead'

Nissan's Jean-Pierre Diernaz wants more opportunities to own data. **BY SEB JOSEPH**

Nissan spent most of 2018 tinkering with what its top marketer in Europe Jean-Pierre Diernaz says will be the advertiser's next great media channel -- the connected car. Over the next 12 months, the data gathered from those vehicles will start to inform every facet of the advertiser's marketing, from creative to its programmatic buys.

How are you preparing for this shift?
One hundred percent of our cars are going to be connected within the next 12 months. That means moving from processing a couple of megabytes every minute from our vehicles to processing a couple of gigabytes. To cope with all those insights, we've spent much of this year coming up with a more robust strategy for our data management platform. All our European companies are now using a DMP as part of their planning whereas that wasn't the case earlier this year. We realized that we weren't using enough of the data we had.

So what does this look like in practice?
It means that alongside how someone drives a car, we can use the data points on our vehicles to interact with them with precise marketing messages and push relevant services to them as they drive or are being driven. We need a bridge between our online and offline channels and that's where the connected cars can help. It's why we're pursuing what we call a subscription marketing strategy in 2019. For example, we could push a WiFi hotspot subscription for the car to a family that uses their car mainly at the weekend.

Has preparing for the subscription marketing model meant you've needed to take more marketing in-house?
Yes and no. It makes sense for us to take control of the data analysis of our ads. It's important because we're trying to enrich our customer profiles. We're trying to join up more than 2,200 databases across our various channels now and the connected car is part of that. That data is going to be fed into our DMP so our marketers need to be hands on with it. Other aspects of our media strategy will stay with agencies because we still need their expertise.

Does that include all your programmatic buys?
We're not going to buy our programmatic ads. It's better to leave those to our agencies. We do, however, have a view on everything they buy. My team looks at all Nissan's programmatic investments in each market each Friday and then gives our agency an action plan for the following week. We're a big company and so my team of marketers have other responsibilities beyond just buying media.

What are you doing to get visibility on your programmatic spend?
We need to be sharper on the bidding side when it comes to understanding the dynamics of a programmatic auction. That's something we're looking into through audits on both the bids we make and also audits on the quality of people making those investments, so that we're aware of the knowledge and skill of the specialists employed by our agencies. It's similar to how we work with the big online platforms where we meet with them each month at a European level and then every quarter at a global level. I have the benefit of a dedicated team that works with these platforms on joint business plans that gives us an intelligent view on the best way to move forward with them.

Does that mean you completely trust your agency?
The relationship is improving. It's down to us as the client to explain clearly what we expect from our partners and what we're prepared to pay for. I haven't got the level of transparency I want yet, but it's something we're working toward as we feel like our next agency model needs to better cope with the fact that online advertising is becoming more fragmented around platforms and ad tech, so that we have more control over what money we invest.

What will that model look like?
We're going through the process right now so there's not much I can say. Everyone knows the classic agency model is dead. We're going to change everything about the way we work with our agencies, from the structure of the teams and their location to the processes, tools and briefs used to buy our media. It will be built around a more integrated, collaborative approach with our agencies, merging together data, creative and maybe IT. The future of online advertising is likely to be more even more fragmented than it already is so we need partners to help educate us otherwise we're not going to know how much goes anywhere.

Will that mean working with more partners, particularly when it comes to the ad tech stack?
The ad tech stack is more fragmented than it ever has been because there are so many niche experts that could potentially add value to what we're trying to do. There's always a new tool to improve the tool you've just bought. Despite that, I'm in favor of picking the best partners even if that means fragmenting the value proposition of our ad tech stack. We can afford to take this view because we have a level of integration, control and management which makes it easier to understand how all those vendors fit together. It would be easier to pull everything into one big player and use that in all our markets. But while we'd get some efficiencies, I'm not so sure we'd get the effectiveness.

Food Fight

The battle for online grocery market share heats up.

BY HILARY MILNES

Try as Amazon might, it's not taking over the grocery industry overnight. Despite their sprawling store layouts, winding checkout lines and unpredictable inventories, traditional grocery stores -- all the way down to small regional chains -- are picking up tools from the e-commerce playbook and giving the Amazons and Walmarts of the world a run for their money.

As a result, $640 billion grocery market will look much different in 2019 than the typical stop-and-shop format we're used to, thanks to a push to update store networks, delivery capabilities and customer service for the digital age.

At the end of last year, Kroger introduced its "Restock Kroger" initiative, which has since brought online ordering, curbside pick-up and delivery to 92 percent of Kroger customers; Ahold Delhaize, which owns 35 grocery retailers including Food Lion and Stop & Shop, launched a three-year "Leading Together" strategy in November, setting out to improve cross-channel capabilities and increase its online spend to nearly $8 billion annually by 2021. And Instacart, the online ordering and delivery service, expanded its retailer network this year to 300 partners, accounting for 15,000 store locations in the U.S., from Aldi to Costco to Wegmans.

Turns out, the friendly neighborhood grocer has a fighting chance against Amazon.

"Grocery chains have been pouring billions of dollars into new e-commerce and omnichannel capabilities at a speed we haven't seen many other categories perform at," says Cooper Smith, principal analyst at Gartner L2. "

Through these initiatives, grocery retailers are rapidly rolling out online-offline capabilities that are meant to make the shopping experience more seamless, including curbside pick-up, same day delivery and recurring online ordering. These undertakings have mobilized industry incumbents to update their offerings, and the mad dash to make it as easy as possible to shop for food is only going to get increasingly frantic in the next year, with

Amazon and Walmart looming large.

Traditional retailers actually have Amazon's interest in the category to thank for sparking action. The online retailer has punched its way into the category through delivery initiatives like Amazon Fresh and acquisitions, most notably Whole Foods, which is acquired in 2017 for $13 billion. Its attention on the category woke up a massive network of sleeping giants. Whole Foods may have nearly 500 locations, but that's a tiny piece of the overall market. According to 2018 data from Chain Store Guide, there are 2,300 grocery players with 141,000 locations operating in the U.S. and Canada.

"Amazon acquiring Whole Foods sent a shudder through the industry, and that was a major turning point where grocery chains had to realize: Here is a major tech company coming into our space. It shook people to think beyond the status quo," says Sylvain Perrier, CEO of grocery retail platform Mercatus.

Delivery services like Instacart as well as Peapod have played pivotal roles in helping regional chains bite off new customer service offerings, like same-day delivery and curbside pickup, that would otherwise be cost prohibitive undertakings. Even for Kroger, which saw its online business nearly double from $5 billion to $9 billion in the last year, it can't win by going it alone.

"We are identifying partners that will help us deliver that customer experience value today and [in] the future," Rodney McMullen, Kroger CEO, told investors at the company's 2018 Investors Day presentation. "If we were depending on us to do all of it, it would take too long to get it done."

Speed is essential, if only to simply ward off competitors with deep pockets and broad reach, like Walmart and Amazon. Increasingly, retailers have turned to their store networks as advantages to compete in a world where customers want to shop online and offline and through a combination of both.

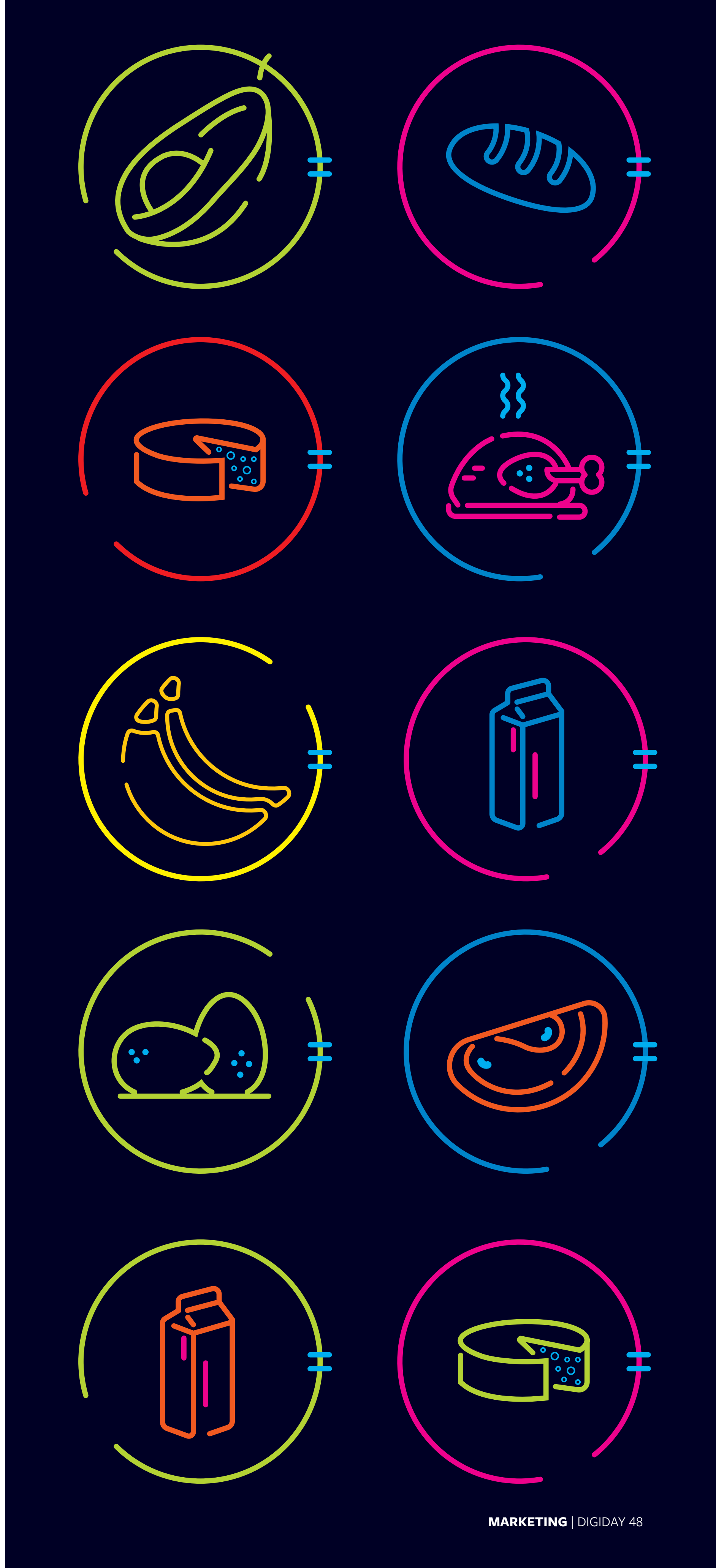
"At the highest level, as we think about how customers want to get their groceries, we realized it's not going to be any one way. She's going to want to go and browse and take it home. Or she wants to order online and pick it up on her way home. Or she needs it at her door that same day," says Nilam Ganenthiran, the chief business officer at Instacart. "So we want to be able to enable our grocers to meet those customer needs."

Therein lies the incumbent advantage. "Click and collect, buy online, deliver from store, that's where traditional retailers can beat out Amazon," says Pallab Chatterjee, the CEO of Symphony RetailAI, an artificial intelligence solution for retailers and CPG brands. "You'll be losing customers if you don't have these capabilities, so we're going to see even more activity on those fronts."

Don't discount Amazon, though. As competition heats up, the retailer could make more drastic moves. Smith says he can see Amazon Go's cashier-less technology rolling out in all Whole Foods locations. More fulfillment centers could infiltrate to better deliver fresh produce.

But Amazon is facing a tougher fight than it has in any other category.

