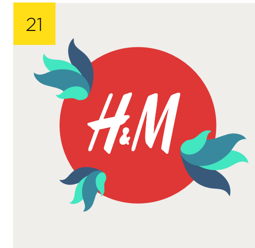
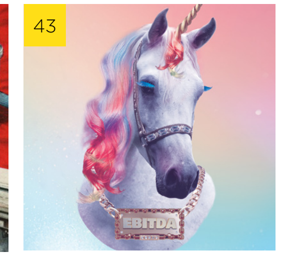
DIGIDAY

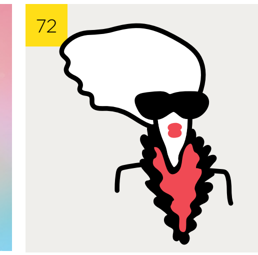
SPRING 2019

The Legend of Profitable Publishers

SPRING 2019







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DIGIDAY MEDIA

Editor's Note

By Brian Morrissey

Our first issue of the year focuses on the shifting role of intermediaries. If there's one rule of the modernization of media and marketing, it's that the role of intermediaries is changing, in some cases becoming all-encompassing and in others (agencies) waning.

One of the biggest trends in both media and retail is going direct-to-consumer. Sahil Patel looks at the DTC movement when it comes to the proliferation of over-the-top streaming services. The promise of the end of the cable oligopoly is a flowering of direct relationships with consumers. After all, this seems to have worked out OK for Netflix. But what Sahil found is that -- surprise! -- in many cases these Johnny-Come-Latelys of the streaming wars -- think Disney+ -- are most likely to not be true DTC plays, instead relying on tech bundlers like Apple, Amazon, Hulu and Roku.

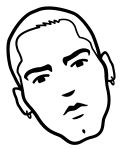
Hilary Milnes examines the Stitch Fix Effect, the rise of new bundlers that are starting to have an impact on fashion brands. Stitch Fix promises to do styling-as-a-service, delivering new looks to customers' doors each month. But the effect of this for those actually making the clothing is a new intermediary between them and their customers -- and a big loss of data. Hilary also has a reality check of the DTC brand movement overall. Thousands of new brands have sprung up and shaken off the chains of the wholesale model. Well, not so fast. Many of these "digitally native" brands end up needing wholesale as they grow and mature their businesses.

In marketing, Shareen Pathak takes a look at the challenged agency holding company model by examining how David Jones, a Havas veteran, is trying to build a new type of advertising holding company -- just don't call it an agency. What's clear from Jones is the old ways agencies approached their businesses are dead and gone. Something new will need to replace it, particularly as clients continue to do more marketing functions on their own. Don't take my word for it, ask Martin Sorrell. The architect of the world's largest ad holding company, WPP, is now betting on a new model that caters to clients need for control. The mantra he tells Tim Peterson is one that should send shivers down the spines of ad agencies: "Better, faster, cheaper."

We've interspersed all these stories about the role of intermediaries with profiles of interesting people and features delving deeper into key issues. For our cover piece, I try to take an optimistic view of the recent turbulence in media. All hope is not lost.

This is our 13th issue of Digiday Magazine. Our own mini-pivot to print is not without its workflow challenges, but it has allowed us to try our hand at new types of stories and design. We hope you enjoy this issue. For those of you reading this who are Digiday+ members, thank you. For those of you who are not yet members, please join.

Gen Z Translator

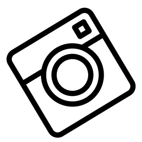


stan = obsessive fan

tea = gossip or trash talk

skrrt = move along

finsta = fake instagram for close friends, usually private, follower count doesn't matter



rinsta = real instagram, curated for social media realness

sus = suspicious

cop = get something

bet = sure

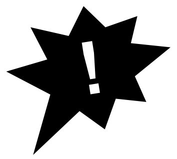
slaps = cool

slaps = cool

fye = really good

gucci = all good

finesse = outplayed someone or getting something from someone



extra = unnecessarily flaunting or being dramatic

yeet = enthusiastic yes or a word to shout while throwing something

big facts = totally agree

default = a Fortnite player who doesn't earn skins

Subway Similarities

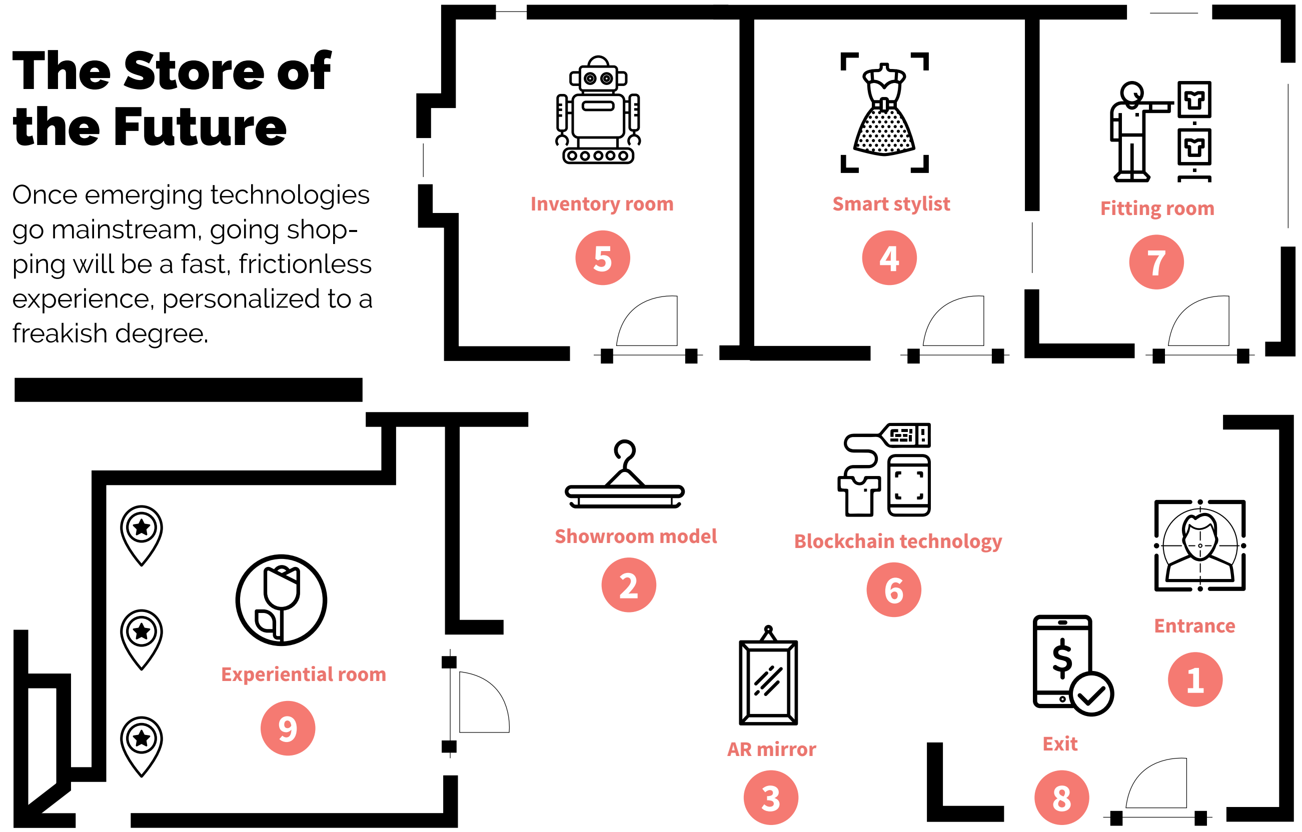
The anatomy of a DTC startup subway ad

There is a special kind of homogeneity of modern subway ads. What used to be territory of questionable plastic surgery doctors and diet pills is now the home of cartoons for mattress startup Casper, euphemistic photos of cacti for men's telemedicine company Hims and satirical poetry ads from insurance-comparison startup Policygenius. With over 7,000 startups in New York City, most of these subway ads derive from the same creative agencies, lending a sense of familiarity among them.

1. Minimalist sans serif font
2. Monochromatic muted colors with plenty of negative space
3. Polite, if irreverent, humor about your commute
4. Product focusing on saving time or convenience

The Store of the Future

Once emerging technologies go mainstream, going shopping will be a fast, frictionless experience, personalized to a freakish degree.



1. Facial recognition technology

No need to say what you're looking for or whether you've shopped here before. A camera equipped with facial-recognition technology has identified you, prompting a store associate to review your digital profile. Within seconds, they know your name, your browsing history and your purchase history, and what's in your online cart.

2. Showroom model

No, your size is not on the floor, but you're not out of luck. Just pick up the style from the RFID-enabled rack, and an associate will receive word that you're interested in trying it on. Your size will be in your dressing room when you're ready. For your dressing room number, just check your phone. You've been notified.

3. AR mirrors

No time to try on? Do the next best thing: Head to the full-length smart mirror, and scan the menu for the styles you're considering. Thanks to beacon technology, the mirror knows who you are. Just tap your choice color, and get a virtual view of how the style in your size will look IRL.

4. Smart stylist

All mirrors are equipped with AI "smart stylists" to offer style suggestions for every piece you try on. Debating a little black dress? Its sensor will cue the stylist to complete the look by offering up complementary shoes, bags and jewelry. Just tap the styles to add to cart. You can purchase today or later from home.

5. Robot-monitored inventory

Head to the stockroom, and you'll see robots roaming the aisles. They're tracking inventory and placing orders for items low in stock, fetching styles associates have requested for in-store shoppers, and compiling items for online shoppers in the area requesting 30-minute delivery. The store is one of the brand's many fulfillment centers.

6. Blockchain technology

But, wait. You're a conscious shopper. Unless a style is made with sustainability in mind, you want nothing to do with it. Luckily, thanks to blockchain technology, there's record of every stage in the garment's production. To see where its materials were sourced and what factories were involved, just scan the barcode with your phone. There's an app for that.

7. Fitting room technology

Request a new size, change the lighting, cue a human stylist for assistance or scan the brand's latest imagery for inspiration. The fitting room mirror is like a shopping assistant at your fingertips, so you can feel free to shop solo.

8. Automatic payment

No need to wait in line. Just walk out with the items you want, and your receipt will be sent to you in an email upon your exit. Or choose to have the items in your cart sent to your home today. Everything you tried on was added to your cart. Just go online and place the order, or have the store associate take care of it.

9. Experiential components

Before you leave, grab a coffee and a selfie. The store is equipped with a cafe to facilitate a community feeling and several photo opps tied to the brand's unique story. Snap a picture in front of the flower wall, and be sure to tag the store and use its hashtag.

La Résistance

TV broadcasters are joining forces in Europe, putting aside competitive concerns to unite in order to serve as a counterbalance to the overarching power of U.S tech platforms.

Five years ago collaborations were thwarted by competition regulations, but with the onward march of U.S. tech companies, regulators are becoming more sympathetic.

European Broadcaster Exchange: pan-European

Last March five European broadcasters, Germany's ProSiebenSat.1, TF1 of France, Mediaset covering both Italy and Spain and Channel 4 from the U.K., announced their antidote to the duopoly. The five claim that collectively their video-on-demand services can reach up to 160 million viewers a month, giving advertisers an alternative in terms of scale.

Salto: France

Last summer, French public broadcaster France Télévisions and commercial broadcasters TF1 and M6 announced they were teaming up to create Salto, offering live and catch-up content as well as exclusive content through various subscription offers.

LOVEStv: Spain

Last year, public broadcaster RTVE partnered with commercial broadcasters, Mediaset España and Atresmedia, to launch a free-to-air service LOVEStv. The platform's backers predicted that LOVEStv will be installed in two million TV sets by the end of 2018.

"I expect more to come," said Richard Broughton, research director at Ampere Analysis. "In a fragmented ecosystem broadcasters need a unifying force to drive reach. Content-wise, evidence suggests that standalone services on their own are underwhelming."

Cannabis Collabs

Cannabis and non-cannabis brands are forming alliances.

Retailers and lifestyle brands want in on the booming $146.4 billion cannabis business. Meanwhile, cannabis companies want to break away from stoner stereotypes and reach new audiences, something difficult to do without the help of paid social. By creating products together or selling online or in-store, they are accomplishing their goals together.

Sephora x High Beauty; Lord Jones
Sephora has made several deals to sell CBD products in-store and online, through partnerships with cannabis brands beginning in October 2018. Sephora is now selling CBD sativa seed mortizurier and facial oil, hemp lip balm, hemp sleep cream and even a cannabis mask.

Barney's x Beboe
Barney's flagship store in Beverly Hills has an area called -- wait for it -- The High End, featuring vape pens (including a limited edition Barney's pe) and other cannabis accessories. Barney's is also selling cannabis accessories online, and has plans to expand the in-store concept to other stores.

Uncommon Goods x ZenPup
In the first few months of 2019, online gift seller Uncommon Goods will begin selling ZenPup's CBD-infused treats and sprays for dogs online.

Woodblock x Serra
Artisanal chocolatier Woodblock worked with Oregon upscale dispensary Serra to make weed-infused chocolate bars..

Coppola Wines x Humboldt Brothers
In December, Francis Ford Coppola launched an independent cannabis venture called Sána Company, and partnered with cannabis farm Humboldt Brothers to create three limited-edition cannabis strains that are selling online and in-store at California dispensaries for $99.

Beware of Amazon Charlatans

The more money advertisers spend on Amazon's ads, the more self-professed experts there are willing to help spend it. While it's never been easier to work with experts on Amazon's ad business, it's also never been easier to waste your time -- and money -- on fakes. So it's important to know how to spot the real experts from the shams.

Avoid conference circuit regulars-conference
Like fake reviews on Amazon, fake experts abound. If your expert spends more time boasting about the large sums of money they spend on Amazon's ads than what those investments are actually doing for their clients, it's a good bet that they don't know. Search for those who are actually writing articles about updates to the platform, rather than vanity posts.

Focus on paid ads-advertising
Sponsored Products are the pay-per-click ads that drive traffic to product pages on Amazon. As more advertisers flood the marketplace, the cost of buying those ads will rise with increased competition in the auction. Look for the experts that understand what this shift means for their clients and pay attention to whether they come up with sophisticated paid marketing strategies that outsmart rival advertisers.

Rolodexes matter-personal phonebook
Who you know at Amazon's ad business is just as important as what you know about it.. Knowing someone internally at Amazon, particularly now that its ad business is going through so much change, can be the difference between an expert getting access to the latest updates, like its new attribution pixel, and being caught off guard when a new one threatens to unravel a tightly wound PPC campaign.

Sweat the details-data
Ask an expert how they measure ads on Amazon beyond sales. Inventory management, for example, is a critical part of the bigger picture, as brands need to be able to ensure that their inventory position is constantly in sync with demand to avoid lost sales and a poor customer experience.

WTF is TikTok

TikTok is a short-form video app that rapidly expanded globally over the last year. Chinese tech company Bytedance launched the app in China, where it's still called Douyin, in September 2016 and then spread it internationally as TikTok in 2017. After acquiring lip-synching app Musical.ly in 2017, Bytedance decided to rebrand it as TikTok in August 2018. Since then, TikTok has grown to more than 500 million monthly active users.

TikTok is known for its challenges where users share their own videos to the same music.

1

To the tune of Village People's "Y.M.C.A." TikTok users throw a random object at unsuspected person in their home. At the lyric "young man," the person holding the phone throws an item like a tortilla, grated cheese or a desk chair.

2

To the tune of Dolly Parton's "9 to 5," TikTok users will act out each line of the song from "stumbling out of bed" to "jumping in the shower."

3

To the tune of Adele's "Someone Like You," TikTok users film one object and then pan to a collection of dozens of related objects when the choir sings. They're have been hundreds of gummy bears, goldfish and Taco Bell sauce packets sacrificed for content.

4

To the tune of Soulja Boy's "Pretty Boy Swag," a TikTok user slowly puts on an outfit. When the beat drops, an image of who they resemble appears. Inspirations include Marge Simpson, a toilet paper roll and Arthur.

5

To the tune of a recording by TikTok user "Felix is Hot" a TikTok user looks down at a handful of pennies and says "Finally, now I can keep these pennies to myself." Then you hear loud footsteps and a person — dressed up as a penguin or a unicorn or an actual dog — appears and says, "I smell pennies." The video ends in screaming.

Here's how publishers fared in 2018

A few slivers of light in a year many saw as pretty dark

Media began 2019 in a dark mood. By Valentine's Day, more than 2,100 people had been laid off at publications ranging from BuzzFeed to Gannett, venture-backed publishers revealed massive reorganizations that were supposed to save their businesses, and platforms including Facebook took more public steps to stress that pubelishers should try to survive without their help. But it wasn't all bad. Many publishers actually had very good 2018s, particularly those who were able to lean into what was working. Here, in alphabetical order, is a look at how the year went.

Axios:
Easily exceeded its 2018 revenue target of $20 million, hitting $25 million but missed profitability. Continued to push back the high-priced subscription product that observers have been anticipating since Axios's launch in 2017.

BuzzFeed:
"More or less" hit its revenue target of $300 million but missed out on goal of profitability profits due to increased operating costs. Laid off 15 percent of staff in early 2019 as part of a substantial reorganization.

The New York Times:
Revenues rose 4 percent to $1.75 billion in 2018; added over 900,000 digital-only subscribers in 2018; total digital revenue totaled $709 million; set a new goal of amassing 10 million digital subscriptions by 2025.

Dotdash:
Grew revenues 44 percent year over year for a total of $131 million with $21 million in adjusted EBITDA; entered 2019 with a plan to acquire more sites to grow its business and its audience.

Hearst:
Both magazines and newspaper groups "solidly" profitable, per an annual letter published by CEO Andy R. Swartz. Expecting profit growth in 2019. Overall, the multi-pronged media company posted

Vice:
Reportedly missed its 2018 revenue target of $600 million by around $50 million, one year after missing its 2017 revenue target by more than $100 million; laid off 10 percent of its 2,500-person workforce in early 2019 as part of an effort to reorganize the company into five distinct business units.

Insider Inc
Exceeded $100 million in revenue for the first time, posting a 20 percent increase in revenue and achieving full-year profitability for the first time; put focus squarely on "sustainable growth" for near future, per editor in chief Nicholas Carlson.

New York Media:
Reportedly missed its revenue projections by around $5 million, but enters 2019 with more prospects for diverse revenues: A paywall unveiled in late 2018 is ahead of schedule and having a negligible effect on traffic or ad inventory, a source said.

The Wall Street Journal:
Added 320,000 digital subscriptions in 2018, bringing the total to 1.7 million overall. The Journal's digital subscriber growth accounted for 77 percent of the digital subscriber growth at Dow Jones, which is home to publications including Barron's, Marketwatch and Financial News.

"He's like an ally on the client side. He's just, one of us."

Risky Business

Why Fernando Machado is the most-loved CMO in advertising.

By Shareen Pathak

Fernando Machado, the global chief marketing officer of Burger King, had an idea. It was to create a limited edition of the company's Whopper burger, marketed to fans and sold wrapped in beautiful, rainbow-colored paper. When customers unwrapped it, it would prove to be the same old Whopper they'd known for years. The message of the 2014 campaign, created specifically for the San Francisco Pride Parade, was going to be "we're all the same inside." Machado had some trouble selling it internally, but believed in the idea and that it would showcase BK as an inclusive brand that sought to make a difference.

His agency partner at the time, then-WPP-owned agency David's co-founder (and Machado's longtime advertising partner in crime), Anselmo Ramos, was worried. Machado was known for big crazy ideas, but he wondered if this would be the one where Machado's pushiness outweighed the benefits of going through with it. "I told [Machado] his ass would be fired if he went through with it. We can come up with another idea."

Machado shrugged it off, telling Ramos that if that happened that he would come work for Ramos at his agency instead. Proud Whopper went through, and was a success — customers collected the wrappers and took them home, it was a PR coup, and it raised BK's profile among the coveted younger set as a hip and inclusive brand.

That in a nutshell is Machado's superpower: In an age where marketing has veered closer to science than art, where micro-targeting and data are king, Machado remains a champion of creativity. He believes creative marketing truly drives business.

"There's enough data out there pointing to the fact that creativity means results. There is return on investment from these things. There is pick up from press. There is impact on culture. There is social media," says Machado, 43, who goes by Fer to most in the industry. "If what I'm saying is true, and we believe it is true, then this is pretty simple."

Under Machado, Burger King has: Taken a stand on net neutrality after it was repealed with a new video that asked people to pay more to get Whoppers at faster speeds; highlighted how there's only one Burger King restaurant in Romania — and it happens to be at the airport — by asking people to buy flights so they can eat a Whopper; helped people in France move homes to be near a Burger King; asked competitor Wendy's out on a date; given free "WhoppHERs" to Saudi women that drove; explained the pink tax by charging women more than men for Chicken Fries; and celebrated a feat of geolocation marketing by offering 1-cent Whoppers to people within 600 feet of a McDonald's if they ordered from the app. And that's just in the past year.

"I see my role as the person who pushes the organization to be more creative so we can attract and retain talent," he says. "My job is to make sure the brand will look a certain way 10,15 years from now. Sales is our duty. Building a brand is our legacy."

Machado became CMO at Burger King two years ago, after holding the head of marketing position. One of the biggest changes for him in the past couple of years has been how much more technology has "bubbled up" as part of his agenda. But while for most marketing heads that's meant an outsize focus on data and technology — and Machado knows those things are important — for Machado it's meant more of a reason to double down on what he sees as his raison d'etre of creativity. "I believe in creativity and I keep pushing the organization in that direction," he says. "I doubt the CFO will be the person pushing for that. Or the HR person."

Machado is hardly the first — and won't be the last — CMO to espouse the value of "creativity." But in an industry where marketers are under tremendous pressure to stop wastage and prove their worth, he's stuck out as one of the last remaining marketing heads who truly seem to believe in it. That's undoubtedly what's made him a popular figure, especially among agencies.

"One of his strongest characteristics is his ability to think big picture but still have deep insights into the details," says R3 founder Greg Paull. "When we worked through some case studies, he's one of the few marketers that can get granular while at the same time, being strategic."

"He's like a marketing god now. He's like an ally on the client side. He's just, one of us," says Ramos, who also worked with

"So, you're asking me why aren't I afraid of the stuff we do? I'm afraid every time."

Machado on Dove while at Ogilvy.

For Ramos, like most agency people, what makes Machado special is that in an era where marketers make sport out of diminishing the role their agencies play, Machado doesn't. "Sometimes clients call me and say, 'I want to be your Fernando Machado of brand X,'" says Ramos. "They can't. Are they really going to approve everything? Are they going to just let us do everything?"

One of the traits that makes Machado even more popular is that while he understands the importance of flashy advertising, he's also spending plenty of time doing other jobs that you wouldn't expect a CMO to do.

Over the past six months, Machado says he's spent more of his time on product R&D. Burger King is on a mission to clean up its products — removing all artificial flavors and preservatives from its burgers and sandwiches. (This follows last fall's announcement that the seven classic McDonald's burgers sold in the U.S. are also free of fake flavors, colors and preservatives.)

"Advertising and design is only 25 percent of what I do and what my team does," says Machado. The other 75 percent is even between product and tech. "It's not a very flashy part of the work, and yes, I'm obsessed about the marketing work we do, but I also get extremely excited about doing things for the brand."

Some of this is because of Machado's classical upbringing in marketing. Growing up in Brazil, Machado wanted to be — no surprise — a soccer player. But he was also good at both math and English. His earliest job after studying mechanical engineering was in the Unilever factory outside São Paulo, where he worked on boxes for laundry detergent.

One day, the marketing team came in, and Machado was interested in seeing what they did. "I said, 'Holy shit. They do business but they also do design. They have quantitative and qualitative.'"

Machado entered the management trainee program at Unilever in 1998, and worked there for 18 years, on almost every single category. When you work on marketing at Unilever, product is front-and-center.

For example, in his last four years there, Machado worked on Dove, where he led the "Real Beauty Sketches" campaign. "I was investing a ton of time in product stuff. I was working on packaging. Many times people don't talk about it — it's not what's brought up when it comes to the 20 Cannes Lions — but it's equally if not more important."

It's that duality that attracts people: In the same breath as he rattles off Burger King's Cannes wins, he'll talk about how important it is to have the right packaging for its onion rings.

And when it comes to the issues most big-name CMOs in the industry are focused on, Machado is largely unruffled. When asked about whether he worries how much money is going to Facebook or Google, or the amount of money wasted when it comes to digital ad fraud, Machado has a Zen approach. "If I don't see how I can impact a problem, I don't focus on it," he says. "I believe food research at Burger King is critical, and I will die fighting to clear up the portfolio we have, even though that may not cause an impact on sales this month." That means spending more time inside Burger King restaurants than most other people in the organization (he knows how to do everything except operate the drive-thru — "I get confused").

To marketers worried about waste, he says: Fix your analytics. "If companies decide to make a coalition on ad fraud, sure, I'm in. But I'm not going to, in my day-to-day, spend time fighting that when there's other things to control."

It's hard to let Machado go without asking about Andy Warhol. The brand, after all, did just put out an ad that was widely panned as one of the worst Super Bowl ads — featuring Andy Warhol in documentary footage eating a Whopper — condemned for being navel-gazing, and an ad for advertising agency people, not customers. USA Today's famed Ad Meter ranked the spot, called #EatLikeAndy, dead last. Creativity has its risks.

Machado doesn't flinch. "The thing is that people think we're kicking an open door because we're already doing so much good stuff," he said. "I stuck my neck and out and my head out and mistakes happen. The fact is we value creativity more than ever before. So, you're asking me why aren't I afraid of the stuff we do? I'm afraid every time."

The Brand Builder

David Jones is a reformed agency exec. ***By Shareen Pathak***

David Jones spent a career inside advertising agencies — and did quite well at it. By 2011 he had risen to be CEO of Havas at 45 years old. But three years later, Jones left the agency business — for good, he insists — to strike out on his own with You & Mr Jones, a newfangled type of holding company that is one-part venture capitalist, one-part consultancy and one part, well, agency.

"I just want to make sure that you don't call me an agency," Jones says as we settle in for an interview. "There's a name for our category that we hope is going to be brandtech. You know, like fintech, ad tech."

In its four-plus years of existence, You & Mr Jones has built up a broad portfolio of companies with $350 million of a war chest. Jones has a thesis, informed by his years working with brands and within an ad agency holding company, that goes something like this: Companies are going to be using technology to get their marketing right. That's going to need partnerships with a multitude of different players, from tech and data management to production. Why can't, then, goes the theory, Jones build a new kind of company that offers that tech advice, along with the tools to help brands do their marketing?

The company now has majority stakes in mobile marketing tech Mobkoi and data platform 55. It has a minority stake in Pokemon Go creator Niantec and ad tech firm Beeswax. In all, You & Mr Jones has 25 investments in its portfolio.

But Jones insists the ambition is to be more than just another venture capitalist in a fleece vest. Instead, his goal is to use his experience in the agency world and understanding the building of brands to be both a trusted advisor to brands navigating a new world of tech-enabled marketing while also hunting out new providers to plow money into. In this way, Jones sees the possibility to play both sides — and not be trapped into legacy agency compensation models based on hours billed.

How You & Mr Jones works, then, is closer to what an ad holding company should have done — invest in specific technology that brands need help with. Clients come to the company for help with specific needs, in which case they can be connected to one of the group companies. Another is for content — through investments like Mofilm, brands approach

the company to create content studios of their own or help them make the content itself. The company is also riding the DTC wave, currently working with a global legacy beauty company to launch a new direct-to-consumer brand.

A good example is You & Mr. Jones' investment in London-based Inside Ideas Group, which owns subsidiaries including Dare, Oliver and Adjust Your Set. The best-known among these is Oliver, which has worked with big brands including Unilever, Google and Adidas to help build and manage internal agency capabilities.