"Amazon is really good at global supply chains, but that doesn't work as well in fresh food. You want to source things as locally as possible and move them around as little as possible. So it is a very different supply chain mentality buying produce from local farms in every region than buying huge amounts of something and putting it into an existing highly efficient distribution system," says Jason Goldberg, the svp of content and commerce at SapientRazorfish. "It's not Amazon's strength. You know who does know how to do that? Grocers."



DTC IRL

Direct-to-consumer brands are starting to look a lot like traditional retailers. ***BY HILARY MILNES***

Five years ago, Parachute's model came straight from the DTC playbook: Sell bedding and bath linens at a cheaper cost compared to competitors by designing products in house and working directly with factories to keep manufacturing costs low. Then, use a Shopify site and Instagram ads and nix expensive retail partnerships with department stores, thus those cost savings back to the customer and into product development.

Today, Parachute's business looks quite different. It has six stores, and just raised $30 million to open 14 more by 2020. Its media mix has shifted to include out-of-home and direct mailers. There's even a print catalog. To drive more people to the brand, Parachute also signed onto a retail partnership with wedding registry site Zola. It's as if Parachute grew up and turned into its mother.

"The direct-to-consumer landscape is becoming more competitive than it was five years ago, as more people are marketing their brands online," says Ariel Kaye, Parachute's CEO and founder. "So, what differentiates you is the store experience, the human touch, the online-offline connection, and being where your customer is."

The direct-to-consumer category, as a whole, is beginning to transform to be a lot like the traditional retail industry it set out to disrupt. At least, the ones who have a chance at scaling will. Next year will see a shakeout: Digitally native brands have to mature into mainstream retailers, or fade out.

"For a while there, the DTC strategy was a no brainer. But it's now so saturated that the cost of media and returns could destroy your business, and a growth plan becomes more challenging," says Jeremy Bernstein, CEO of the agency The Science Project. "So, what's going to be the difference? Great brands and businesses will survive just like they always did. The only thing 'DTC' will ultimately signify is a market entry strategy."

It started with stores. Anyone still living the digital-or-bust fantasy needs only to look at the numbers to realize online is just one piece of a mature business. For Parachute, customers who shop in stores spend 10 times more on average than customers who have only shopped the brand online. That trend holds true for other digitally native brands across categories have reported a lift in overall customer spend, both online and off, in the markets where they've opened physical stores, including Away, Allbirds, Casper, Eloquii, Warby Parker, Everlane and Reformation.

The category as a whole is on track to make a sizable dent in retail's physical landscape: Real estate firm JLL projected in October that digital brands will open 850 stores in the next five years.

"Businesses today have to embrace the fact that the world is a more fragmented place than ever before, and it requires nimbleness, reacting quickly, and taking advantage of data to make decisions around the consumers themselves," says Julie Channing, the CMO of Allbirds, which has three permanent stores. "There's been a lot of talk about the rapid pace of change but that's the new norm. When we see something working, like a store experience, we expand around that."

But physical retail was just the first shoe to drop. Wholesale is the white flag signaling that the DTC dream is dead. Some brands -- like Allbirds -- are still holding out. But other digital brands, like Harry's, Quip, Casper and Everlane, have started selling wholesale through retailers like Target and Nordstrom. The footprint is sometimes smaller, and the terms of the deal may differ, but at its core, the strategy is still to sell on borrowed shelf space.

"The lines will continue to blur between modern and traditional brands. If you peel back the onion on Casper, you'd see traditional brand-like economics and expansion channels and partnerships," says Scott Friend, managing partner at Bain Capital Ventures. "But that's great -- only a handful of brands are going to get to this scale of operating at this level, and they'll be permanent fixtures on the consumer landscape. There will be lots of others that don't make it that far."

To be fair, deep inside, DTC brands do have some markings of a different internal makeup than traditional companies. Rooted by their online presences, they have a direct line to customer data, and the supply chains to respond quickly, making product develop smarter. Store opening are informed by that insight. With digital foundations, these brands can avoid the familiar trappings -- bloated inventory and discounts, way too many stores -- that impaired yesterday's weather-worn retail class.

That makes a big difference when it comes to scaling modern businesses.

"I'm glad we paced ourselves [opening stores]," says Kaye. Physical retail still only makes up a small fraction of Parachute's business, but even as it opens more, Kaye believes the store network will stay smart. "We have a lot of data and we can make the best decisions about where to open them, because we have that validation."

PREDICTIONS

Kerry Cooper, president and COO, Rothy's

"On an industry level] everyone should think about profitability and ask 'if this is a healthy business model.' There are a lot of models where that case is working. As a consumer we don't know how much is going on under the covers. We don't know if the brand is on fumes or are they building a bank account. It's hard to know from the outside. But the next year should be about building a sustainable business in the long run."

Just Build Community

Nike's Adam Sussman wants to make his brand a daily habit.

BY KERRY FLYNN

Nike had quite the memorable year. With the resurgence of brand purpose and retail becoming more direct to consumer, Nike led the way in both areas. As Nike's first chief digital officer, Adam Sussman helped the 54-year-old apparel company commit to keep innovating.

At ANA's annual meeting, nearly every marketer I spoke to or who presented mentioned Nike. What happened this year?
We think it's been a defining year. The digital office is up and running and super connected to the commercial to physical retail and digital commerce. We're focusing on leveraging what we offer at the customer level to the enterprise level. We started as a company that was wholesale that was powering a model based on seasons of product, and now we're moving on seasonless, constant brand stories, constant inventory. That's a huge transition and evolution.

Who's the Nike customer these days?
You think about our mission: bring innovation and inspiration to every athlete. We say athlete with an asterisk. If you have a body, you're an athlete. Over the last couple years, we stand for more than selling product. We're moving the world through sport, and we think the world could be a better place and you as an individual could be better if you do more sport. How could we make sport more a part of your lives and Nike a daily habit.

Colin Kaepernick and Serena Williams. You've had some impressive campaigns recently.
It was the 30th anniversary of the Just Do It campaign. The latest campaign was bringing it back to life in an amazing, impactful way. It was the marketing team that did it, and the idea of dreaming crazy.

But you made a choice with Colin Kaepernick and it caused some backlash.
That choice was not made by me, but I'm so proud of that choice. I think it's important for brands to stand for something, and I think it's super clear what we stand for. The thing that I love about sport is it's the great equalizer. Everyone is equal in the world of sport. It's about inclusion and participation, and it stands for all these values that I so believe in and are so important in our society.

> “I think it's important for brands to stand for something, and I think it's super clear what we stand for.”

You've had some big store launches. Melrose Place in July and Fifth Ave. in November. What's unique about these?
The Melrose store was really designed to be a local membership experience that was of the community and for the community, and a lot of the services we built are driving experiences that we expected. Unlock Box is signing up so many new [Nike Plus] members. Sorting the store with local favorites is definitely resonating. And then speed of convenience, scan to try on and curbside check in and especially the texting our athletes is exceeding some of our expectations. We brought a lot of the learnings [to New York] and added new. One of the key things in Fifth Ave. is the Speed Shop, separate entrance to go into the store, and Instant Checkout. You're checking in on your device and on your Nike app, and you don't need a store athlete.

That checkout experience makes me think of Amazon Go stores. But you aren't just replacing your store employees with apps, right?
Our whole goal is to better serve our consumers. We believe enabling a deeper connection to our store athletes is important, they're our most important brand ambassadors. It's not a great conversation to say, “Do you have this item in stock?” Store athletes will tell you they love the Nike app. It's a platform for conversation.

I remember when Nike Plus was the name for the device I put in my sneakers to track my runs. Now, it's your membership community. What's the goal?
We have 140 million Nike Plus members, the goal is to get to 300 by 2022. We formally launched it nine months ago. Nike Plus membership program is unrivaled access to our brand, first to know, first to get, first to experience. Because we have such depth and breadth, it's hard for consumers to see everything. Nike app has become a central destination. You get customization in the app. If you want to follow, we'll give you all this amazing access.

And it's free. You don't charge for other Nike app experiences like Guided Runs. Have you thought about trying subscriptions?
There's basic inspiration and community we want to provide to our consumers. People aren't buying every day, but we want them to be active and part of the brand so there are foundational services that our great value to the consumer. Is there an opportunity for us to charge for some services or experiences? I could tell you we're taking a look at that, and we will probably try some things, but we won't start charging you to use [Nike Run Club] as a tracking app. We're looking into: Are there ways we can provide you with extra services for the more active athlete?

We've had a resurgence of streetwear and your SNKRS app has been a big part of that. How does that effort relates to the Nike customer?
Our brand is so powerful because it sits at the intersection of culture and sport. The whole premise of SNKRS app is 20 [percent] sneakerhead and 80 [percent] the new fans. We're trying to use the hardcore users to help educate the casual and the new and show them the wonderful world of sneaker culture. This app has grown well beyond any of the metrics we'd ever imagine: 350 percent growth of monthly active users over the last 12 months.

DIGIDAY
2018 AWARDS SCHEDULE

Entry Periods

DIGIDAY WORKLIFE AWARDS EUROPE
Early Deadline
January 4, 2019

DIGIDAY CONTENT MARKETING AWARDS
Early Deadline
January 11, 2019

DIGIDAY MEDIA AWARDS EUROPE
Early Deadline
January 11, 2019

DIGIDAY FUTURE LEADER AWARDS
Early Deadline
January 11, 2019

DIGIDAY PUBLISHING AWARDS
Early Deadline
March 22, 2019

DIGIDAY TECHNOLOGY AWARDS
Early Deadline
June 7, 2019

DIGIDAY WORKLIFE AWARDS
Early Deadline
July 12, 2019

DIGIDAY MARKETING & ADVERTISING AWARDS EUROPE
Early Deadline
July 26, 2019

DIGIDAY AWARDS
Early Deadline
August 2, 2019

DIGIDAY AWARDS

The Digiday Awards is the industry's annual recognition of the companies, campaigns and creative that are modernizing media and marketing. This year, judges from HBO, Budweiser U.S., Dollar Shave Club and more selected finalists and winners in 15 categories. Congratulations to the winners.

2019 Winners

Best Branding Consumer Campaign
VICE

Best Branding B2B Campaign
PUBLICIS.SAPIENT

Best Direct Response Campaign
Edelman

Best Product Launch
MULLENLOWE U.S.