That last one is the one that has caught the eye of the industry. Oliver, which did about $150 million in revenue last year, is one of a plethora of companies like MightyHive (recently acquired by former WPP chief Martin Sorrell as he builds out his own new holding company, S4 Capital) that is capitalizing on the increased interest among brands in "in-housing" certain capabilities. The company today has 600 employees, and won't disclose its total revenue.

Jones isn't the only one capitalizing in some way on the demise of the traditional ad holding-company model. Sorrell himself is another, who is on his way to building a new kind of ad holding company that houses under one roof an in-house agency specialist, MightyHive and a production behemoth MediaMonks, and is now shopping for a data company as well. Like Jones, Sorrell is also betting that clients are looking for "faster, better, cheaper" (both execs favor that phrase) options that don't necessarily work on outdated retainer models.

Domitille Doat, chief digital officer at Danone is one of the group's clients. She says when she came to the consumer goods industry, she was "unprepared" for the lack of tech and data savviness in the industry. She started working with Jones when she wanted to do more digital content, quickly, and also work with influencers — starting with MOFILM and VidMob and moving onto the Amplify. "Then I said, 'who is the person behind this very clear myriad of tech, where every time I want to tackle a problem, they seem to have invested money to do so?'

"Twenty billion dollars in market cap has been taken off the three big holding companies," says Jones. "Brands are focused on driving non-working media down. Many clients view big, traditional legacy businesses as a problem."

None of this is surprising to anyone in the industry. Agencies are being rocked by these issues, leading to a massive consolidation inside giant holding companies. Many are pivoting their own business models, trying to create more "strategic consultancy" style offerings that even include at points helping clients build their own in-house teams.

"I don't have this genius idea nobody has," says Jones. "I didn't set out to do this, but it is clear that talk to any marketer and within two minutes you know something isn't working. Companies that use tech to help brands do their marketing is going to be a category of its own."

Marketing By The Numbers

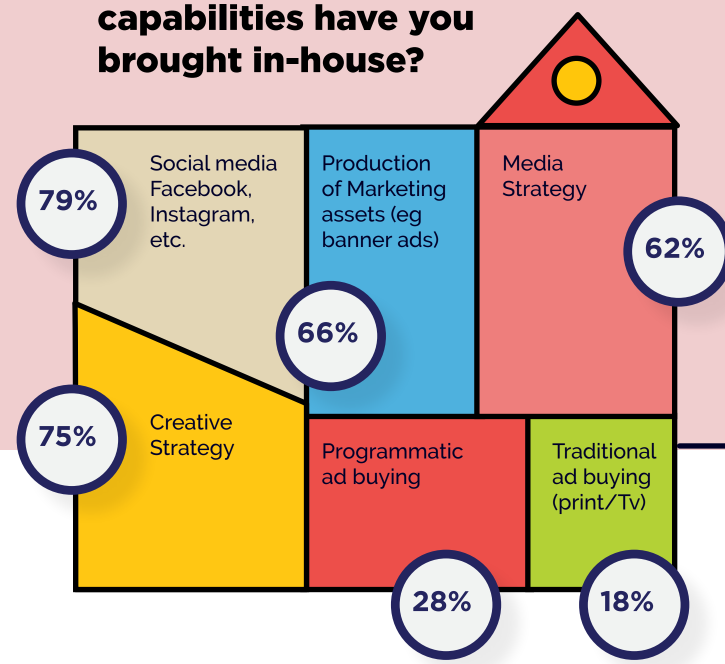
We polled client-side marketers from our proprietary research panel on some key industry trends. Here's what they said:

38%
of marketers said that increased control is the greatest benefit to taking marketing functions in-house.

65%
of marketers said their company should not take a stance on political issues.

66%
of marketer executives say political issues are not relevant to their company values or mission.

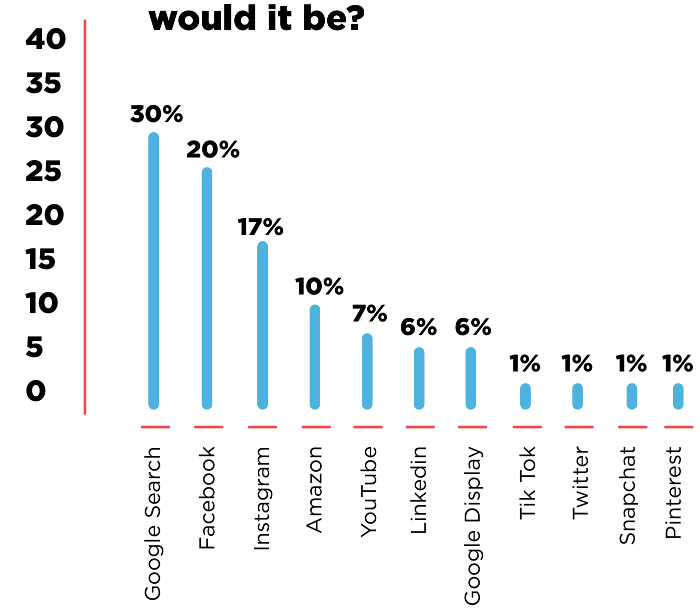
Which of the following capabilities have you brought in-house?



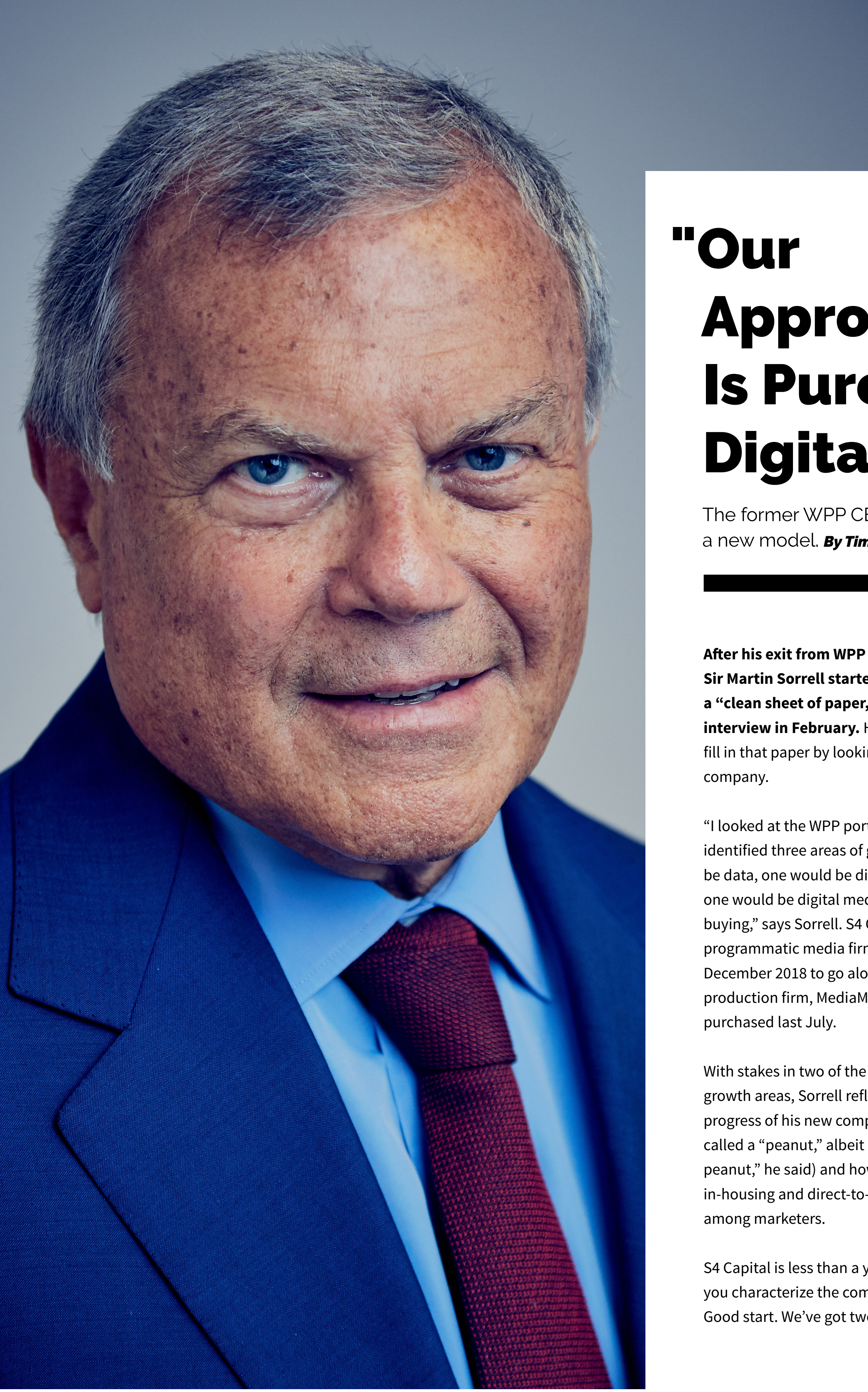
Marketers rate their fluency in emerging technologies and platforms

Working with platforms (eg Facebook, Google)	A
Data and personalization	B
Influencer marketing	C
Artificial intelligence and machine learning	D
Blockchain	F

If you could only buy ads on one of the following platforms this year, which would it be?



Source: 209 client-side marketers surveyed by Digiday, November 2019


Martin Sorrell

"Our Approach Is Purely Digital"

The former WPP CEO bets on a new model. ***By Tim Peterson***

After his exit from WPP in April 2018, Sir Martin Sorrell started S4 Capital as a "clean sheet of paper," he said in an interview in February. However he began to fill in that paper by looking back at his former company.

"I looked at the WPP portfolio, and I identified three areas of growth. One would be data, one would be digital content and one would be digital media planning and buying," says Sorrell. S4 Capital bought the programmatic media firm MightyHive in December 2018 to go along with the digital production firm, MediaMonks, which it purchased last July.

With stakes in two of the three identified growth areas, Sorrell reflected on the progress of his new company (which he still called a "peanut," albeit now a "$650-million peanut," he said) and how it aligns with the in-housing and direct-to-consumer trends among marketers.

S4 Capital is less than a year old. How would you characterize the company at this point?
Good start. We've got two legs in content and in media, MediaMonks and MightyHive, which are very strong. And our approach is purely digital. It's focused on data — first-party data — driving content creation and media planning and buying or programmatic. It's faster. It's better. It's cheaper, but cheaper might be the wrong word.

Why do you say cheaper?
It's amazing how that phrase on its own resonates with CMOs and marketing people. It resonates with financial and procurement people, too. Faster, better, cheaper really does resonate.

You mentioned being digital only. Why digital only as opposed to digital primarily?
It's controversial because there are some people who say there's no difference. It's a bit boring a comment, but they say there's no difference between digital and analog.
I think separating them draws attention to the need to shift the thinking from analog to digital. It's very difficult to do that because often the analog business is the cash cow, and the digital business is the spendthrift business, and you get these tensions. When I've talked to a client and said we're purely digital, I've not been shown the door to exit. The door's been opened.

Correct me if I'm wrong, but it seems S4 and MightyHive have aligned pretty closely to the in-housing trend that's going on.
The clients felt that what agencies were focused on is permanent incumbency. Talent and technology are the two areas which most occupy you when doing these in-housings. We're not looking to establish ourselves permanently, not like bed bugs.

"We're not looking to establish ourselves permanently, not like bed bugs."

Are there challenges when it comes to in-housing?
The areas that people talk about most is keeping talent — if you limit them to one category or a couple of categories — good talent wants to work on lots of things. That's one thing. And then keeping up to date with technology.
We're seeing the direct-to-consumer brands kind of pressuring the larger CPG companies especially to adopt more DTC-type tactics and roll out their own versions of DTC brands—If you went back in time, manufacturers were worried about Walmart, Tesco, Carrefour controlling the consumer relationship in-store.

How do you influence purchasing habits in-store if the retailer controls it?
Along comes the internet, and you think, 'Ah wonderful, we've got a direct relationship with the consumer. Oh, hold on a second, the growth of the e-retailers -- Amazon, Alibaba, Tencent — are now interposing themselves along with Google and Facebook through the control of data.' So it's driven by the battle for data. That's the issue. It's not "I want to be direct-to-consumer." It's "I can get the data, and I will have the data, and that will enable me to build a direct relationship with the consumer." Direct-to-consumer is a symptom of the disease.

What's your overall assessment of the state of the agency business?
It's summed up by that tagline of faster, better, cheaper. I think we've identified those needs, and we're delivering, on a small scale, what needs to be delivered. So the question for us now is how do we take it to a larger scale, both organically and via acquisition?

Burning Up

YouTube stars are increasingly taking breaks in the name of mental health. ***By Tim Peterson***

Alisha Marie should have been riding high last May. A month earlier, the YouTube star celebrated the 10-year anniversary of her main channel, which at the time had more than seven million subscribers. Instead she was running on empty.

Over the course of the previous decade, Marie's YouTube channel had grown from a high school hobby into a lucrative livelihood that enabled the 25-year-old to afford to buy her own house. But in building that business, Marie had burnt herself out. Taking a day off was not an option because she felt she needed to be constantly producing the videos that paid her bills. She pushed herself to attend industry events because of the networking opportunities that could lead to a brand deal that might spawn a long-term partnership and sustainable income. But by May 2018 she had pushed herself too hard.

"I realized I did the one thing I never thought I would do, which was just chasing views and uploading videos that I wasn't even proud of," says Marie.

In her moment of panic, Marie decided to take what would become a two-month break from YouTube. During her hiatus, she reflected on her business and the fact that, while she was her own boss, she could not be her only employee. "I quickly realized I can't keep doing all of this by myself, especially if I want to do bigger projects," says Marie, who hired an assistant and a production assistant to go along with her manager.