Best Branding Best Social Good Campaign (tie)
PUBLICIS.SAPIENT
CARACOL NEXT

Best Use of Mobile
COLENSOBBDO

Best Use of Social
TVOJE LICE ZVUČI POZNATO

Best Use of AI
WSC Sports

Best Publishing Platform
The Outline

Most Innovative Publisher
CLIQUE

Social Media Team of the Year
JUKIN MEDIA

Agency of the Year
WORK &CO

Brand of the Year
hp

Best Brand Platform
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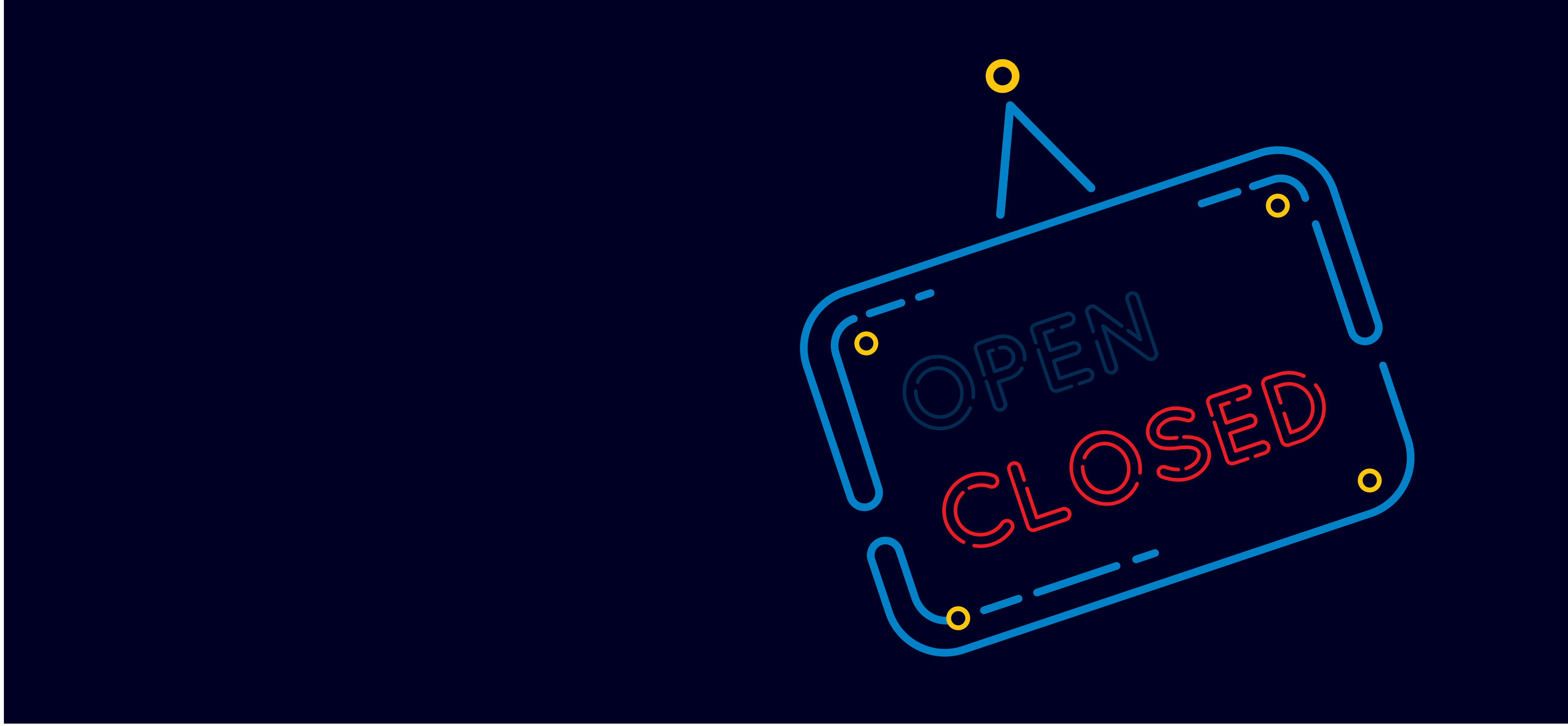


Going In Reverse

The move to in-house has hit a brick wall. ***BY SEB JOSEPH***

No sooner had Vodafone announced it would buy most of its online media itself did it stumble on arguably the plan's most problematic part -- programmatic.

No trend summed up the erosion of trust in digital advertising more over the last 12 months more than advertisers wanting to buy more of their own ads: It was the year advertisers thought they could create their own cheaper, faster, better versions of agencies they suspected had spent their money irresponsibly. But being annoyed at agencies is one thing, replacing them is another.

Which is perhaps why it didn't come as much of a surprise when Vodafone backed down from its plan, realizing that replacing agencies is easier said than done

And it wasn't the only one. Other advertisers found that costs eclipsed the benefits of taking the work of agencies in-house. Intel scaled back its own in-house Agency Inside team in December after just three years. The team's remit, which covered most of the company's efforts outside of broadcast and business-to-business marketing, was condensed as the advertiser consolidated its media buying into Dentsu Aegis Network. More will follow in 2019 as the harsh realities of replacing agencies forces advertisers to think twice about whether it's worth the hassle.

"Those advertisers that dove headfirst into taking more marketing in-house, with the only aim being the perceived cost efficiencies, have quickly discovered that it's not as easy as it first appeared. And the value agencies can, and do, bring to the table in terms of access to talent, efficiencies of scale and depth of expertise, is not easily replaced," says Thomas Byrne, svp of agency services for Dentsu Aegis Network's Merkle in EMEA.

Here's the thing: Taking "responsibility" for media buys like this is just a mirage. There are few global advertisers that buy all their own online media because doing so has never been more than a carefully cultivated narrative, one that flies starkly in the face of reality.

When advertisers talk about taking work in-house, many imagine they can do this with a team of one or two people -- that simply isn't possible.

So much so that some advertisers have had to scrap those teams and revert to their agency, as IPG's CEO Michael Roth pointed out on the holding group's final earnings call of the year. Those requests are coming up in more pitches now. Laetitia Zinetti, managing principal for media measurement at Ebiquity, says advertisers are asking agencies to suggest ways they would help to bring some advertising in-house in the future.

Even Deutsche Telekom, Nissan and Duracell -- three businesses widely regarded as among the more sophisticated media buyers -- don't buy all their own online ads. They do, however, control what gets bought by their agencies and ad tech. Instead of buying their ads, all three advertisers pursued more knowledge, expertise and control of the outcomes of how those ads are bought by their partners. Whether it was Deutsche Telekom moving from a consolidated agency model to a fragmented one focused on specialists partners more attuned to its needs, or Duracell making its own calls on what ad tech to license rather than rely on deals setup by its agency, advertisers started to in-house certain capabilities but work with media agencies as a guide.

"I have learned that as long as you are honest and not too aggressive with your agency that you gain a lot of respect for cleaning up the media buying process towards transparency," says Jon Ones, head of digital for Duracell's international markets. "The agency respect you for not being a fool."

That attitude will likely spread in 2019 as the in-house narrative hits a brick wall, and agencies learn how to make money from advertisers that want to take more control of their investments.

"I support the notion that insourcing is not a binary decision but along a continuum," says Deutsche Telekom's head of international media management, Gerhard Louw. "We realized that it is more than developing media strategy ourselves, it is also the responsibility to orchestrate and steer the media operating model."

The largest gains from in-housing are not always found in media execution, but rather further up the planning cycle in data ownership, strategy and orchestration. Nissan leaned heavily into those areas this year. "The classic agency model is broken but we still need their expertise, which is why we're overhauling the way we work with them in 2019," says Nissan's top marketer in Europe, Jean-Pierre Diernaz. "We don't need to replace our agencies to understand how our ads perform, but we do need be running all our own data management. That's the only part we want to take in-house."

Pay It Forward

AliPay and WeChat Pay are becoming a must-have for U.S. retailer. **BY SUMAN BHATTACHARYYA**

American retail stores are preparing for a new reality, in which Chinese customers will breeze through registers and wave AliPay and WeChat Pay apps to complete their transactions.

A growing number of retail brands in the U.S., including Fendi, Lacoste and Rebecca Minkoff, are making efforts to serve Chinese travelers. By the end of the year, all of Fendi's 50 U.S. stores will be equipped with AliPay and WeChat Pay, as part of an effort to meet customers where they are. AliPay and WeChat Pay function as do-everything payment, e-commerce and social apps that hundreds of millions of Chinese consumers use every day.

To Fendi, they serve an emerging and important customer base. With user numbers for both platforms approaching 1 billion, Chinese customers are a force U.S retailers can't ignore next year.

"It's no secret that Chinese customers are very important for luxury brands," says Andrea Tonnello, finance director of Fendi Americas. "It's becoming important to offer that adoption, especially given the restrictions Chinese people are having with carrying their own currency."

Adding Chinese mobile payment platforms is becoming an urgent priority for American retailers, particularly luxury brands. With 3 million Chinese tourists visiting the U.S. each year, retailers see a lot of potential. While mobile payments have failed to take off among U.S. customers, 65 percent of Chinese tourists have used mobile payment methods, according to a recent Nielsen study. Many Chinese customers don't have credit cards, and WeChat Pay and AliPay are the only payment methods. The average Chinese tourist spent $5,500 on overseas trips last year.

For some luxury brand retailers, adding Chinese mobile payment platforms goes hand in hand with expansion plans in China. Guess began equipping a selected number of stores with AliPay this year.

"Our focus is on the customer journey, and understanding the touch points, and it comes down to creating a seamless shopping experience -- we're a global company and it's important for our Asian customers to be able to find a store and shop no matter where they are in the world," says svp Edward Park.

According to a Gartner L2 study of U.S. luxury brands earlier this year, 16 percent accepted Alipay and 14 percent accepted WeChat Pay. By contrast, UnionPay, China's dominant debit card network, was accepted by 80 percent of brands surveyed by Gartner L2. Tonello says Fendi began accepting UnionPay last year through a tie-up with Discover, but it failed to take off.

"The Chinese [mobile payments] market has developed so much faster than the U.S.; you'll see rapid adoption of the

technology," says Liz Flora, Asia-Pacific retail analyst at Gartner L2. "AliPay and WeChat Pay have become so ubiquitous; consumers just expect they'll be able to use these platforms, and brands really need to catch up."

Industry watchers say some retailers are resistant to change long-held payment methods, while others may have concerns over data sharing and how the logistics around Chinese payment platforms work, suggests Suketu Gandhi, partner in the digital transformation practice of A.T. Kearney.

"Your money will actually be collected by a company in China, and you'll have to be paid back in U.S. [currency]," he says. "There are tax implications, revenue implications, and even PR implications for some people."

Concerns over customer data that will be shared could also be causing some retailers to delay onboarding the platforms, according to Gandhi.

"[The data sharing] is quite opaque and flexible -- some retailers have to and some don't -- the smaller guys who use that do share a lot of the purchase information," he says.

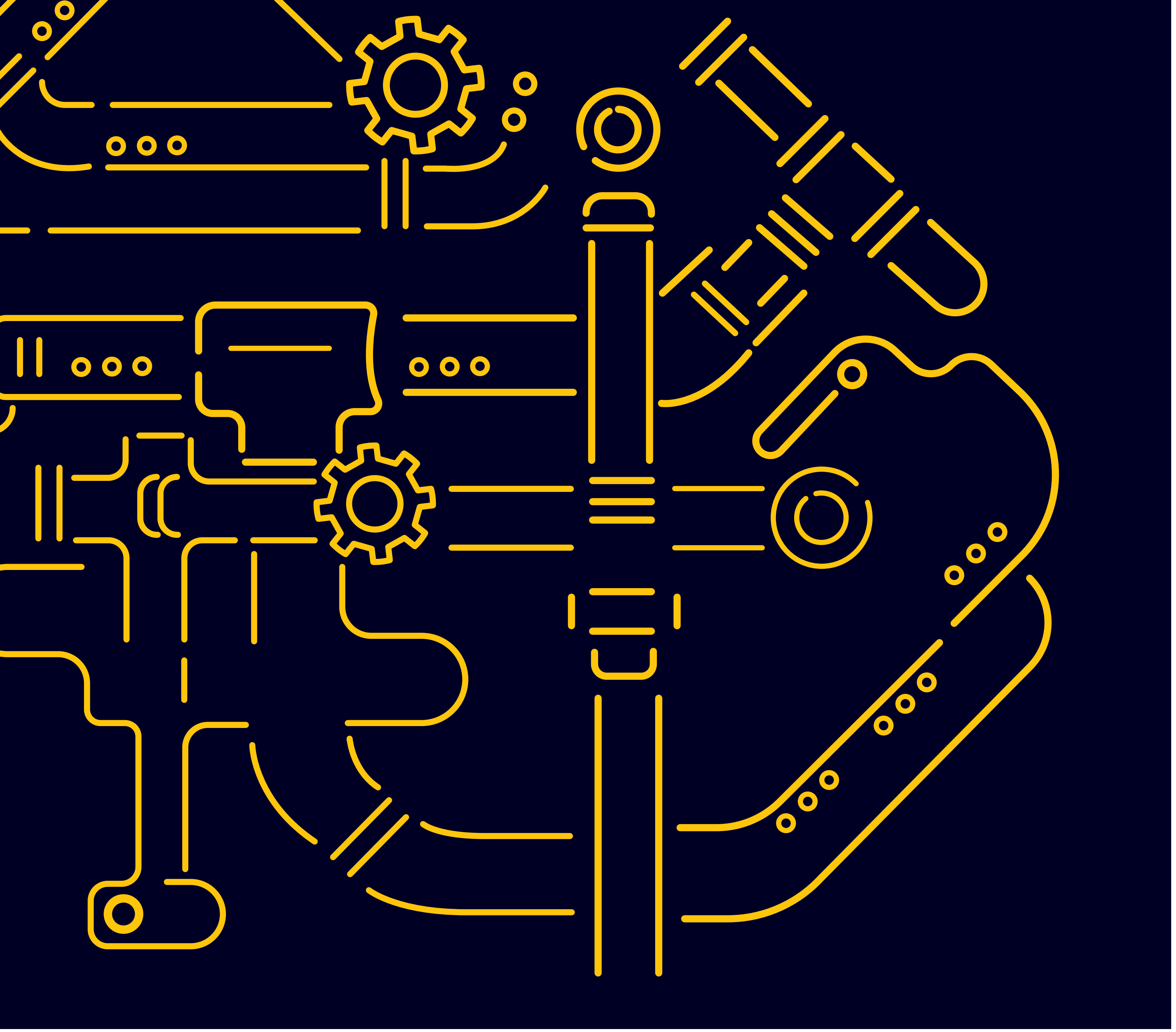
A spokeswoman for Citcon, a tech company whose devices enable AliPay and WeChat at the point of sale at U.S. retail locations, says data-sharing shouldn't be a concern: she says AliPay and WeChat Pay are no different than any other payment customers make at checkouts.

For retailers outside of the luxury brand space, adding AliPay and WeChat Pay is about being where customers are. Bob Partrite, chief operating officer for Simco Restaurants, says adding Chinese mobile payment platforms at the Pier 39 mall in San Francisco is about convenience, and they encourage customers to buy more goods. Ninety percent of Chinese tourists would use mobile payments overseas if they had the option, according to Nielsen.

Chinese payment platforms are also social networks, which give brands the opportunity to be visible to Chinese customers through Yelp-like discovery features or targeted ads.

Enabling Chinese customers to pay with AliPay and WeChat Pay at the point of sale may have two follow-on effects: encouraging American customers to adopt mobile payments, and forcing U.S. retailers and payment companies to reconsider the payment experience, even for their U.S. customers.

"AliPay and WeChat Pay are built brilliantly for a completely frictionless mobile transaction -- few companies that have that level of beauty associated with the mobile experience -- parts of Amazon and Apple maybe," says Gandhi. "If you start accepting AliPay, you're going to have to rethink [the experience] --- the flip side of the operational challenge is you start to learn how to do [payments] in a radically different way."



Attribution Wars

The spoils go to who gets credit. ***BY SEB JOSEPH***

Amid renewed interest from politicians, regulators and consumers on data privacy in 2018, none of the big tech companies wanted to flaunt it openly. Instead, those tech titans set in motion plans to keep even more data within their own protected systems. Privacy is the internet's next battleground and personal data isn't just in the crossfire it's the ammunition. And after bubbling away for 12 months, it's about to boil over with unpredictable consequences for advertisers in 2019 as the internet's biggest companies become less measurable to outside vendors.

Google told advertisers they could no longer export user-level data from its ad exchange in May but then gave them access to a powerful cross-device ID they can only use to assess the performance of ads within its Ads Data Hub. Around the same time, Facebook expanded the number of attribution partners it works but limited what they could measure to impressions. Months later the social network let advertisers analyze the performance of their ads both in and outside its walled garden on the condition that the data is only be used for campaign reports, not to inform bidding.

As all that played out, Apple quietly gave either advertisers or ad networks the ability to directly attribute installs from the App Store without relying on an attribution vendor. That could have serious repercussions for those vendors given just months later Apple made a move that has prevented advertisers from targeting Safari users across the web and consequently highlighted how easy it is to do that measurement in-app -- where Apple makes the bulk of its advertising revenue.

Each move was done in the name of privacy, but can also be viewed as moves to cut out attribution vendors. The companies gets to show better performance than other alternatives, but imperfect measurement between them. This creates silos of spend and prevents that money from moving too quickly or rapidly between platforms and publishers.

"The small problem is a lack of trust in self-reported performance," says Chris Kane, founder of consultancy Jounce Media. "The big problem is the inability to make apples-to-apples comparisons between Facebook's performance and Google's performance."

It's left advertisers with a conundrum. They either accept attribution on the terms of the walled gardens or continue to scramble around its walled garden. Attribution vendors are gambling that larger advertisers go with the latter option because they tend to buy too many ads outside of one tech platform to build their entire identity graph with one platform Adform, for example, saw more advertisers reach out to enquire about its own ad tech stack this year due to concerns about measurement and robust reporting within the walled gardens, says its chief operating officer Oliver Whitten.

Google's decision threw a wrench in Nissan's attribution plans and it spent much of the year rethinking its approach, says Jean-Pierre Diernaz, Nissan's vp of marketing in Europe. Without Google's data, the advertiser can't export it to build its multi touch attribution models. While it's not the only way to measure the true impact of ads, it is widely regarded by advertisers as the most accurate and therefore provides the most detailed results.

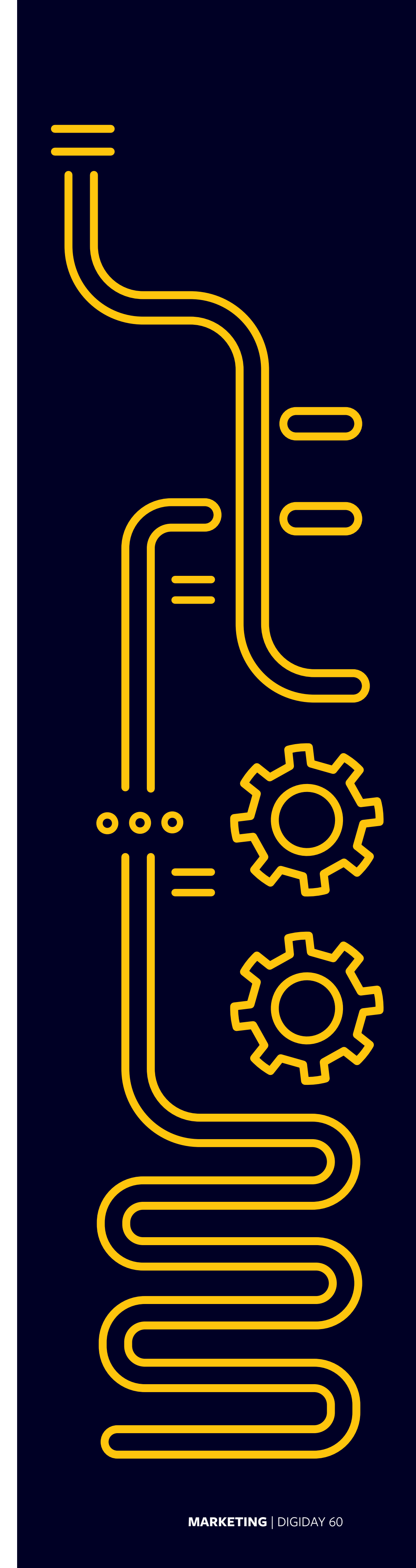
"We've invested in some tools this year because we need to become more sophisticated in how we understand our multi-touch analysis," says Diernaz. "We're testing some hypotheses and every month we're trying to understand where our attribution is coming. There's also the fact that we're yet to figure out a way to get a single view of someone in the absence of cookies, which is more challenging."

Like Google, Apple's attempt to control how attribution is done on its platform has lit a fire under other players that make money from it. Facebook followed Google and Microsoft with a pixel designed to extract data from browsers that block third-party cookies. If the likes of Facebook can't track users across browsers it could reduce the money they make from remarketing to them and also dampen conversion rates for their advertisers.

"In an ad industry where it's privacy first, attribution second, the platform IDs, whether they're from Facebook, Hulu or elsewhere, will become even more important than they are today to do any form of attribution modeling," says Victor Wong, CEO of Thunder Experience Cloud.

The issue is that it is not really clear how long impressions and log level data are going to be a long-term solution to attribution due to initiatives such as the GDPR. In the past agencies like Merkle would this log level data but are pivoting toward using a combination of top level channel forecasting, custom (or built-in) solutions for granular optimization and on-going incrementality and geotests.

"At the moment there isn't an all singing all dancing solution but that doesn't mean we go back to last click, we just need to be smarter in our approach," says Rebecca Smith, director of media science at Merkle.



Cannes In The Desert

At CES, marketing and media execs try to balance their time between seeing technology and each other. **BY TIM PETERSON**

GroupM's chief product officer Jack Smith is likely to be among the people gravitating to the self-driving cars that will be on display at the Consumer Electronics Show in Las Vegas -- but not for the obvious reason. As much as these autonomous vehicles are considered the next great mobile device -- windshields becoming another screen for people to consume media -- he is interested in what's under the hood.

"The graphical processing unit chips that are used to do the calculations to drive self-driving cars are the same kinds of chips that we use to process data for programmatic trading," says Smith.

Surprising as the connection between autonomous vehicles and ad tech may be, more surprising is the fact that media and marketing executives remain interested in the technology showcased at the Las Vegas Convention Center, which competes for their time with meetings along the Las Vegas Strip and has been losing that battle in recent years.

A week of meetings

For advertisers and publishers, CES has become primarily a networking event -- a second Cannes. CES could stand for Colored Eraser Sell-a-thon and industry execs would show up. Regularly scheduled in early January, CES serves as the industry's annual kick-off following a heady fourth quarter and a brief holiday hibernation.

"It's a week where everyone is focused on meetings. And it works well with Cannes where CES is the yearly kick-off and the mid-year catch-up is Cannes," says Insider publisher and CRO Peter Spande.

In the same way that meetings at Cannes can foster more creative opportunities, the technological backdrop of CES can make executives more open to trying something new. "You can imagine more readily the convergence [of different technologies] and what it means for consumers and clients' businesses," says Richard Hartell, global president for business transformation at Publicis Media.

More important than the meetings' context are its participants. Consulting firm MediaLink has worked to make CES a must-attend event for CMOs, and that has made it a must-attend event for media and tech companies.

"Last year Facebook showed a lot of video [at CES]. I don't know how much we spent on Facebook video this year, but it's got to be in the tens of millions of dollars, and that happened at CES," says Omnicom Digital CEO Jonathan Nelson. Similarly spending time with Twitter CEO Jack Dorsey at CES helped to address concerns over the company's ever-shifting management ranks. "Our spend with Twitter went up significantly," Nelson says.