As a YouTube star, "you're the CEO, but you're also the social media department, the production company, the editor. You're literally doing so many jobs that it does become a 24/7 operation," says Rafi Fine, president of Fine Brothers Entertainment,

Alisha Marie

the media company that grew from the YouTube channel that he started with his brother Benny in 2007 and that now consists of more than 80 employees.

YouTube stars have found themselves the bosses of media companies that originated as hobbies. Over the past few years, the stresses of managing those businesses has led many top YouTube stars — including Marie, PewDiePie, Liza Koshy, Lilly Singh, Grace Helbig and David Dobrik — to take breaks to tend to their own well-being as well as their businesses'. However, for these YouTube stars, deciding to put things on pause can be terrifying because there is no guarantee that their businesses will be able to pick back up where they left off. Their fans' attention may have shifted. Platforms' algorithms may no longer favor their content. And marketers may have moved on to work with other YouTube stars.

YouTube star burnout is not an issue that has popped up on many marketers' radars, according to brand and agency execs. Many marketers remain new to influencer marketing and are concerned with understanding how to work with YouTube stars and looking for red flags like profanity and other offensive content, not whether a YouTube star is struggling with anxiety or depression.

"Do brands ever check on the welfare of influencers? The truth is, if you're using an influencer for reach and a campaign-style relationship, typically no," says Buck Wise, svp of marketing partnerships at Wunderman. However YouTube stars, and increasingly marketers, are seeking out long-term business relationships, in which case brands would ask about a YouTube star's well-being, he says.

While YouTube stars may worry that raising the issue could jeopardize a brand deal, it's more likely to have the opposite effect. "Now, content is so much more about true, raw life and experiences that people go through. I think brands would be more attracted to somebody who has gone through something so publicly," says Wise.

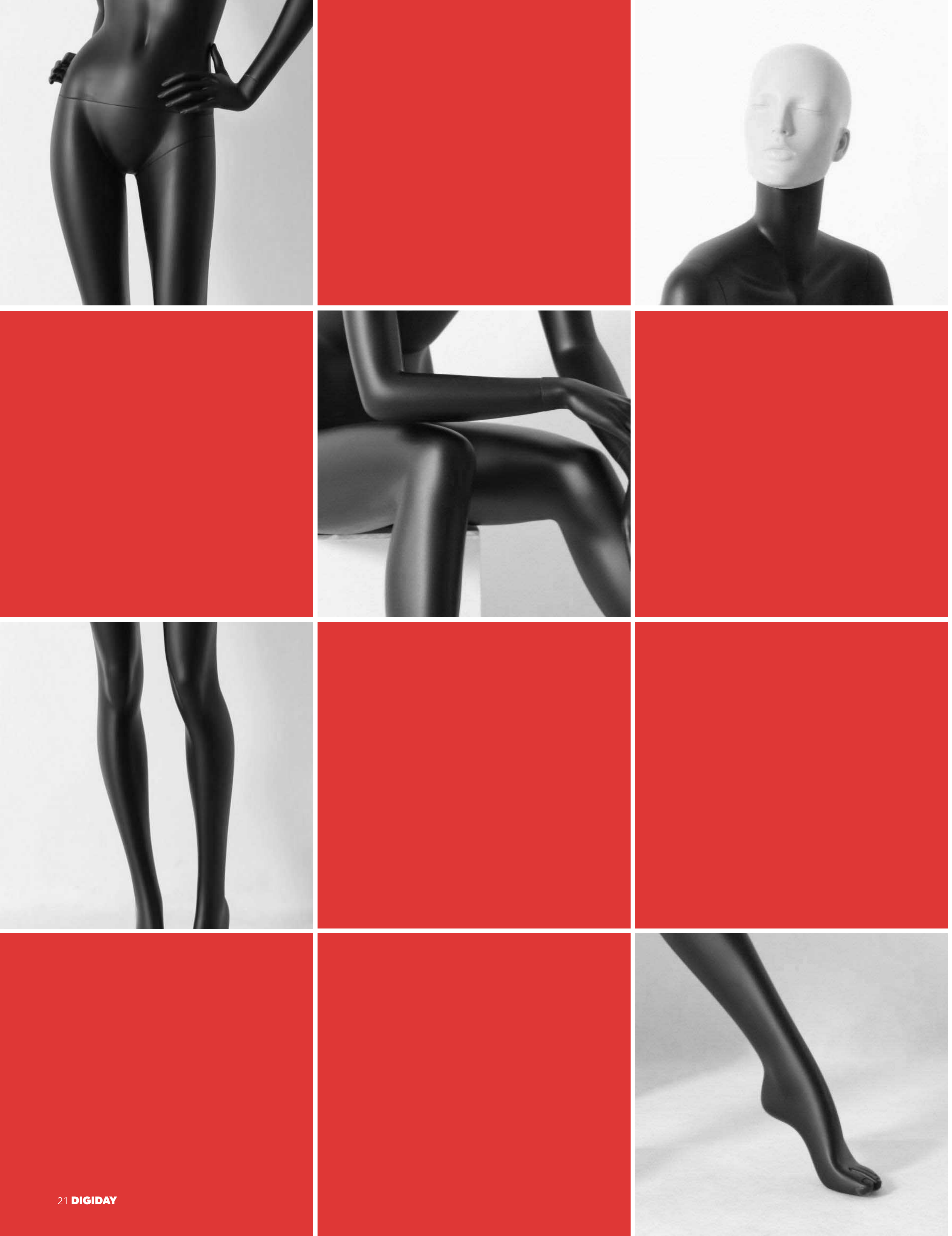
Mobile gaming company Seriously has been investing in influencer marketing for four years. In that time, the brand has experienced multiple instances where a YouTube star's manager privately communicated that the star is dealing with anxiety or other mental-health issues and needs to delay a deal. It's never been a problem, says Phil Hickey, evp of brand and digital at Seriously. "We agree to talk later and start building a relationship of trust with that influencer, and then we usually do something with them down the road," he says.

When Marie took her break last year, she risked a brand deal. She had signed a contract to promote a brand on her main YouTube channel but had not done so yet. She informed the brand about what was going on. Fortunately, the brand was understanding and said they could revisit the deal later. But, after her hiatus, Marie realized that the deal was not a good fit for her or the brand. The brand agreed and left the door open to working with her in the future. "It goes to show how after the break I was able to think more clearly,"

says Marie, who, now with a team around her, has launched a podcast and a merchandise line. ◘

Rafi Fine

"Do brands ever check on the welfare of influencers?"



Green New Deal

As fast fashion falls out of style, the Swedish giant is looking to reinvent itself as a champion for the environment. ***By Danny Parisi***

Images of models wearing H&M x Versace were common a few years ago inside H&M stores. These days, you're likelier to see the same models, just wearing a dress made of recycled plastic. It's just one of the ways H&M is hoping that an environmentally conscious rebranding can help it bounce back from the rough patch it has been in.

In January, the Swedish fast-fashion giant reported its sixth consecutive quarter of reduced profits. In February, the company announced plans to close 160 stores throughout 2019.

"It has been a challenging year for H&M group and the industry," the company said in a statement.

As fashion trends evolve, H&M has found itself increasingly caught in the middle between the extremes of fashion. On the one hand, people looking for quality can find sturdier products from other high-street brands and retailers like Nordstrom or Topshop, while customers looking for something cheap and quick can go to any number of ultra-fast Instagram brands like Fashion Nova.

It leaves H&M, which has been at the forefront of "fast fashion" for decades, scrambling to distance itself.

"The category of fast fashion is where a lot of our obvious competitors are," says Emily Scarlett, H&M's head of communications. "But sustainability is important to us and for us that's not very fast fashion. A lot of what we do is future-oriented. I don't know if we are ambivalent about that label — we certainly get called that — but we are thinking about how can change the myth around 'fast fashion'"

In the past few years, sustainability has emerged as a major focus of H&M's reinvention. The brand has unveiled numerous highly ambitious goals around reducing its environmental impact.

"When we talk about the climate goal of being completely climate positive by 2040, that's across the entire chain," Scarlett says. "It's the old 'With great power comes great responsibility' thing. We are large but that means we have an opportunity to make a big impact on sustainability."

But perceptions do not change overnight. Customers' primary experience with H&M is in-store, an area where the brand has notoriously struggled to grow beyond the cluttered racks full of cheap, discounted clothing.

CEO Karl-Johan Persson, referring to the company's financial results during last year's annual earnings call, acknowledged this, saying, "The weakness was in H&M's physical stores where the changes in customer behavior are being felt most strongly and footfall has reduced with more sales online."

H&M's efforts toward sustainability are in line with how popular sustainable fashion has become, particularly among younger consumers. A survey of consumers by technology firm CGS found that 70 percent, the majority of which were Gen Z, said sustainability was a major factor for them when choosing to purchase a product.

"While Gen-Z and millennial customers are driving this demand they are also pushing for sustainable offers and visibility within fashion businesses more than their older counterparts," says Kayla Marci, a market analyst at retail platform Edited. "And fast fashion retailers are reacting to appear more eco-friendly to this cohort."

Marci notes that fast fashion retailers are well aware of this trend. H&M increased offerings from their Conscious brand (the company's sustainability line) by 35 percent in the U.S. (comparing Q4 2018 to Q4 2017) and 30 percent in the U.K.

This focus on sustainability could be seen as in direct opposition to H&M's long-standing status as one of the biggest names in fast fashion. "There is certainly a conflict between fast fashion and sustainability today — in that fast fashion produces a vast number of units, and more often than not, they won't be of the highest quality," says Diana Verde Nieto, founder and CEO of Positive Luxury, a company that advocates for more environmental awareness in fashion. "With sustainable production comes sustainable consumption; so thereby fast fashion products may not be valued by the consumer as much, making them less mindful in the way they use and ultimately dispose of them."

Ron Amram

"We've Taken More Control"

Heineken's media chief wants to see the receipts.

By Seb Joseph

It's taken Heineken two years to get to a point where it feels confident enough to dictate terms to the middlemen in its supply chain. From resetting its agency structure to owning its tech stack the business has put those online media platforms and ad tech vendors on notice in 2019: Deliver better measurement and creativity or lose revenue as middlemen in the advertising ecosystem.

"Previously, we've relied on our agencies to do more than what is in our best interests," says Ron Amram, global media lead at Heineken. "That's not to say we don't need agencies, we still do, but we've taken more control of those relationships, which means having real-time access to our Facebook buys and getting access to Moat or other campaign data, for example."

"The technologies exist to help address the problems."

If the last two years were about building a digital capability across Heineken's marketing teams, the next 12 months are about putting that knowledge to use across all the businesses that handle its budget, says Amran, who outlined his priorities for 2019.

Are you happy with the level of transparency you get?

It's improved quite dramatically, but we're not there yet. We're still seeing dramatic shifts in the levels of quality throughout the opaque marketplace. We have to put more energy into the programmatic world, which involves investing in real-time tracking and real-time optimization. Just because we like a vendor doesn't mean that vendor stays good — that's the problem.

What should advertisers do to put more pressure on the industry?

Advertisers need to push toward sourcing the information from vendors that allows them to make better decisions. We have the right to ask for it even though it seems hard to get. There should be an expectation when it comes to both verification and targeting data.

How accommodating have Facebook and Google been?

I don't think the platforms have been very accommodating, as the issue of duplicated reach is something that can be solved relatively quickly but those businesses won't allow it. Whether it's a data-management platform or other tools, the technologies exist to help address the problems of reach and yet the platforms have said we can't use them. We have to balance those frustrations with the need to keep those platforms close even though those businesses keep measurements fuzzy and blurry.

Has that made you reluctant to spend?

The reality is that that stance has gone back and forth. There have been bumps in the road in our relationships with both Facebook and Google, but they are important platforms for us and we've seen progress over the last year. Facebook has been strong from a creative perspective and they've helped us to really understand mobile advertising. As an alcohol company, our relationship with Google has been different as they've always kept us at arm's length. There's a list of products that other advertisers can use that we can't. That's been hard for us, but we've made progress with Google, specifically when it comes to brand safety and the use of its programmatic stack. We're building a relationship with Google that's tied to our transparency agenda and our focus on third-party verification.

Does that mean having a shorter supply chain?

We see our supply chain as multi-legged stool. There's Facebook, Google and YouTube, but we also have good relationships with Adobe's DSP. We're looking at how we build more private marketplace deals as part of a wider effort to lock in more of the inventory that we prefer. It means focusing not just on the cost of our programmatic media, but also looking at the quality of it. That's been our focus for less than a year now. Most people walk into programmatic and the primary KPI is cost, which can't be the case because that's what leads to the lack of transparency. We're starting to see other KPIs, whether that's viewability or using technologies like Grapeshot that allow you to see the content you're advertising on, that give us a better barometer of quality that we can compare to the cost.

How has the way you buy third-party data from middlemen changed in the wake of the General Data Protection Regulation?

Our focus is on pivoting toward the data that we're legally allowed to use. For a company that doesn't have a lot of first-party data we've put an increase on it. In some countries, either there's no third-party data market or it's starting to dry up. It's still very usable and accessible in the U.S., but even that may change in the face of GDPR-like legislation. It is clear that we need to own our own data set and that has to be accurate and usable. We've moved toward becoming more of a data company. We've not gotten to a place where that data is big enough to have an impact on our programmatic spend. It's an ambition.

Snap, Crackle, Pop

A former Amazon ad sales exec brings new energy to Snapchat.

By Kerry Flynn

With pink hair, dark lipstick and a nose piercing, Snap's chief business officer Jeremi Gorman embraces an alternative reality: "I've never felt more badass in my life," she says. Gorman, in fact, is not so punk rock in appearance; the badassery was on her phone thanks to her favorite Snapchat filter.

Augmented reality aside, Snap does need a badass to help the company move forward after a turbulent year of executive turnover, stagnant user growth and relentless competition from Facebook. Gorman, 41, brings not only energy to Snapchat but also 20 years of experience in marketing and sales, including expertise of Amazon, the new member of the ad industry's triopoly.

Snap announced Gorman's hire in October 2018 alongside Jared Grusd as the company's new chief strategy officer. Their roles would replace Imran Khan, the banking executive who helped take Snap public and decided to leave for his own ecommerce venture. Khan's exit was not necessarily concerning. He dutifully led Snap's business growth and transitioned the platform to programmatic advertising. Now, Gorman can build a new era for Snap, advertisers say.

And Gorman is quite badass. She was a multi-sport athlete growing up, on varsity tennis, softball and soccer. These days, she embraces her athleticism on vacations, hang gliding in Rio, zip lining in the Swiss Alps and hiking the Inca Trail. And she brings that energy and confidence into her professional life, which helped her earn three promotions in her seven years at Amazon, where she most recently served as head of global field sales. That enthusiasm has earned her respect across the marketing industry.

WPP chief client officer Lindsay Pattinson says Gorman stood out when she was at Amazon, in part, because she was a woman. "But also a woman who was very skilled and comfortable in media, technology and data, and a woman who was brave, confident and really happy to get on stage, be on panels and get out there. I think she's a fantastic role model," Pattinson says.

Gorman, a Los Angeles native, fell in love with advertising while working part-time at a lifestyle magazine in L.A. called Buzz. Part of her job included opening deliveries such as the art for the magazine's back cover, which was always a campaign for Absolut.

"Every time [I would open the box], I was like, 'Holy cow, this is incredibly inspiring advertising.' It made me realize that it can be additive, not interruptive to a life," Gorman says.

After graduating from UCLA with a bachelor's in sociology in 1999, Gorman worked in the marketing department of Monster.com. Her team created campaigns to convince people to upload their résumés to Monster. These ranged from branded beach balls at college football games to the ultimate internship competition, where one winner interned at the Athens Olympics.

Gorman left Monster after six years to pursue sales at Variety magazine. What she thought would just be a "short stint" to learn the sales side and then go back to marketing ended up landing her a job at Yahoo and then Amazon and now Snap.

"I was an athlete my whole life growing up and this side has a lot more competition in it and that drives me. I think leading teams and those sorts of things on the sales side felt a lot more natural to me. I never went back," Gorman says.

At Yahoo, Gorman entranced agencies and clients. Wendy Aldrich, evp, managing partner at Universal McCann, said she met Gorman about a decade back while she was at OMD, working with Visa.

"Even back then, I knew she was the best in the business. Yahoo was our number one partner on the business I worked on because of Jeremi's unique approach to salesmanship. What has made her so successful is her consultative nature, her authenticity and her emotional intelligence. She is a rare bird in a sea of sameness," Aldrich says.

Natalie Polanger, director of strategy at Hearts and Sciences, also first met Gorman while working on Visa's business. She said her agency often thought of Gorman when they received client requests.

"She has a longer-term vision for brand rather than a short-term 'let me get this on a media plan.' She thinks about how things are going to evolve in the future," Polanger says.

In 2012, Gorman joined Amazon as head of entertainment advertising sales, and it was in that role where she first learned about Snapchat. The young app had begun to attract interest from her own clients and eventually attracted their big branding budgets. She downloaded the app in October 2014, the day Snapchat ran its first ad, a 20-second trailer for Universal Pictures' "Ouija."

As someone in her late 30s at the time, Gorman was not an "avid user but certainly an avid respecter" of Snapchat, she says. Gorman admired CEO Evan Spiegel and his team's "fortitude to stick with vertical video in a world where vertical video was not common or vertical ads were not common," she says.

Gorman's admiration in Snap increased when a friend and her teenage daughters stayed at her home in L.A. for two weeks one summer. While she was driving the two girls down the PCH to Malibu, they were both in the back seat of her convertible taking selfies. At first, she was annoyed.

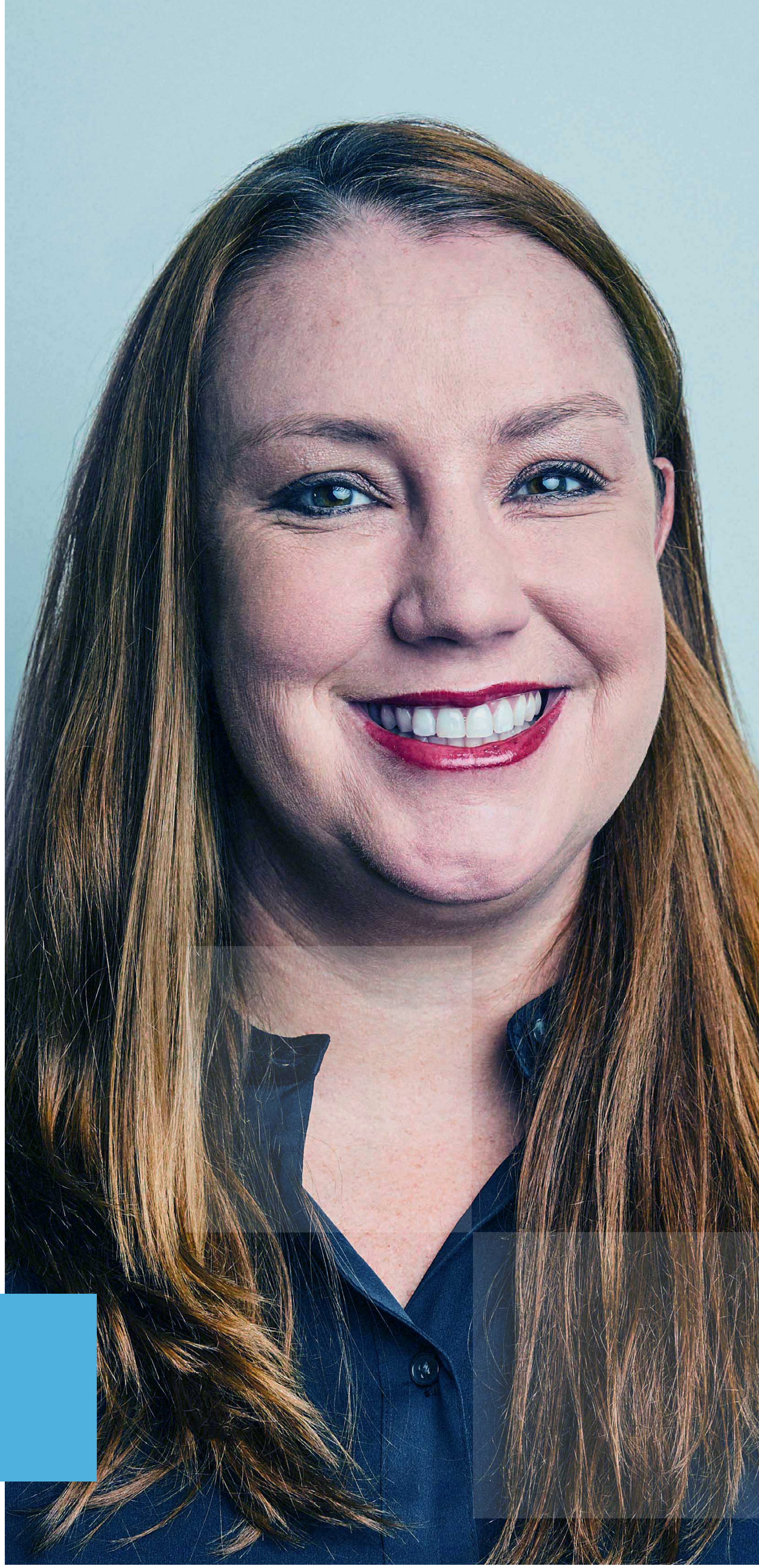
"I was like, 'Girls, please enjoy this with your eyes.' But they showed me what they were doing, with the filters and how many degrees it is. [The 17-year-old] was like, 'I'm not taking selfies for vanity. I'm taking selfies to share that this is my experience,'" Gorman says.

Gorman loves experiences. Her interview with Snap came shortly after an annual vacation with some college friends, where this time they visited a dude ranch and learned how to fly fish. Her final interviewer, Snap CEO Evan Spiegel, had asked her what the hardest part of that experience was. She replied, "Holding the rod and the Coors Light." He laughed.

Since joining Snap, Gorman's Snapchat game is "getting good," she says. She makes stickers and adds GIFs. She recently snapped the back of her car, which was overflowing with three suitcases due to her busy travel schedule for Snap. Though she loves travel, one benefit of her new gig is she's now based out of her hometown. There are many reasons why Gorman loves L.A.; one of them is the beach.

Gorman says, "I try to go into the ocean every single week, even when it's cold, just to remind myself of how big the world is and how small I am. I float in the ocean, and there's so much going on underneath me that I'll never know about and it gives me this sense of calm and peace."

In April, Gorman is going to the Philippines and waterfall rappelling. This time, unlike her other vacations, she'll have her Spectacles and is sure to be Snapping.



Ron Amram

DTC'S next ACT

Direct digital brands are growing up and acting like legacy brands.

By Hilary Milnes

Purple's quirky Kickstarter marketing video, released with the brand's campaign launch in 2015, hit on all the direct-to-consumer brand tropes: It called out the outdated mattress industry for its awkward shopping experience, and pointed a finger at mattress manufacturers for charging premiums for just OK products. Using a mustachioed narrator wearing a purple baseball hat, the video's goal was to convince potential customers that Purple's mattresses, which are delivered to customers' doorsteps in a cylinder tube in the brand's signature shade, are superior to the dozens of other mattresses available online.

The video was viewed 82,000 times, and Purple raised a modest $2 million in equity crowdfunding from the campaign.

Purple's launch story is a familiar DTC narrative. But over the last four years, the brand made two distinctly non-DTC decisions that CEO Joe Megibow says reshaped the company's trajectory: It sold to shell company Global Partner Acquisition Corp. in 2017 for $1.1 billion, a move that took Purple public overnight just two years in, without the formal IPO process. And, in 2018, Purple mattresses began selling at Mattress Firm — the very mattress retailer that filed for bankruptcy that same year due, in part, to the pressure of the DTC mattress brand cohort led online by Purple competitor Casper. Purple is now sold in nearly 500 Mattress Firm stores in the U.S., as well as some Macy's, Furniture Row and Bed Bath & Beyond locations.

As digital brands grow up, direct-to-consumer retail is looking more like a launch strategy than a business model. There was a period of time when online growth seemed infinite: launch an e-commerce site, spend some money on Facebook, collect data on customers in order to acquire more. But maturation for these brands means spending ad dollars on direct mail and TV spots instead of digital campaigns and partnering with retail middlemen they initially cut out. Harry's and Casper sell at Target, while Allbirds and Everlane have sold at Nordstrom. Even Amazon isn't off the table: mattress brand Tuft & Needle made a lower-priced bed to be sold exclusively on Amazon, while bedding brand Buffy, indie beauty brand Pour Moi and other digitally born brands sell on the marketplace or are figuring out their strategies.

It can also mean selling out. To get returns on money they've raised, brands have sold to corporations (Dollar Shave Club to Unilever, Bevel to P&G, Bonobos to Walmart), or have continued to raise VC funding and drive up valuations to drive more business, and — if they're not there yet, which many aren't — reach profitability. Few have gone public.

"Going public, we had to grow up and be a real business. There's a bootstrappy, startup phase that all businesses go through, but there has to be a point of maturation in how you manage cash, investments, resources, growth and scale, and build strategy around that," says Megibow. "As for [offline] retail, we're in a house of brands. It has the same effect. That's a great place to be — in front of customers, where a lot of people still go to buy mattresses."

Last year, Purple hit $300 million in revenue. Megibow didn't say how much of Purple's sales now come through its wholesale partners, but said the majority of the business is still direct.

As more brands continue to weigh their options, gauging investor returns against business longevity, it's an interesting turning point for an era of modern brand building that largely relied on entrepreneurial hubris: The retail industry is broken; we can fix it. But instead of setting fire to traditional retail, the new class of digital brands will behave more like fuel for conglomerates and retailers they partner with.

"What we're seeing unfold now is Darwinian. As retailers struggle, DTC brands are only becoming more valuable," says Michael Duda, managing partner at Bullish Inc., a hybrid digital agency and venture capital fund that has invested in Casper, Warby Parker and others. "But DTC is just an avenue, where companies can build their businesses from the ground up based on what customers need and want. If they do it well enough, they will be not a DTC business anymore."

The end of pureplay

When Greats founder Ryan Babenzien started selling his sneakers at Nordstrom, he arranged a typical wholesale agreement with regular inventory deliveries that Nordstrom paid for. He says that wholesale retail was never off the table for the brand, but that a DTC-to-start model let the brand establish its customer base and supply chain so it could go into a wholesale deal with sturdier legs to stand on. As to why a wholesale partner was right for Greats, Babenzien says that the proximity to high-end shoe brands puts Greats' promise of quality to the test, and that sales at Nordstrom drive direct e-commerce sales. In 2018, the brand expanded its presence in Nordstrom from eight stores to 40.

The story is similar for other direct-to-consumer brands that have gone wholesale — a move that dilutes the DTC brand positioning. Quip, Harry's, Flamingo, Native Deodorant, Casper, Oars & Alps and Bark sell at Target, products of the company's push to bring more digitally native brands to its shelves. Meng Li, Native Deodorant's vp of marketing, says that the team at Target "prioritizes brands," which made the company — which sells online through a subscription-replenishment model — feel like it wasn't going to get crowded out in the crush of competing brands on Target's shelves.

"Target shared their strategy and objectives with us, and they wanted to extend their natural deodorant assortment. We felt comfortable that we were in a category that could grow in their space," says Li. "Then it came down to the conversations we had around the level of support that we could get from Target — in-store merchandising, display space, marketing vehicles — so we knew they were going to help make the launch a success."

Target and Nordstrom are setting the standard for how legacy retailers can rope attractive online brands into stores to jazz up inventory and drive foot traffic. Physical retailers need new, interesting product selection in stores as much as digital brands need new outlets to acquire customers more efficiently and affordably than through Facebook and Google's saturated and expensive online channels. In the crowded mattress category, for example, cost-per-click for a hot search term like "best mattress" has reached $15, according to mattress brand Saatva's CMO Joe McCambley. Wholesale partnerships can lead to closer business ties: In 2017, Target nearly acquired Casper before the deal fell through. Two years later, Casper has raised more funding.