CES By The Numbers

CES is a lot. It's a lot of people, a lot of pixels, a lot of gadgets, a lot of meetings, a lot of walking -- and all over the course of four days. **BY TIM PETERSON**

180,000+: projected attendees for CES 2019

4,500: companies hosting exhibitions

1,100: scheduled speakers

$36: cost per square foot of exhibit space for CTA members at CES 2018

$2,539.80: lowest standard price to rent exhibit space during CES

$385: cost per day to hire a booth model from JVA, Inc., CES's official booth talent agency

33,177,600: pixels on an 8K screen

60: minutes it would take to walk from C Space at the Aria to the Las Vegas Convention Center (possibly still quicker than trying to take a cab)

3: miles between the Aria and the Las Vegas Convention Center

10: meetings per hour that Pandora may run across its entire team at CES

14: exhibitors at the first CES

2: hours that CES suffered a blackout in 2018

13,745: size, in square feet, of the space Twitter will host for meetings and fireside chats at The Cosmopolitan

Meeting management

Given that media companies investing their time at CES can see actual returns, they make all kinds of efforts to maximize their time at the event. Across the various teams that Pandora sends to CES, the company runs "maybe 10 meetings every hour," says Lizzie Widhelm, svp of ad innovation at Pandora.

Many media companies look to centralize their CES presence near the Aria, where CES's marketing-centric C Space conference is held. Pandora will post up at the Aria, while Twitter will once again have a space next door at The Cosmopolitan. The area serves as a quiet place to commune with clients. To ensure clients stop by, Twitter will have a stage to host fireside chats and program different meeting tracks around topics of interest to clients, says Sarah Personette, global head of client solutions at Twitter.

At the last CES, Insider adopted a different approach to maximize its meeting time. The publication hired a van that it tricked out with a conference table inside to conduct meetings on the way to meetings. It's considering doing the same this time around. "The van also then works as a moving billboard, which is helpful as a secondary return on investment," says Spande. Mobile meetings could be especially important during CES in 2019. The gravitational pull for industry execs will still revolve around C Space. That event will add a half-day programming track that will feature CMOs from Cadillac, Pandora, Procter & Gamble and Unilever. The CTA will also be moving the CES Sports Zone conference from the Sands to the Aria, says Karen Chupka, evp of CES at the Consumer Technology Association, the industry organization that hosts the annual event.

Technology to see

However, in 2019, marketers and media execs may feel a stronger-than-usual pull to the Las Vegas Convention Center to see the technology that will supposedly alter their industries.

Gadgets like foldable screens and 8K TVs might be for hardcore CES attendees, but media and marketing executives are looking to get a little closer to the metal that's more assuredly meaningful for their businesses. "It was never sexy to think about GPUs if you weren't a gamer or in that space, but now they've become super relevant to AI and any kind of massive big data application," says Nick Coronges, global CTO at R/GA.

"If you're focused on the wearable necklace or panoramic TV, you're fortune-telling," says Widhelm.

Instead of seeking out internet-connected oven mitts, industry execs look for big-picture trends at CES, which aren't always so obvious. Each year, Isobar compiles a 20- to 30-page report analyzing the CES trends relevant to its clients. Last year, the agency included a robot stripper in its report because it raised important ethical questions for clients that were considering investing in robotics, says Isobar chief innovation officer Dave Meeker.

The major takeaways from CES in 2019 are likely to be less about robotic strippers or various screens and more about the technology connecting them. As the next evolution of wireless connectivity, 5G promises to let people download entire movies to their phones in seconds. It carries similar importance in 2019 as the technology that originally turned CES into an annual pilgrimage for media and marketing executives. Content companies began coming to CES in the early 2000s when high-definition television emerged as a new format that would upturn their industries in the not-so-far future, says Chupka.

"2019 is going to be the year that 5G gets talked about more and more," says Hartell. That talk will start at CES.

> "If you're focused on the wearable necklace or panoramic TV, you're fortune-telling."

'OTT is a very closed ecosystem'

Turner's Donna Speciale doesn't see the end of TV as we know it. ***BY SAHIL PATEL***

Turner's ad sales boss Donna Speciale has had a busy year trying to convince marketers that buying TV ads can be similar to the audience- and performance-based tools available on digital platforms. Heading into CES 2018, where just like in 2018 Turner will rent out a wedding chapel in the Aria, Speciale spoke to us about the future of TV advertising, the need for OTT platforms to play nicer with video programmers and AT&T.

Turner's big pitch this year has been bringing more audience data to how you sell -- and marketers buy -- TV ads. Why?
We need to break away from the historical behavior of using Nielsen age and gender demos. And we've been talking about audience-based buying and selling for the past few years. At our upfronts this year, we made it clear that it was time for the market to move and start walking the walk a bit. At the same time, we also need to start getting paid for everywhere our content is performing. Yes, linear ratings are doing down, but we're not getting any value from our video on demand and over-the-top platforms, where the new generation is viewing our content.

Did marketers respond?
The number of deals that included audience-based buying increased by 5X and our audience revenue segment is up over 100 percent. Every client that has done an audience buy with us from the beginning has renewed and increased their budgets.

But how many of your deals today include some audience-based buy?
Not all clients are dipping into their audience-based buying, I'll be honest, that is a frustration because adoption is lower than I would like to see. About five to seven percent of our billings today are in audience-based buys on linear TV alone -- but it's growing. And some of the clients that are doing audience buying today are spending upwards of 25 to 50 percent of their budgets on buying in this fashion.

What's holding most marketers back?
It's an education. There are a lot of resources that go into this kind of buying -- on both our end and the agency side -- it's not as simple as how we've had to do things in the past. I've had to hire teams to focus on this type of selling.

TV viewership is increasingly going through OTT platforms such as Amazon and Roku -- but they are their own walled gardens. How do you account for that?
That is one of the challenges of this space. OTT is a very closed ecosystem and each and every partner lives within their own walls. We do business with all of them, but I'll tell you that we are going to be more strategic on who we do business with -- we prefer players who share data with us. For instance, we are in a beta with Roku where we get access to their first-party data. So that means we are going to do business with Roku. The other distributors are not as open yet.

Does that mean you walk away from some platform distributors if the deal terms don't change?
The space is still in the infancy stage and I would never say I'm not going to play with somebody in the future because consumers are everywhere. A lot of our business on OTT right now is still contextual advertising, but we think there's value in packaging targeted audiences that are better for advertisers. If a platform is not providing us with the tool to create that opportunity for advertisers, then we will have to assess and focus on partners that are actually helping us.

There is no measurement standard that accounts for TV and OTT across the different ecosystems and walled gardens. Does that happen in 2019?
I do think 2019 will be a pivotal year for audience-based buying and selling. In the short time I've had access to AT&T data -- with the 25 million set-top boxes that DirecTV has and the 144 million mobile devices in AT&T's wireless network -- that is going to help us enhance our ad products and create ones that will help clients prove outcomes.

How do you see the relationship with Xandr in 2019?
Xandr is the data hub for us and we have been scrubbing the data and seeing what we can do with it. We're looking to launch some products in the attribution space.

TV and video ad sales are obviously the biggest part of your job. But when it comes to new and emerging tech -- A.I., voice, A.R. -- are you spending meaningful amount of time on any of those?
With AI, I'll tell you from client meetings we're having it's not a huge topic of conversation. But I'm also always trying to steer conversations toward getting marketers to adopting audience-based buying. That's hard enough, so what's the point of pushing them on even more emerging areas?

What buzzword is real, then?
5G. It's going to take over the mobile phone and impact everything. Everything we do is going to be wrapped in data. And that will have a big impact on audience-based advertising.

> “2019 will be a pivotal year for audience-based buying and selling.”

Karen Chupka, evp of CES at the Consumer Technology Association

Michael Kassan, founder and CEO of MediaLink

Alan Schanzer, svp of agency and advertiser development at Pandora

Showtime

MediaLink didn't invent the curated tour of the CES show floor, but it did set the template for what it has become. ***BY TIM PETERSON***

The Consumer Electronics Show has become a must-attend event for marketers largely because of MediaLink. In addition to creating CES's Brand Matters program, which has evolved into the C Space event, the consulting firm operates what it calls "brand journeys" for clients to curate their entire calendars at CES -- from the industry's annual CES kick-off party to meetings with executives from media, marketing and technology industries in attendance. But it all began with curated tours of the CES show floor.

Alan Schanzer, svp of agency and advertiser development at Pandora and former WPP exec: If I remember correctly, they were one of the first to establish a presence as a tour guide. Now if you go to the show, you have Scripps doing it, and you can hire [consulting firm] Shelly Palmer and other people to do it. I don't think all that was happening much back in the day when MediaLink and [former GroupM chairman] Irwin Gotlieb and the gang were starting these.

Michael Kassan, founder and CEO of MediaLink: The idea of a proper tour was something that happened very naturally. Irwin Gotlieb would get a group of us together, but it wasn't official. It was just a group of people who were all at CES from the marketing industry, because not many people were. Irwin, being such a brilliant guy, it wasn't actually a tour. You would just walk around the show floor with Irwin, and you'd learn a lot. And I thought, boy, if there's ever been an opportunity for a docent-led experience, this is it. Because if not, you're just walking around looking aimlessly.

Adam Shlachter, CMO of Group Nine Media and former WPP exec: I remember being on the Irwin tour with clients way back before CES was a thing like today. There was no iPhone at the time. 3D was a big trend. Blu-ray was still new. This was about 10 or 12 years ago. Maybe a year or two later was when MediaLink organized what I remember as the first tour where they were bringing clients along.

Kassan: The first really big ones we did were for Unilever and Coke. And we also did it for GE early on. So what would be interesting for GE, Unilever and Coke if you're going to walk around the floor? You want things that are going to resonate with them, so we didn't want to make them one size fits all.

Shlachter: I remember they would have satellite and addressable media companies be part of it because they were trying to leverage technology to allow them to better target ads to customers. There was a pragmatic aspect to what you were seeing on the floor and how it applied to marketing.

Kassan: If I'm coming to see LG, I don't want to show up at LG's booth without them knowing at 3 o'clock tomorrow we're showing up with Coca-Cola and here's what's interesting to Coca-Cola, so you best have people there ready to help us on that. I don't want some general floor person who doesn't know anything about consumer packaged goods.

Schanzer: If you walk the floor on your own, you're going to get lost, whether it be physically lost or lost in thought. The ability to take that information -- the things to focus on for my clients over the next 12 to 18 months and the things to be thinking about for the next 18 to 36 months -- you can't do that without some level of guidance.

Shlachter: The thing about Irwin's tour that was so amazing was how intimate it was. You could only have so many people follow you around; it was easy to get lost. Yes, he had help, but he curated it and guided it. What MediaLink was able to do was replicate a version of that and scale it to make it more accessible, to make it more visible. They were carrying around placards. You couldn't get lost.

Kassan: One of the crazy things we did, which nobody did before, was we didn't have people screaming. We had post signs, like you would on a tour in Italy or something, and -- now it sounds silly because everybody does it -- we armed everybody with walkie-talkies. Otherwise it's hard to hear. And the MediaLink banners that everyone walked around with turned out to be a great marketing tool as well. Nobody did that before. Now everybody does, but we did that first.

Karen Chupka, evp of CES at the Consumer Technology Association: [The curated floor tour] has peaked within the past five years. I can remember at one point being on the floor and looking up and thinking that we might have more tour groups here than Disney World. ◘

Photo courtesy CES

What Happens in Vegas...

Sure you can get some business done. But a week at CES means more than a few crazy stories. ***BY SAHIL PATEL***

For media companies and marketers, the annual Consumer Electronics show in Las Vegas is a great time to test out emerging new technologies, network with potential new business partners and catch up with existing clients. It's often also a week of debauchery and insanity in Sin City. Here are some of the craziest stories, told to Digiday by anonymous media and marketing execs:

A random night with strangers that goes anywhere

As told by a former media startup exec: "CES can be brutal to startups your first time so you need to make new friends fast and learn the power of asking, 'Hey, where's next?' Sometimes it works out great, like stumbling into a dinner with large brand CMOs or people who can become investors. Sometimes it's a fun dead end, like the time I wound up after midnight at a UFC gym off The Strip watching a 'Voice' finalist serenade Monster CEO Noel Lee on a gold Segway, with a dozen young break dancers who were probably five hours past their bedtime… and maybe Ne-Yo? Except he wasn't singing, just looking sharp in a great hat."