"There's too much money in retail to have it be as simple as: The legacy companies are screwed, and the new brands are going to win," says Duda. "They're going to play off of each other. There are not going to be a ton of $30-billion DTC brands — there may not even be one. But there's nothing wrong with that. It's less about being direct, and more about being a valuable brand. For big and evolving companies, like P&G, DTC is a way of doing business operationally, and it's easier to buy that."

The fallout

The DTC era of retail is one that will make all of retail — even the old players — stronger. Of course, some are doomed. Bankruptcies have plagued Sears, Payless and Gymboree. But the legacy retailers that evolve and survive will be the ones that identify the power and popularity of digital brands and how they can flex their own muscles to get in on that.

It's not just strategy for the Walmarts and Targets of the world either. Foot Locker's recent investment binge has centered around digital retailers it sees value in, and the feeling is mutual. When Foot Locker announced it was investing $12.5 million in kids apparel brand Rockets of Awesome at the end of February, it was also announced that Rockets of Awesome would be setting up mini-shops in some Foot Locker stores. Rockets of Awesome CEO Rachel Blumenthal says that the idea was not just to drive in-store sales but to also learn from Foot Locker about how to operate a retail-store network and manage physical inventory.

" A great product isn't a company."

"A great product isn't a company and customer acquisition online isn't sustainable," says Shlomo Chopp, managing partner at Case Property Services, a real estate advisory firm. "So you have these DTC brands that said we don't need Macy's, we don't need Target, looking there for growth. Meanwhile, stores aren't making up for falling foot traffic online. They need new assets."

The innumerable direct-to-consumer brands that have launched online are essentially being viewed by traditional retailers as growth and innovation engines. Big corporations have struggled to figure out in-house innovation; digital brands are doing the work to build a customer base, rethink a category without navigating red tape and bring out-of-the-box ideas to sleepy categories on their own. It's not to say that all digital brands will end up cogs in a corporate machine. But retailers want to reap those benefits by giving these brands a pay out and an exit as investor expectations loom.

"For a long time, VCs have been happy to get a return on hype, if not investment. But they're starting to look for profitability, so brands are weighing their options," says Duda. "If they have 100,000 customers but are struggling to turn a profit at scale, another retail company can help. DTC brands can bring some heat to a legacy brand and more companies are adopting DTC thinking. When it comes to 'pure DTC' or not, who gives a shit? It's going to eventually be only about who is going to best serve the customers, make more money and more profit."

The Long Game

Wayfair tries to find a retail lane in the Amazon age. ***By Shareen Pathak***

Even as Amazon's dominance in e-commerce continues to steamroll everyone, Boston-based furniture marketplace Wayfair is quietly building out its growth strategy with a plan to go beyond table stakes like free shipping and quick delivery times.

Instead, it's attempting an experiment unlike one seen before in e-commerce: Do everything yourselves, no matter how much it costs, and bide your time when it comes to returns.

"Wayfair is in it for the long game," says one former employee. "It's refreshing."

One of the biggest issues with furniture e-commerce — a category even Amazon hasn't really been able to crack — is that people still want to touch the products they buy. Understanding how exactly a chair looks in the precise spot someone wants to place it in is important, and even more so than other categories, the concept of browsing and discovery is more important.

Wayfair's strategy is simple: out-executing Amazon in the area it knows it can own. That means it is willing (even it means steep costs in the short term) to throw money and people at certain key categories, develop designs and user experiences that help and grow not only its seller network but its own brands.

One example is the slippery category that is lighting fixtures. People often don't know what kind of lighting they like, and there aren't a lot of recognizable brands in lighting. In response, Wayfair doubled its lighting team to 40 people in the last quarter, focusing on merchandising and category management. It's also finding an opening in the unbranded world of lighting to push its own private-label house brands (74 percent of Wayfair's revenue in the fourth quarter of 2018 was from house brands, up from 57 percent in 2017) and created on-site visual filters to help people find the lighting designs they like.

Wayfair overall has invested heavily on its own site — one area Amazon often draws flack is in its site design. Wayfair offers a Pinterest-style browsing experience that lets you see the same piece of furniture in other users' homes. The company has also created 3D models of a large set of its products, to show the same piece of furniture in different contexts.

"What I find most fascinating about Wayfair is that everything they're doing is being done themselves," says Dentsu Aegis' head of e-commerce Will Margaritis. He points to the company's large-scale engineering workforce of 1,300 engineers and data scientists as proof that Wayfair thinks differently of its tech prowess as compared to other retailers of its ilk.

Also setting it apart is Wayfair's large-scale investment into building out its logistical framework. In early 2015, Wayfair launched its CastleGate program, which places the furniture and products that sell the most in its own warehouses, instead of leaving them with sellers to fulfill. That means that when it comes to delivery, Wayfair can make next-day or two-day delivery guarantees, and actually stick to them. The company now has 12 million square feet of warehouse space.

Late last year the company expanded its CastleGate operations to Canada and Germany, marking international expansion. In its most recent earnings, Wayfair's international direct retail net revenue across its biggest international markets — the U.K., Germany and Canada — was $287 million, growing year over year 50 percent.

And when it comes to its marketing, Wayfair keeps it close to the chest. "Our preference is to always do everything in-house," says vp of marketing Bob Sherwin. The company's media buying across all channels and creative (including TV) is all done via an in-house team led by Sherwin. It's also built its own ad tech stack.

"This is one of our key differentiators in our core capabilities, and the main reason is we view marketing as a strategic pillar of the organization," says Sherwin. "If it's a high priority, you need to invest in creating fantastic capabilities that power the growth engine of Wayfair. Doing it in-house really lets us control our own destiny."

The problems ahead for Wayfair are real: The company is yet to turn a profit. It has spent a lot of money on everything from logistics to marketing. Its customer acquisition costs are through the roof. A recent study by marketing professors Daniel McCarthy of Emory University and Peter Fader of the University of Pennsylvania's Wharton School found that Wayfair spends about $69 to acquire each new customer, but only earns $59 back from each acquisition.

Its strategy now is to buy growth through customer acquisition even as customer-acquisition costs continue to rise: New customers acquired were up 18 percent, but ad spending is up 43 percent year over year.

Still, its big bet is that making these big investments up front are the only way to win when it comes to the unproven world of furniture e-commerce. And if it is going to compete not just with Amazon, but also Ikea, then it's going to have to take the lead in spending enough money to convince people to buy furniture online. Part of that is a still-nascent retail media business and a small subscription program, called MyWay, that the company says is still in its early days but is seeing "encouraging" results from.

It's still unclear where this grand experiment will lead — one analyst told TheStreet right after its most recent earnings that Wayfair's "business model has yet to prove."

Still, there's plenty of enthusiasm to go around: "We are convinced that someone will be the platform winner in home, and we believe it will be Wayfair," wrote CEO Niraj Shah in a shareholder letter in February.

DIGIDAY
EVENTS

Upcoming Events

DIGIDAY MOGULS
March 26-27, 2019
Vail, CO

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

DIGIDAY FUTURE OF TV SUMMIT
April 23-25, 2019
Palm Springs, CA

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

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

DIGIDAY PROGRAMMATIC MARKETING SUMMIT
May 29-31, 2019
Austin, TX

DIGIDAY MEDIA LEADERS CANNES DINNER
June 16, 2019
Cannes, France

DIGIDAY ADVERTISING LEADERS CANNES DINNER
June 17, 2019
Cannes, France

Agency Culture By The Numbers

We polled hundreds of agency staffers on the culture in their workplaces.
Here's what they said:

30%
of agency staffers say they are currently looking for a new job

32%
of agency staffers say they are worried about their mental health.

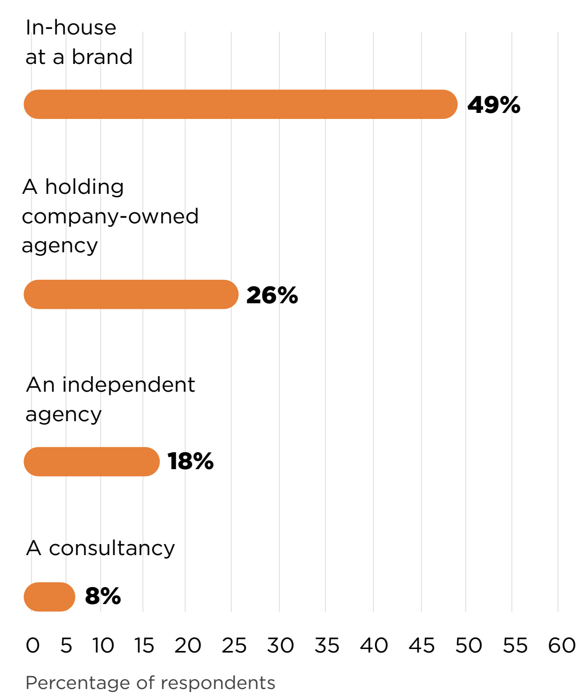
39%
of agency staffers say they have experienced discrimination in the workplace.

28%
of agency staffers say they have experienced verbal harassment at work.

62%
of agency staffers would describe their workplace environment as "positive."

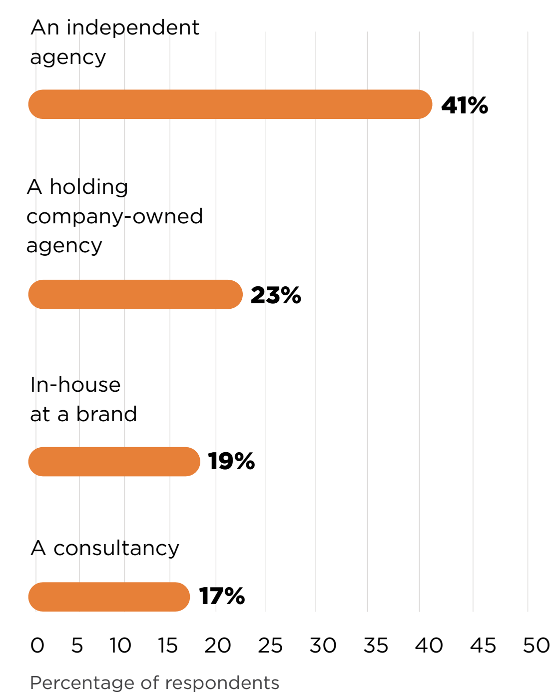
Source: 446 agency professionals surveyed by Digiday, January 2019

What type of company offers the best job security?



Source: 446 agency professionals surveyed by Digiday, January 2019

What type of company offers the best opportunities for career advancement?



Source: 446 agency professionals surveyed by Digiday, January 2019

Bigger Can Be Better

Digital brands thought they could go it alone in retail. Most of them were wrong. ***By Hilary Milnes***

The hundreds of direct-to-consumer brands that have sprung up in recent years are often painted as renegades, playing a nimble David to established brands' sluggish Goliath. Now, these brands are starting to see the merits of scale.

That's given rise to DTC holding companies that can wring cost savings from shared services around customer support and fulfillment, while providing a more efficient means of customer acquisition that has been the lifeblood of upstart brands. There are distinct benefits at scale within holding companies: A power-in-numbers approach leads to a bigger voice that commands more attention when dealing with larger entities like Shopify, Google and Facebook; technology like machine learning and e-commerce capabilities can also be shared across brand backends. As expensive utilities like free returns and fast shipping become table stakes, brands need all the support they can get.

So, the great disintermediation of consumer brands is heading toward a great re-clumping. Retail is no easy business. Margins are thin, competition is dense, customers are fickle and raising VC money while it is flowing into direct-to-consumer businesses is a tempting path that can turn dark quickly.

Consider the dearth of successful exits in the heavily VC-funded direct-to-consumer brand category. In 2016, Unilever bought Dollar Shave Club for $1 billion, a healthy payout for investors that poured a total of $163 million into the subscription razor company. Bonobos sold to Walmart in 2017 for $310 million, barely double its total fundraising of $128 million.

Andy Dunn, the founder of Bonobos who was CEO at the time of the Walmart acquisition, says that his company was a few days away from signing a deal for another round of private equity when Walmart, which had acquired e-commerce marketplace Jet.com a year earlier, came knocking. At the time, Dunn had his sights set on an IPO, but needed to raise more money to get there, and it was stressful.

"With Walmart, we get a safe and permanent home, which is not to be underestimated," says Dunn. "Building a standalone brand is incredibly hard and going for an IPO with economy swings and quarterly results — you have a couple bad quarters and your stock gets destroyed. We wanted a safe home with a longtime view, rather than be beholden to quarterly earnings."

Dunn is now the svp of digital brands for Walmart e-commerce, and oversees other brand acquisitions, which have included online retailers Modcloth, Eloquii and Moosejaw. The goal is to build the "LVMH of digital brands," which, if designed to reflect LVMH's business model, would mean a group of brands, vertically integrated within LVMH's supply chain, that benefit from synergies across shared logistical resources, while still allowing room to breathe. On a call with investors for its fourth-quarter financial earnings results, Walmart CEO Doug McMillon said that the company was being aggressive in identifying companies to acquire, and looking for brands that would bring new assortments and repetitive customer behavior to the table. There's more to it than Walmart vacuuming up smaller brands as it rebuilds its digital image for the Amazon age. Scrappier companies more closely aligned to the DTC spirit are popping up to offer a non-Walmart approach to the new-age holding company: Assembled Brands, founded by Adam Pritzker, is a collection of fashion brands that gives companies working capital and access to e-commerce, supply chain, marketing and fulfillment resources. Resonance is a venture operating and holding company that provides a similar backdrop for designers, telling them to design the clothing and the company will take care of the business legwork in the meantime. Digital Brands Group is a nascent holding company built off of the back of DTC denim brand DSTLD, co-founded by Mark Lynn and Corey Epstein.