So you wanted to see Rick Ross for free?

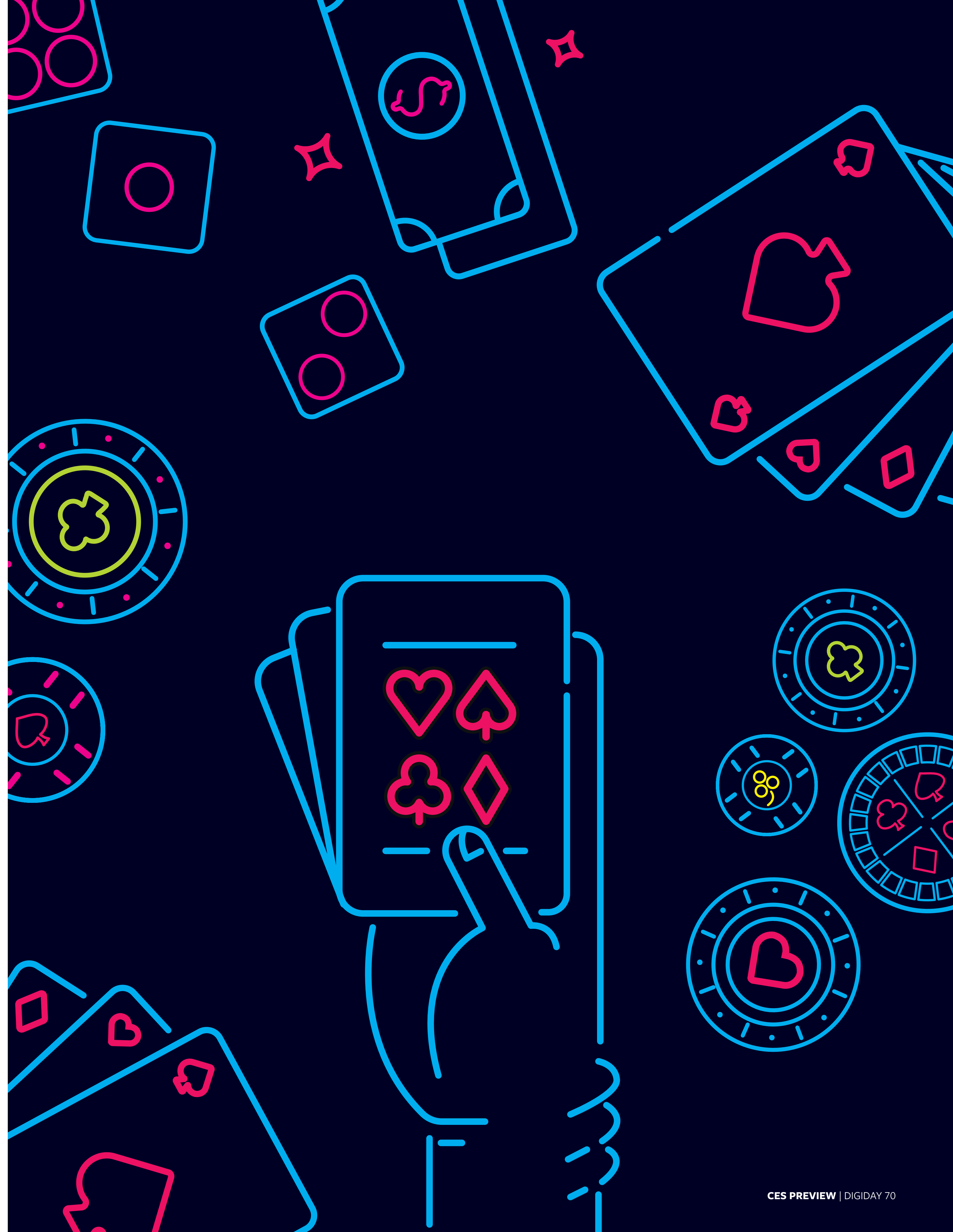
As told by a media exec: "Just because there are big names booked for a free party doesn't mean there's not a price to pay. I was thankfully late to an event featuring Rick Ross a few years ago. The guy in front of me said he'd already sat through two hours of speeches and awards from regional sales people at mid-market retailers. Clearly, he was a man who loved 'Pop That' and 'Bag of Money,' but he threw his hands up and left when another group from Ohio was called onto stage to celebrate because 'all they do is win.' The 'Teflon Don' couldn't get him to stick around."

The best David Copperfield story you'll ever read

As told by a longtime TV exec: "There's a lot of secret shit you don't hear about. A few years ago, a lawyer I knew tapped me on the shoulder at this dinner and told me to meet him at this address way off The Strip at midnight. I thought that was just weird. But he said it was for his client, David Copperfield, and he does this thing that no one knows about but that I definitely needed to see. Apparently, David Copperfield runs a private tour where he brings a group of 10 or 12 people into his lab -- which is at this warehouse.

So I go alone to this address. It's way off The Strip. It's pitch black. I'm in a parking lot and I'm looking at some dinky warehouse with a storefront. At midnight on the dot, a black SUV pulls up and Copperfield gets out. He invites me and the other people in and opens the front gate and you walk into what is an exact replica of his dad's men's clothing shop from New Jersey. He says it's an exact replica and it's where he grew up doing magic tricks on the counter.

He then takes us to this dressing room and pulls on a tie, and the whole wall moves out of the way and you're now in the warehouse, which is basically a movie about his life and career. His entire collection of tricks, outfits, and a team of minions who are working on tricks for the next five years. He does this for three hours, shows you tricks and everything, and then you're back out on the street at 4 a.m. going, 'What the fuck just happened?'"



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February 12-13, 2019
Kyoto, Japan

DIGIDAY MEDIA BUYING SUMMIT
February 20-22, 2019
Nashville, TN

DIGIDAY HOT TOPIC: SUBSCRIPTIONS & COMMERCE
February 26, 2019
New York, NY

DIGIDAY HOT TOPIC: IN-HOUSE MEDIA BUYING
March 5, 2019
London

DIGIDAY PUBLISHING SUMMIT EUROPE
March 5-7, 2019
Milan, Italy

DIGIDAY PUBLISHING SUMMIT
March 27-29, 2019
Vail, CO

DIGIDAY RETAIL SUMMIT
April 29- May 1, 2019
Austin, TX

DIGIDAY BRAND SUMMIT EUROPE
May 20-22, 2019
Dublin, Ireland



High Times

Why cannabis-based products are suddenly everywhere. ***BY PRIYA RAO***

When serial beauty entrepreneur Melissa Jochim, formerly of ingredient-focused lines Blossom Organics and Juice Beauty, decided she wanted launch a cannabis-based skin-care product line as her next act, she originally came up with a "safe, conservative" cannabis beauty brand. But when she met with luxury beauty retailer Sephora, the merchandising team encouraged her to think bigger. "They told me a cannabis revolution was coming," she says.

In November 2018, Jochim's High Beauty, which is comprised of cannabis sativa seed oil extracts, landed exclusively in Sephora doors after a summer pre-order tease on HighBeauty.com. Jochim launched with two hero products -- High Expectations, a cannabis facial oil, and High Five, a cannabis face moisturizer. Both are legal and free of psychoactive substances including tetrahydrocannabinol (THC) and cannabidiol (CBD), and five more cannabis beauty products are on the way in 2019. "Next year is going to be really big for us. We already have so many products ready for launch and production, and I'm formulating more as we speak," she says.

Rich Gersten, partner at private equity fund Tengram Capital Partners, agrees that 2019 will be big for cannabis and beauty. (Tengram has a 15-year history of investing in beauty companies like Lime Crime and RéVive.) "The growth is too significant to say otherwise," he says. "The pace has dramatically increased, and everyone is trying to capture some share of this fast-growing segment."

According to research from Grand View Research, Inc., the global legal marijuana market is expected to reach $146.4 billion by the end of 2025, with the U.S. and Canada markets anticipated to be the largest in terms of revenue. Jochim's High Beauty is positioned well, as are Milk Makeup's Kush High Volume Mascara and Origins' Hello, Calm face mask -- all of these products use the legal cannabis sativa seed as an ingredient and have been recently stocked by Sephora, legitimizing cannabis as a key ingredient in beauty and wellness.

The aforementioned brands are carefully toeing the line from the cannabis industry's larger legal issues. Cannabis remains illegal under federal law, even in states that have legalized marijuana for medical or recreational use, and the federal government categorizes all CBD products other than the drug Epidiolex (which the FDA approved in June for severe forms of epilepsy) as a Schedule 1 drug, like heroin. Beauty and wellness products continue to pop up, despite the ramifications.

Examples include buzzy direct-to-consumer brand Dirty Lemon's CBD-infused functional beverage (made in partnership with luxury cannabis brand Beboe), Dosist's disposable vape pens with CBD that "deliver health and happiness" and Kush Queen's pumpkin spice CBD bath bomb. There is also Lord Jones's High CBD Formula Body Lotion, sold at Sephora as part of its "Clean at Sephora" initiative.

"We will 100 percent start to see more cannabis beauty companies," says Samantha Czubiak, CEO of Hora Skin Care, who launched her hemp-derived CBD lineup of serums and masks in January 2018. "I don't think we are even near the peak; we are still climbing." Aside from using CBD as part of a strong ingredient story in her products, Czubiak is relying on other trendy add-ons in her formulas like hyaluronic acid, vitamin C and argan oil. She plans to release a CBD lip balm in the coming months.

Google and Facebook -- prime for advertising and brand-awareness online plays -- do not allow drug or drug-related promotions on their sites since marijuana is still illegal, but Czubiak says Instagram is driving most of Hora Skin Care's traffic to its online site.

As much as it is about the cannabis product itself, it's also, of course, about marketing, said Kimberly Dillon, chief marketing officer of Papa & Barkley, a California-based line of cannabis-based body oils, balms, tinctures and patches that launched in 2015. "While we think the marketing, branding and packaging of new cannabis products has helped the plant gain mainstream attention, we also know cannabis can improve people's skin and lives in so many ways," she said. "We know that it's not just traditional cannabis consumers looking to incorporate cannabis into their lives, but it is also moms, the elderly, athletes and everyone in between. We know that we need to appeal to a wider lens of consumers with the increased interest as a wellness product."

Though Gersten isn't looking to acquire a cannabis beauty brand just yet and none of his portfolio of brands has cannabis-related products, he did share that some of some of Tengram Capital Partners' beauty brands are looking at CBD innovation right now. "The brand doesn't need to be a cannabis [only] brand," he said of the brands drawing interest from investors. "The brand permission just has to allow for a CBD ingredient play." But within that, Gersten says specific positioning does matter: Is it about wellness, pain, inflammation or skin benefits?" he says. "It is still very confusing."

Regardless, Dillon calls cannabis the "new acai bowl." "When you start hearing celebrities and athletes talking about CBD as part of their routines, places like Sephora start carrying CBD products, and mainstream beauty editors writing about them, we will continue to see cannabis beauty pop up everywhere," she said.

On The Brink

Rent the Runway's logistics machine is getting set to scale.

BY JILL MANOFF

Inside a 250,000-square-foot warehouse in Secaucus, New Jersey, hundreds of staffers dry, clean and make repairs to 450,000 clothing items, shipping them out to customers across the country on a daily basis. The facility, one of the largest of its kind, is Rent the Runway's "Dream Fulfillment Center," and is a key component for laying the groundwork of the company's ultimate goal: Everyone will have a subscription to fashion.

Based on its growth trajectory, Rent the Runway's aim isn't farfetched. The company, launched in 2009 by Jennifer Hyman and Jennifer Fleiss, is fashion's answer to the on-the-rise sharing economy, and it's been picking up steam by answering new needs of both consumers and brands in the digital age.

Getting to know the customer -- who, thanks to Instagram, values a fresh #OOTD more than ever -- has largely been the fuel running the engine.

Anushka Salinas, Rent the Runway's chief revenue officer who oversees subscriptions, says the company has 4 million data points on each of its subscription customers. More than 50 percent of customers actively provide feedback when prompted, and there are currently 1.5 million customer-provided images on the site paired with reviews of RTR looks.

"We are definitely a machine," says Salinas. "There's so much magic on the operations and fulfillment side of what we do; we're such a complex logistics business."

Inventory is the company's No. 1 expense, says Salinas, but it's found a way to cut costs to scale faster: In mid-November, it launched a revenue-sharing program for brands, allowing them to provide rentals directly to customers through the Rent the Runway platform, versus a one-and-done transaction of buying the styles to sell via the wholesale model.

Launched in early 2016, Rent the Runway's Unlimited subscription program, offering subscribers four styles at a time for $159 per month, has seen great growth in the last year. That's equated to a 150 percent boost in subscription revenue (the privately owned company does not provides specific sales figures), 125 percent more inventory and 150 new brands.

"We use the data we have to tailor our assortment for customers," says Sarah Tam, Rent the Runway's chief merchant officer. "That includes working with current brands to fine-tune the selection but also identifying voids in the inventory, which often results in layering on new brands. We tested denim in maternity, then launched 85 styles [in the main line] for fall, and we're adding another 45 styles for spring -- and we're bringing on denim brands like 3x1 to meet that demand."

As the company considers expanding assortment based on "anything she could need to fit her lifestyle," Tam says that may soon include categories like hair tools and skin-care gadgets.

"We're focused on normalizing the behavior of renting fashion," says Salinas. "We want to continue to make our subscription to fashion so incredible and amazing that she could never imagine not having it."

Hyman and Fleiss started fundraising while at Harvard Business School and have so far raised $400 million in capital. The company's latest round, $20 million in March by Alibaba's Jack Ma and Joe Tsai, raised its valuation to nearly $800 million, increasing speculation that it will soon go public, which would equate to new pressure.

"Businesses change when they IPO," says Syama Meagher, chief retail strategist at Scaling Retail. "Management and operations have a tremendous amount of pressure to scale, and the Rent the Runway infrastructure undoubtedly has scalability concerns. Building partnerships and operations globally will be a tremendous feat for the company, but one that will secure its trajectory."

To win over customers with available styles, the company had to first show the value to brands, which were at first concerned about cannibalizing their own businesses by making styles available to wear for 5 to 10 percent of their retail price. The value for many is exposure to the millennial customer they're seeking (as was the draw for high-fashion designers Jason Wu and Prabal Gurung), and a chance to earn back market share from comparably priced fast-fashion brands. Some also use Rent the Runway as a test bed for new markets and categories, like French brand Bash, who used it to grow in the U.S. market.

"A lot of people said it would be difficult to launch in the U.S.," says Sarah Benady, CEO of Bash North America. "When you don't know a brand, it's super safe to rent it, try it and see if you like the product and the fit."

As growth remains the focus, physical expansion is top of mind: Rent the Runway recently partnered with WeWork to offer customers more drop-off locations. In 2019, it's opening a new distribution facility in Dallas, enabling faster delivery across the U.S. Global expansion will follow.

"You're definitely going to see more of us in more places," says Salinas. "We're going to be able to take the experience New Yorkers get and scale that in every single city, very soon."

It's Huda's World

The influencer-turned-CEO is moving beyond makeup to become a total beauty destination. *BY JILL MANOFF*

Huda Kattan has seen a meteoric rise from makeup artist and blogger to mega-brand CEO, since the launch of her eponymous cosmetics label, Huda Beauty, in 2013. The last 12 months have been especially fruitful for the influencer, who has a $550 million net worth and a loyal 30 million followers on Instagram, despite never playing in the paid influencer economy. Private equity firm TSG Consumer Partners valued her beauty company at $1.2 billion and acquired an undisclosed minority stake in it in December 2017, and in late October, Kattan expanded her reach beyond makeup by launching her first fragrance brand Kayali. Kattan's plan is to debut more brands within the Huda Beauty portfolio in the coming year, including those dedicated to skin care. The goal? To back a full-fledged lifestyle brand.

What was the impetus for your new fragrance brand Kayali?
My sister Mona [Kattan, who is president of Huda Beauty] has been bugging me forever to do a fragrance. She is a business woman at heart, so she is a bit more motivated by where you can make money -- whereas, I am a brand builder, and I am looking at how a fragrance could be part of our overall DNA. At first, I could not figure out how it fit with what we already had with Huda Beauty, but then Mona turned me on to the Middle Eastern idea of layering fragrances and the way we could build different identifies with different scents. We started Kayali with four spray perfumes, but there are many more versions coming within the franchise. Yes, people spray fragrance, but they also slather it, they bath in it. We are thinking a lot about how you can apply fragrance and how that can be fun.

You started your beauty blog in 2010, which was largely centered around how-to videos. How important is education to your customers and fans today?
When I think about Huda Beauty and the brands we launch, it is very much about teaching people how to try certain products and techniques they would not have necessarily tried before. We want to show our fans how to think about beauty in unexpected ways. I have had a lot of different roles -- I have been able to be a makeup artist and a blogger, and now I have a team -- but I still get a lot of insight from the blog and social media on what people like and are willing to try.

How do you identify what other beauty categories you want to enter?
I think about what I am craving, what my team needs and what my customers want. I have a lot of skin issues -- my skin is very acne-prone -- so skin care makes sense for me and for us right now. I do know that some products are not going to be as profitable, but we know it is a good segue for the bigger story or how someone can first encounter our brand. I will be honest: Some of our palettes are not that profitable. But for the people who do try them and love them, they end up buying more from us. It is not about the short-term trend for me; I think about where Huda Beauty will be 40, 50, 100 years from now.

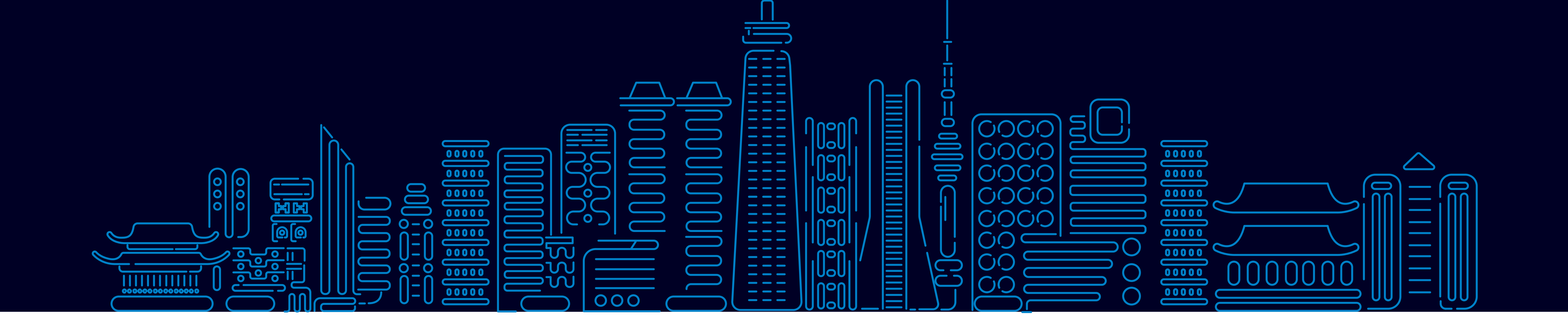
Who is your customer today?
We still have a very strong Middle Eastern, South Asian [and] North African client base, and when we started, that was who we wanted to appeal to. Now that has expanded, thankfully, but we originally focused on that audience because that is who I thought was representing me. She is popular now, but I idolized Priyanka Chopra when she won Miss World [in 2000], and that was originally the starting point of the blog -- that kind of beauty. As we expand, I do not want to lose that focus.

How has the mainstream move toward inclusive and diverse beauty changed your business?
I could not find shades for my skin tone, and that inspired Huda Beauty. We took it seriously, and it took us a year to finish our shade matching formulation in 2016. It does not matter how dark you are or how light you are, it is about undertones, and I think most brands are still not as sensitive to that. It sucks that people are still being told they are not a part of the beauty game because of a certain skin tone.

You have been vocal about not accepting payment for sponsored posts or paying influencers. Why does that make sense for you and your brand?
When I was starting out as a blogger in the Middle East, monetization was not happening as much. But I remember when I was just starting the blog someone offered me $10,000 to take 30 percent of the company. I almost did it, but it was not right. It makes me think about who out there is taking these kind of opportunities just to get by and build their brands. Now, it does not make sense to have this brand and also try to do paid posts for other brands, even if I love the product.

What is next?
We started HB Angels [an early stage investment fund for female entrepreneurs], and we are hoping to make our first investment in the early part of next year. I want to do more mentoring and give out as much information -- and make it free. I am not doing enough of that right now, and I am itching for it.

> “It sucks that people are still being told they are not a part of the beauty game because of a certain skin tone.”



Charlotte Cho's Guide To Seoul

BY EMMA SANDLER

Charlotte Cho, the founder of curated K-beauty website Soko Glam, shares her favorite places in Seoul, a city in which she spent five years between 2008 and 2013 before developing her business, which has been profitable since its second year, according to Cho. She now travels to Seoul approximately six times a year.

Gwanghwamun: "For only a few dollars, I am able to walk the ground of a majestic palace from the Joseon Dynasty. And as if you stepped into a Korean drama, there will be young men and women cosplaying the era, in full traditional attire. Nearby, I like to take a coffee break at Hoard Cafe, because it provides beautiful views of the Seoul cityscape juxtaposed next to traditional Korean villages."

Ikseon-Dong Hanok Village: "A charming and nostalgic neighborhood where old Korea meets new. Modern eateries, bars, and boutiques are scattered throughout the alleyways of this traditional village. Adjacent to the village are the pojang-machas (tent restaurants) that are quickly becoming a relic of the past. I spent a great deal of time here while developing my new skin-care line, called Then I Met You."

Sulwhasoo Spa: "Americans don't fully get the breadth of the luxury of Sulwhasoo until they visit their towering gold flagship in Cheongdam and get their facials at their underground spa. Even when I get the most basic facial, I feel completely pampered and energized, and most importantly, my skin glows."

Hannam-dong: "The neighborhood is a hot spot for the locals, with artistically designed restaurants and chic life and style shops. It's semi-secluded and where only the locals gather -- which is why I love coming here. It's less likely you will see tourists and more likely you will see some Korean celebrities."

Garosugil: "Consider this the SoHo of Seoul, a neighborhood with hip restaurants, beautiful coffee shops and great people-watching. I love going here to explore the beauty shops from 3CE Cinema, Dr. Jart, Tamburins and Olive Young, as well as several flagships of the eclectic sunglasses brand, Gentle Monster."

Myeongdong: "This is the beauty mecca of Seoul, because you'll see all K-beauty brand shops that you need to know in one spot. I love checking out Style Nanda's Pink Hotel for the best Instagram content, Mamonde for their luxurious flower-based skin-care flagship and Etude House for custom made-to-order lipsticks."