"We think it will be easier to build five $50 to $100-million brands than it is to build one $1-billion-dollar brand," says Lynn. "We've done the work to prove we can launch brands, the next step is proving that we can acquire brands." As Lynn describes it, the road to a rut for a VC-backed DTC brand starts as soon as big, triple-digit year-over-year growth rates start to taper off, as early adopter buzz dies downs and Facebook campaigns get less traction. "If you have a 30-percent growth year as a public retail company, you're a darling. To a VC, you're out of gas," Lynn says. Raising more money could cut a Series C valuation to half of what it was at Series A. Public perception of a booming startup starts to slip, and employees might head off for new gigs.

Holding companies can help startups, that have proven there are customers for what they are selling, get past the hump that usually kicks in around $100 million in sales. "The way to survive today is be capital efficient — skip the era where you're buying customers through Facebook marketing and focus on products," says Dunn. Within Walmart's digital brands group, the company's massive marketing and advertising platform is built in. With shared customer data resources across brands, they can also target new customers more efficiently. "Not everyone is going to survive, but a brand can die off that had viability. We believe a roll-up makes sense for brands that could make it, but may not have the chance to because of idiosyncratic reasons."

Joining forces could also mean that a direct-to-consumer brand can avoid scraping the barrel to find new paths to scale, like selling on Amazon or Target, expanding into more and more product categories or discounting — retail strategies that they set out to avoid. But the need for DTC-brand holding companies, a decidedly not digital or new-age idea, speaks to the limitations of the individual brand era.

"You have to rely on a bigger infrastructure to build a long-lasting company, and that's what we're going to see start happening," says Shlomo Chopp, managing partner at Case Property Services, a retail real estate advisory firm.

Retail's New Middlemen

How companies like Stitch Fix, Rent the Runway and Jetblack are changing the way retailers work with brands. ***By Hilary Milnes***

Brands have to be eased into the Stitch Fix machine.

When a brand starts selling on Stitch Fix, it is wholesale business as usual. Stitch Fix buyers review brand and designer collections, buy what they think will perform best with Stitch Fix customers and revisit the brand a few times a year for more inventory.

Over time, Stitch Fix's conversation with brands starts to change. Buyers can bring specific insight from customers (around selection of denim inseam length or specific pattern white spaces) back to the brand and tell them they can decide to do something with that information, or not. If they do, Stitch Fix will increase its business with the brand.

"All of our data travels downstream. We believe we're making everyone better," says Chris Phillips, the gm of men's, kids and exclusive brands at Stitch Fix.

It's a new era of wholesale retail. As brands push for more direct sales and customer connection, the business model for middlemen has had to pivot as well. Stitch Fix and other data-driven, technology-based retailers are now sitting in a prime position as direct-selling brands shift back toward wholesale retail partnerships in search of scale and new customers. The old gatekeeper is the new gatekeeper.

Meet the new middlemen.

The Stitch Fix approach: Algorithms above all

"We're setting a new standard," says Phillips."There's no discounting. It's a valuable asset. We're buying product with a high degree of intention and knowing who they're for. All those insights we get from customers, we share with our branded partners. That's probably the most important value that we bring."

Stitch Fix wants to appeal to customers who don't have time or desire to go and pick out their own clothing, positioning itself as an online personal styling service. Stitch Fix gets inventory from its more than 1,000 brand partners like a traditional wholesale retailer would: A team of buyers assess new collections and pick what they think will perform best, paying the brands for the buy and then selling it to customers.

But unlike a traditional retailer, Stitch Fix doesn't then display that inventory to customers, meaning there is no brand adjacency or positioning. Stitch Fix customers instead receive shipments, or "Fixes," based on their style profile. If a customer doesn't want something in the box, they send it back. Pieces aren't marked down to clear the floor for a new season, and users are prompted to review everything in their box, whether they buy it or not. That unlocks feedback and insight brands otherwise don't have access to: why customers decide to leave something in the fitting room.

Stitch Fix works with a mix of wholesale and direct-to-consumer brands, including Nike, Tibi, Madewell, Calvin Klein, Ministry of Supply and Eloquii.

The Jetblack approach: AI shopping

Brands that sell on data-driven retail platforms have to accept they are taking the backseat to an algorithm, disappearing into a vast volume of inventory and emerging only when the right combination of data insight and human stylist judgment determines it would be worthwhile.

That's a new pill to swallow for brands used to working connections or paying up for better positioning, but it can be a worthy trade-off to appear in the right setting.

Jetblack, a concierge shopping service born out of Walmart's Store No. 8 tech incubator in 2018, wants to take the effort out of errands like picking up toilet paper. According to Kathryn Winokur, Jetblack's head of marketing, customers (right now, it is an invitation-only, $50-per-month service for people living in Manhattan and parts of Brooklyn) can text pretty much any shopping-related request (from "I'm out of toilet paper" to "I'm going to the Hamptons and need beach gear") and receive items no later than the following day. The brands that surface are either set by customer preferences or plucked from Jet.com and Walmart's inventory. Winokur said that Jetblack has fulfilled orders with tens of thousands of brands, including Pottery Barn, pitching the opportunity to reach the "highly influential Jetblack member base."

The Rent the Runway approach: No need to own

Getting in front of new customers means brands may have to get used to the idea of customers not owning their pieces whatsoever, instead opting to rent. Like Stitch Fix, Rent the Runway offers exposure and data in exchange for inventory.

"For us, our success is based on brand success. We share a lot with our brands to succeed in the market," says Sarah Tam, chief merchant officer at Rent the Runway. "Wholesale has been a restricting way of doing business, and so we're meeting brands where they want to be met to expand their businesses. Wholesale doesn't have the same growth attached to it."

The opening up of data sharing with retail partners is the marked differentiator. Designer Tanya Taylor used Rent the Runway insight to plan her brand's expansion to plus-size. "If we had done this 15 years ago, we would be reliant on hearing Bergdorfs tell us who our customer is," says Taylor. "It's empowering as a brand."

Chris Phillips

"Wholesale doesn't have the same growth attached to it."

Kathryn Winokur

Michael Dubin

"Companies Get Addicted To The Notion Of Subscriptions"

The Dollar Shave Club's Michael Dubin has big plans. ***By Suman Bhattacharyya***

Dollar Shave Club CEO Michael Dubin has come a long way since he posted a quirky video that poked fun at the razor-buying experience eight years ago.

By offering cheaper razors to customers who agreed to sign up for regular replenishments, the Dollar Shave Club was one of the first direct-to-consumer startups that successfully scaled through a subscription model, hitting one million customers in 2016. It was also one of the first DTC brands to catch the attention of a corporation: That year, Dollar Shave Club sold to Unilever for $1 billion, marking one of the most successful exits for a VC-backed digital brand that had raised $163 million in funding. Dubin and his company are now part of Unilever's CPG machine, but Dubin makes the point that it retains its original quirk and separateness from the parent company. Such autonomy was "the design" of the relationship with Unilever when the deal was finalized and includes a Dollar Shave Club board, which brings a sense of independence Dubin says is critical to its evolution. That evolution is still being worked out between the two companies: While Dollar Shave Club posted double-digit growth last year, according to Unilever, year-over-year subscriber growth has slowed since the acquisition, with Dollar Shave Club currently counting four million subscribers. Dollar Shave Club's success is emblematic of the subscription category, which has grown in popularity since its launch in 2011. To grow, Dubin is bullish on its prospects to move beyond razors to a fully fledged men's lifestyle brand.

Digiday spoke to Dubin about how he plans to keep the brand's momentum.

The Dollar Shave Club was an early example of an online-first brand built on the subscription model. How does customer data influence the business?

We want to learn as much as we can about the customers so that we can provide customized products and great product recommendations. We're building a member profile for each of our members. It involves asking questions about their age, grooming and personal care concerns. Do they have concerns about hair loss, aging – all things that help us serve up the right product recommendations for you and infuse our product development processes as well. The member profile is, over the next 12 months, going to become a huge part of our consumer-facing proposition.

"I would not phrase the goal of maximizing subscriptions as the North Star — our mission is to help guys take care of their minds and bodies so they can be their best selves."

Customers can also buy products on a one-off basis, too. What does that mean for companies like the Dollar Shave Club that want as many subscribers as possible?

I would not phrase the goal of maximizing subscriptions as the North Star — our mission is to help guys take care of their minds and bodies so they can be their best selves. A lot of companies get addicted to the notion of subscriptions because they love the notion of recurring revenue, but ultimately — and it sounds trite — you have to think, "Does the presence of a subscription enhance the consumer's experience?" The obvious examples are streaming video: You don't want to go online every month and sign up and buy a month's Netflix subscription. You want it to be automatic. The same thing we believe is true for the products in the bathroom to help you look, smell and feel your best. There's no reason, once you know what you like – and guys are very loyal – you should have to go back to the store and re-order those things. There are a lot of barriers that exist [to acquiring customers] – store shelves are extremely crowded, people in the stores don't know who you are. [Products] should come automatically, so you'll never run out.

Is the goal then to get a deeper relationship with your existing customers?

Bringing the product into the real world is a big part of our strategy moving forward. We want to deepen our relationships with existing members by giving them a place where they can discover new products. Retail [vending machines] is the first instance of those executions. We have three locations right now. We hope to expand to a national footprint over the next year or so.

How has Dollar Shave Club's in-house content evolved with the brand?

We have original content on our website to drive engagement and help educate our guys on a variety of topics: social issues, grooming issues, personal care issues. We have Mel Magazine, our men's lifestyle publication; it lives independently, it's doing 2.5 million uniques a month, and we just launched our first print issue. That's a men's lifestyle platform that's filling a void. The Dollar Shave Club is a product and content company.

How does the magazine differentiate from the website content?

We have Dollar Shave Club original content and then we have Mel, which [has] no Dollar Shave Club advertising – it has editorial independence. We're playing the long game. We create great content day in, day out, and we're starting to see incumbent content producers copying our content. Producing great content over time will yield us a loyal fan base and following.

Your magazine delves into social issues that apply to men – one headline, for example, tackles what to expect when seeing a therapist for the first time. Brands are increasingly wading into social issues. What's your view on that?

I don't have a problem with brands taking a stance on social issues. It's a choice that brands make. Once you wade into that terrain, you can't pull that back. Whether the brand likes it or not, the brand will be pulled into conversations on different topics and be asked where they stand. I think that could be a good thing.

Avon Calling

The storied marketer looks to reinvent itself. ***By Priya Rao***

Although direct-selling beauty brand Avon has been in operation for over 133 years, its glory days date back to when the company launched its iconic Ding Dong television advertising campaign in 1954. The campaign, which ran for 13 years, featured a glamorous saleswoman dubbed the Avon Lady, sporting a pillbox hat and white gloves. By carrying samples of perfumes, lipsticks and lotions in her equally glamorous bag, the Avon Lady attempted to solve the everyday woman's beauty needs.

Today, the international arm of the beauty company, Avon Products Inc., is attempting to capture a bit of that magic with a retooled lens on digital. New CEO Jan Zijderveld, who came to the company from Unilever Europe in February 2018, laid out his ambitious plans to dedicate $300 million to digital initiatives by 2021 at the company's Investor Day in September 2018. The latest iteration of that plan is focused on the creation of the Avon Academy, which will train 500,000 entrepreneurs every month. The training program is Avon's largest to date and will provide both existing and new representatives with learning opportunities through a combination of online videos, interactive modules and peer support via a mobile-enabled platform.

James Thompson, Avon's chief beauty and brand officer, echoed Zijderveld's prior open "up Avon" strategy on a recent call with Digiday. "We know there is still work to be done, but the key transformation for Avon lies in our millions of entrepreneurs," he says. "We have to continue to inspire them and empower them. Modern tools is the way to facilitate that."

The Avon Academy follows the brand's more recent digital-centric efforts, which largely came to light in October 2018, when Avon Products introduced a personalized beauty app to help its nearly six million international representatives match consumers to one of 40 different foundation shades in the company's product assortment. Not only did that ride the beauty industry's current preoccupation with the trends of inclusivity and diversity, but it was one of Avon's first apps to help guide its representatives to sell.

In January 2019, Avon took a more regional approach by partnering with on-demand delivery service Rappi in Latin America to provide ease and speed to customers from high-selling representatives physical storefronts in Brazil and Colombia. Though larger in scale, Avon's announcement of its in-house content studio (which plans to release 12,000 pieces of video, GIFs and gamified content annually to its beauty entrepreneurs) in February 2019, is also being tailored by region. The hub, which is multi-language in nature and serves over 50 international markets, is also meant for representatives to upload their own how-to videos and social content for Avon to have an ongoing dialogue with its larger team.

"Our Avon entrepreneurs were the original micro-influencers with their word-of-mouth recommendations and the way to better prepare them and increase their own influence and business is through constant education," says Thompson of the Avon Academy.

The Academy, which has been in a pilot test phase in South Africa since fall 2018, will roll out to 15 top markets by the end of this year, beginning with the U.K. and key markets in Latin America like Brazil, as well as the rest of South Africa. Initial training opportunities will highlight Avon's skin-care products, as well as help associates with marketing and sales skill sets.

About a thousand reps took part in the South Africa pilot (according to the company, the country ranks in the top 10 sales regions) and Avon said it saw "dramatic" engagement among its workforce. 16x more entrepreneurs engaged with training materials compared to existing Avon benchmarks and completion of training was 500 percent higher than average, explained Kate Shelford, Avon's executive director of global field fundamentals, who spearheads the directive.

"As we have seen with other training initiatives, providing both product and business training for our representatives can help them improve their sales and service to their customers," says Shelford, who expects the Academy to reach 90 percent of Avon's global representatives by year end.

In many ways, Avon's Academy most closely mirrors its February content studio play, as both aim to provide an ongoing stream of assets to Avon representatives. "These types of programs give Avon the opportunity to unleash our potential with always-on, engaging content for our beauty entrepreneurs and, in turn, their customers," says Thompson.