Jenny House: "At Jenny House, you can transform yourself into a K-pop star by getting a chic haircut and style. Their service is the gold standard and unlike any other salon visit I have ever had in my life. They're always catering to a celebrity clientele. You have to experience it to believe it."

Unistella Nail Salon: "If you've been following Park Eun Kyung's meteoric rise as the hottest nail artist in Korea, you'll want to visit her salon in Cheongdam. She's always concocting the latest trends in nail art that are often found on runways and in glamorous magazine spreads around the world. Definitely one of my go-to spots."

Resale Redux

Major resellers share how the market is leading to 'the reinvention of retail.'

BY DANNY PARISI

Sneakers are everywhere. From the latest Nike drops to the runways of big European fashion brands like Balenciaga, the sneaker is at the heart of some of the biggest style trends: the rise of streetwear, casualization of dress codes, the drop model. Sneakers have such high demand and so little supply for some of the most sought-after sneakers of the year that resale of those sneakers has become a massive industry in its own right.

The sneaker resale industry is valued at more than $1 billion, and resellers like Stadium Goods have received funding from major players like LVMH's Luxury Ventures investment arm. We spoke to some of the biggest resellers in the world – GOAT, Stockx and Stadium Goods – to explore where the sneaker resale market is now, how it got there and where it's going.

Danny Parisi: What were the early days of sneaker resale like? How did it evolve into the mature industry it is today?

Josh Luber, co-founder and CEO of Stockx: What we think of as the sneaker resale market dates back to 1985 when the Air Jordan 1 [was] released. This was a shoe that had a drastically lopsided supply and demand curve. Supply and demand is all resale is. Sneaker resale is just Econ 101 at its most basic level. But the arrival of the internet and eBay changed everything. Now, there was no longer just your local sneaker store. For the longest time, eBay was the largest and only global sneaker marketplace.

Matt Cohen, vp of business development and strategy at GOAT: When a $100 pair of shoes are reselling for $1,000, there can be violence and riots.

JL: There was that Sports Illustrated cover about your sneaker or your life with a pair of Jordans and a gun on it. There had always been riots. When you have an asset that's worth so much more than it costs and you put it in an unregulated environment, it leads to that kind of stuff.

MC: Stores started moving towards the raffle system. No more camping out. As things have gotten more digital, so has this market. A lot of sneaker brands are going more [direct to consumer].

DP: Do the sneaker brands pay attention to the resale market? How much acknowledgement of resale is there from Nike or Adidas?

John McPheters, CEO and co-founder of Stadium Goods: Every brand is thinking about resale. The aftermarket and how it performs is an indicator of success. A lot of people at brands watch it closely to see what's going on out in the world.

MC: The brands are very aware of how they do in resale. Whether officially or unofficially, resale and retail are getting their lines blurred more and more. They are very in tune with the resale market.

Eddy Lu, CEO and co-founder of GOAT: We are a leading indicator for how sneakers are going to do. The primary and secondary markets are converging and bridging the gap between them is the only way to go.

JL: Nike's had a "willful blindness" policy since 1985. Everything Nike does creates the secondary market. They benefit from it, but if you ask them about it, their response is that they don't know anything about it, which is definitely not true.

DP: There are many issues right now. Fakes. Counterfeits. What else are the big challenges?

EL: Fakes are huge. Nike is the most counterfeited brand in the world. That's why GOAT exists. We used to see a much higher volume of fakes, but now people know we authenticate heavily and our fake rate has gone down.

JL: Search for a shoe on eBay, you'll get 1,000 results. But then it's up to you to decide. Why is this person selling it for $600 and this person for $800? Why does this person have a picture of a cat sitting in the sneaker? If you go to the New York stock exchange and want to buy a share of Nike, there's one ticker symbol, not thousands. The sneaker resale market is standardizing all of that.

MC: First and foremost, resale makes it hard to understand your supply. Resale exists because there's less supply than there is demand. Recently Kanye West and Adidas said they want Yeezys for everyone. This created more supply than demand. Recently the second colorway of the Yeezy 700 dropped. The first retailed for $300 but it was reselling for $600 or $800. This one sat on adidas.com for days. It didn't even sell out. The biggest problem we face is that if there's a shift in how brands think about scarcity that's going to affect resale. Yeezy 700s are still active, but the average price is $330 — barely over retail. We are not making money on those.

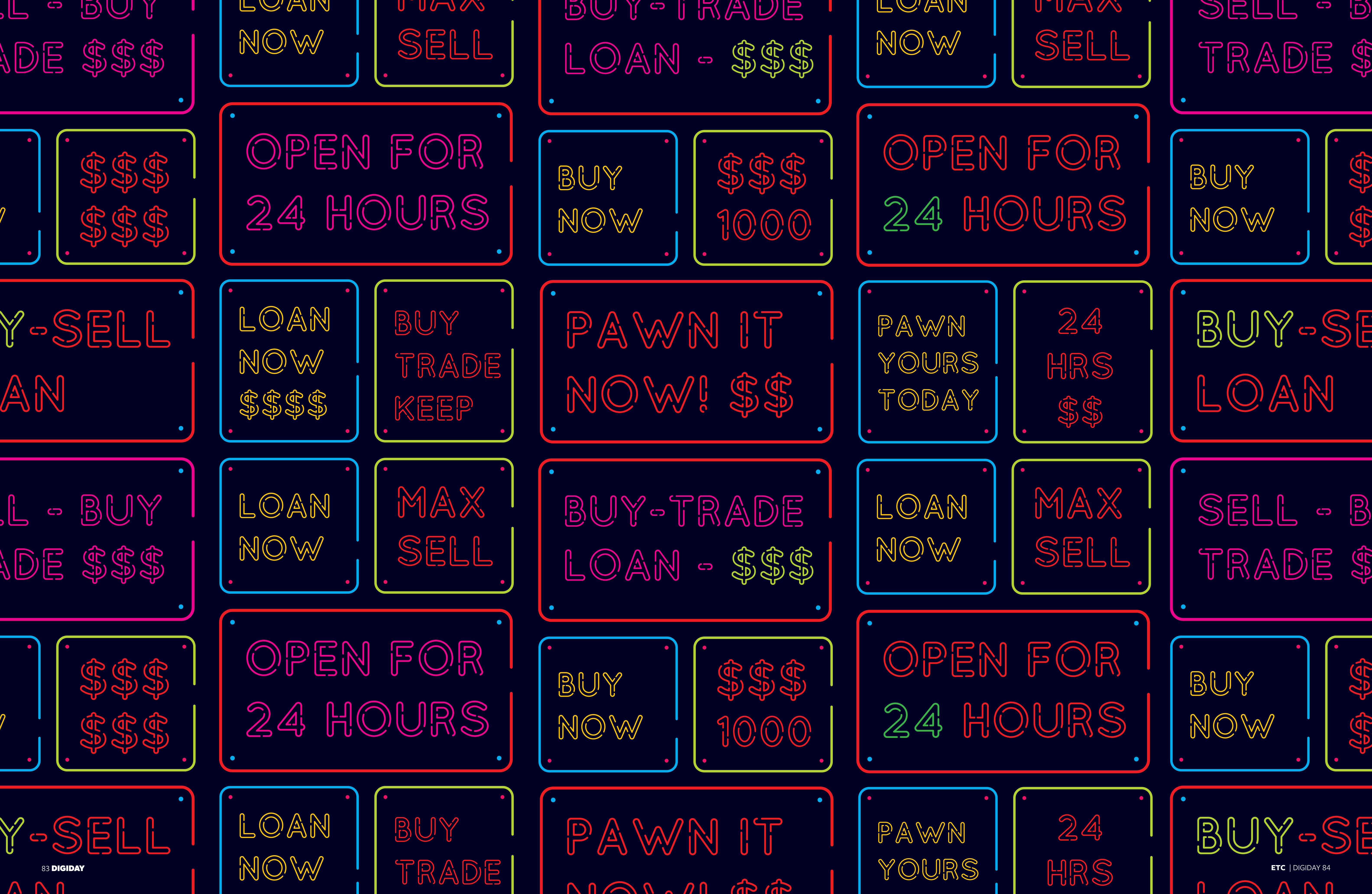
JM: We need to continue to figure out how to efficiently educate our consumer base. People don't always understand how the prices work. Someone looking at our product the first time needs to be educated.

DP: What are your predictions for the sneaker resale market? What do the next few years hold?

JL: The theme of the primary and secondary market is convergence. Every time you have a secondary market, they start to work together. In consumer goods, this is kind of rare. But 10 years ago, sports teams were trying to shut down ticketing websites. Now they work together all the time.

MC: When Versace launched the Chain Reaction, it released on Versace and GOAT. They came to us because they wanted to tap into the same consumer — the sneaker enthusiast — and market directly to this consumer base who they haven't been able to reach before.

Jed Stiller, co-founder and managing partner of Stadium Goods: [The future of resale is] reaching that mass market consumer, having the capabilities with fulfillment to reach the regular mass market consumer outside of sneaker specialists. It will lead to mass adoption. Once that fear and anxiety melt away, you're just buying a product from a retailer, and you're having a good experience. That's the future of the resale market: the reinvention of retail and how people think about their transactions.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2019 Resolutions

BY BRIAN MORRISSEY

The end of the year is a time for resolutions, for vowing to do better in areas you fell short, even if you know you'll probably again come up short. Here's our resolutions in the Digiday editorial group.

We'll be honest about what's real and what' PR in digital media. There is a lot of doubletalk and outright fabrications in the market. Our job isn't to fall for it.

We will highlight verifiable success stories. There are many instances of sustainable media businesses being built. There are many marketers contributing to building a sustainable media environment.

We'll go back and check on what people claimed. There's a lot of talk in digital media, especially in areas that are unverifiable. Everyone complains about Comscore but it is a measurement. We need to hold people accountable for the things they claim about their businesses.

We'll ask if that's good. Many executives claim progress in cherry-picked areas. "Subscriptions are up 200 percent" and "We sold out of the t-shirts in three hours." But too often there's little in the way of a benchmark to truly judge whether this is progress.

We will always ask people how profitable their platform initiatives are, as in actual money and not traffic or "exposure."

We will always ask people for churn when they brag about their subscriptions growth.

We'll go beyond the biggest names. There are many success stories in digital media among smaller, vertical players. These deserve more attention than the giants undergoing their latest reorg or reorientation.

We'll stop with the "pivot to video." The pivot to video and its many variations is now dead and gone. It's time to move past it.

We'll be more diverse in our sources. On the Digiday Podcast, we've too often had very similar white male executives. Same goes for events. This is, in part, a reflection on the state of the media and marketing industries, but we need to work harder to find other voices.

We won't let publishers blame Facebook for everything. Businesses set their own strategy (or should). All publishers are responsible for the decisions they made. Blaming Facebook doesn't let them off the hook.

We'll refocus on the underbelly of digital advertising. One of the many lies of digital media is that inventory is limitless. The amount of fraud in the market continues to be high, and this is money that isn't going to legitimate publishers.

We won't call every small e-commerce player DTC. There's something interesting going on with digitally native brands challenging incumbents, but DTC has become yet another buzzword.

Speaking of buzzwords, we'll use far fewer of these: blockchain, AI, micro-influencers, purpose and engagement.

We won't lose sight of the human cost of failures. There will be more carnage in media in 2019, and many of those most acutely affected aren't at blame for poor decisions made by well-paid executives who should have known better.

Here's to surviving 2019.

DIGIDAY