Still, it has yet to be seen if Avon's education-minded investments will pay off in the immediate short term. In February 2019, the brand reported its eighth consecutive quarter of net sales declines, down 14 percent to $1.3 billion. Additionally, Avon reported a net loss of $77.5 million and its active representative workforce declined by 6 percent. Certainly, as the global beauty and personal care products market size is expected to reach nearly $717 billion by 2025, according to Grand View Research, and buzzier entrants like Glossier are toying with the idea of a social-selling proposition, heritage companies like Avon have to find their place in this new world order.

But Thompson explains these digital investments are necessary table stakes to right the Avon ship. "Our key challenges revolve around relevance, service and products," he says. "The link there continues to be the representatives, so if we can modernize at a pace that suits them, the customer will follow suit."

Beyond Fantasy

It's not all doom and gloom in digital media.

By Brian Morrissey

Jonah Peretti, CEO and mastermind of BuzzFeed, is often looked at as something of a digital media prophet. (Sorry, Shingy.) Going back to his early experiments in viral content to his key role in developing Huffington Post to starting BuzzFeed as a new-style of digital media company, Peretti has earned a reputation for seeing around corners. That's why the industry took notice at the tail end of 2017 when Peretti, a perennial optimist as all entrepreneurs are seemingly required to be, bluntly declared "media is in crisis."

The following year seemingly bore that out. With Facebook and Google vacuuming up digital ad revenue, and Facebook seeing no requirement to financially support publishers, digital media companies like BuzzFeed hit a wall. The flameouts of 2018 -- Little Things, Mashable, among others -- were a harbinger of more carnage to come. 2019 saw Peretti's pronouncement hit home as BuzzFeed cut 15 percent with fellow digital media star Vice also cutting, alongside cutbacks at Huffington Post and, most recently, New York Media.

The cuts cast a pall over many industry discussions. Pessimism about the future of digital media -- media's never been easy -- is en vogue. After all, this turmoil is happening against the backdrop of a historically good economy that's now in its ninth year of expansion following the financial crisis. What will happen when the economy inevitably turns?

But the cuts also obscure some bright spots. Media is not a monolith. Not every publisher is the same, and many have far different characteristics from BuzzFeed and Vice. The easiest culprit to identify in the most high profile cases is the large infusions of venture capital these companies have taken. In BuzzFeed's case, nearly $500 million at a peak $1.5 billion-plus valuation. Vice has taken on an eye-watering $1.4 billion -- and is now on the hunt for $200 million more, according to a report by The Information -- at a peak valuation of $5.7 billion. The pressure to reach these lofty valuations undoubtedly led to some odd strategic decisions. (See pivots to video.) But VC is not all to blame.

In fact, even in these high profile cases, real and substantial businesses are being built. Leave aside Vice for a minute since it is, in all aspects, a unique and messy case. BuzzFeed is not a failing company by any measure. Peretti himself spent his recent trip to SXSW extolling the "really strong future for digital media" -- and he brought some receipts. BuzzFeed claims it will bring in $200 million in new revenue from new business lines over last year and this year. He boasted about bringing in $300 million from platform payments in the fourth quarter. These are, of course, cherry-picked figures. BuzzFeed is not yet profitable (on a full-year basis). Earlier in 2018, on the Digiday Podcast, Peretti told me BuzzFeed has "proven it can be profitable." That proof will come in a larger increment than a particular month or one quarter.

But the figures Peretti did share shed light on an uncomfortable truth of the cutbacks: Many digital media companies, including BuzzFeed and Vox, simply needed to get their cost bases under control. Vox had cut back a year ago in areas, laying off 5 percent of staff, and The New York Time reported Vox ended 2018 in the black. Even Vice is claiming it will reach profitability next year.

Other publishers are showing the way to profitable, sustainable businesses. DotDash revamped into verticals from its catchall origins as About.com, and is now boasting $131 million in revenue an a healthy $21 million earnings before interest, depreciation and amortization. DotDash CEO Neil Vogel likes to loudly say media isn't dying, only bad businesses are. Similarly, Business Insider is proving a lot of doubters, myself included, very wrong. Sure, Axel Springer badly overpaid for BI back in the frothy days of 2015, but the company has managed to thread the needle of being both a scale play that attracts a healthy ad business and vertical enough to make subscriptions work. BI parent Insider is crossing the $100 million in revenue mark and Axel Springer has reported it to be profitable.

Outside of the big guys, plenty of niche media companies (Digiday included, I should add) are building profitable, diversified businesses. Business-to-business has long relied less on advertising and more on an array of services. Subscriptions get plenty of buzz these days but have long been a cornerstone of B-to-B models. Same goes for events. The Financial Times buying events-heavy tech media play The Next Web is a sign of events rising in importance.

Verticalization and diversification is no safe harbor, admittedly. There's no off-the-shelf playbook in a turbulent environment. The cutbacks at New York Media, which long ago split into verticals and focused on business lines like commerce and tech licensing, is a fresh sign of that. But all hope is not yet lost on the road to sustainable media. There is less talk among publishers of hoping for a platform windfall based on ephemeral audiences ginned up on Facebook and elsewhere. More are instead focused on the nuts and bolts of their businesses. PopSugar CEO Brian Sugar, for instance, has adopted the moniker "Chief EBITDA Officer" to make clear his singular focus. Media execs could do worse than follow such an example.

"Media isn't dying, only bad businesses are."

The TV revolutionaries

From Disney to Amazon, the future is coming fast.

By: Sahil Patel & Jessica Davies

The TV of tomorrow is coming faster than most people expected — and yet elements of it will stay the same. Networks and studios are still producing half-hour and hour-long shows — but sometimes designed for people who binge for hours at a time versus catching an episode week to week. Americans still watch a ton of linear TV — but might be paying a streaming service to do so instead of their local broadband provider. Thirty-second and minute-long commercials still dominate TV commercial breaks — but now these ads are becoming more personalized to the viewer. TV is changing dramatically. Here are the key executives at the large media giants, wireless carriers, tech companies and everyone that is stuck in between as they duke it out for your time and money.

Kevin Mayer, Disney

Mayer is in charge of The Mouse House's biggest priority: going direct to consumers with products such as Disney+ and ESPN+. It is going to cost Disney billions, but it is a bet worth making if the content giant wants to be better prepared for the future.

Kevin Reilly, WarnerMedia

Reilly, who led a turnaround at TNT and TBS in turning the networks from rerun repositories to Emmy-quality programmers, now has his biggest job yet: making the critical decisions on original and licensed content that will determine whether WarnerMedia can successfully take on Netflix and other streaming giants.

Jennifer Salke, Amazon

After some Emmy wins but not much cultural influence, Amazon rethought its studio business and spent $250 million for the rights to "The Lord of the Rings." Salke now has the money and the IP to turn Amazon Studios into the big studio hitter Jeff Bezos wants it to be.

Jim Lanzone & Marc DeBevoise, CBS

CBS All-Access and Showtime have more than eight million subscribers combined and plan to get to 25 million by 2022. This is the dynamic duo overseeing the broadcaster's massive digital operation, which has helped get the legacy giant a head start in going direct to consumer.

Cindy Holland & Channing Dungey, Netflix

Reed Hastings and Ted Sarandos have already remade TV, but if we're to look toward Netflix's future, Holland and Dungey are critical. Both oversee Netflix's original content deals, which include the globs of money the company has spent to poach big-name TV producers such as Ryan Murphy and Shonda Rhimes.

Linda Yaccarino, NBCUniversal

As the patron saint of TV ad business, Yaccarino isn't afraid of Google and Facebook. "Has a 'view' ever bought any of your products?" Yaccarino will ask advertisers, before collecting their upfront checks. Now, NBCU is coming for those digital giants by making its TV ad capabilities smarter.

Brian Lesser, Xandr

Can AT&T become a true threat to Google, Facebook and Amazon? It's Lesser's job to make it happen. Armed with data from 142 million wireless customers, tens of millions of pay-TV subscribers and access to some of the biggest entertainers in the business, he's got a real chance.

Peter Naylor, Hulu

Hulu made $1.5 billion from advertising in 2018. No one else in OTT came close. And with Hulu's plan to make half of its ad revenue come from "non-disruptive" ad formats (like those on pause screens), Naylor will help reshape how a significant number of people view ads on OTT.

Scott Rosenberg, Roku

If you plan to be in the OTT business, you can't ignore Amazon, Hulu and Roku. Which means you can't ignore Rosenberg, who heads up Roku's work with media companies and advertisers.

Marc Whitten, Amazon

Amazon's Fire TV boss. With 30 million monthly users, Fire TV is a key cog in Amazon's ads business; critically important to anyone with a TV app; and has a chance to completely change how people find and watch their favorite movies and TV shows. ("Alexa, play 'The Walking Dead.'")

Kelly Merryman, YouTube TV

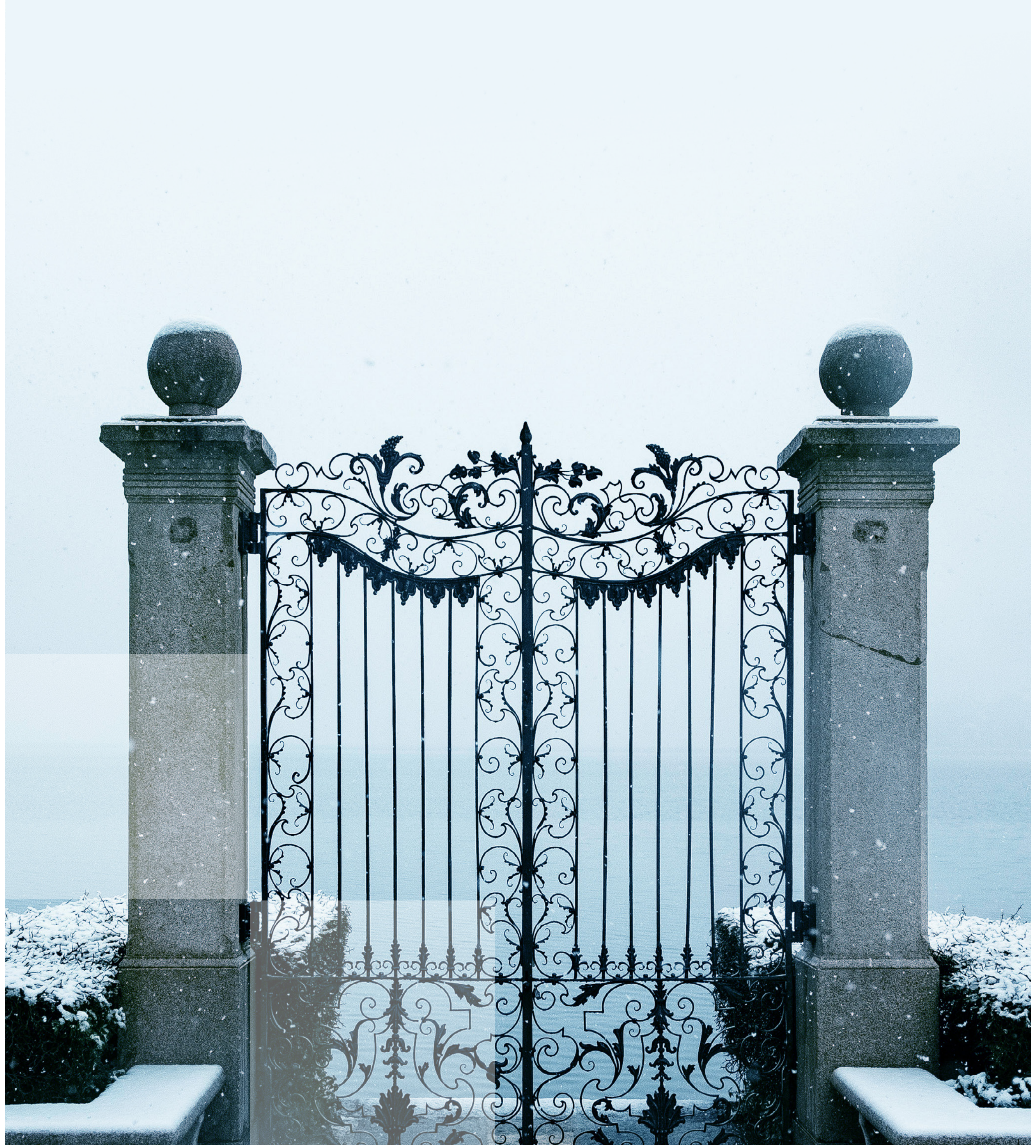
Merryman is the content dealmaker for YouTube TV. We don't know how many subscribers YouTube TV has, but we do know it is a prized property inside YouTube. Merryman's job is to make YouTube TV work, not just for cord-cutting consumers, but also as a profitable contributor to YouTube's bottom line.

Meg Whitman, Quibi

The name makes people laugh. It's probably not going to work. But it will be fascinating to see Jeffrey Katzenberg and Meg Whitman try. Katzenberg is in charge of Quibi's content. But Whitman's in charge of the product, which will try to create a "mobile-first premium video" experience for users.

Carolyn McCall, ITV

As the boss of the UK's biggest commercial free-to-air broadcaster, McCall doesn't pull punches when it comes to facing TV's new reality. Heightened competition from OTT has pushed the broadcaster onto the front foot. McCall is cognizant of the threat and plans to inject £40 million ($52 million) into media and marketing their on-demand platform ITV Hub, which has around 28 million users.



In streaming video, DTC is a lie

When it comes to TV, there are always going to be middlemen. ***By Sahil Patel***

On an earnings call last August, Disney CEO Bob Iger said Disney+, their upcoming subscription video-streaming service, is "the biggest priority of the company during calendar 2019." If asked, Iger would extend that timeline well into the future as Disney tries to ward off the existential threat of Netflix by building its own streaming platform.

And Disney is not alone. Under siege from tech giants, the rest of Hollywood is also going direct to consumer. WarnerMedia, NBCUniversal and Discovery have all announced plans and created dedicated units to build streaming video businesses. CBS and Showtime have already jumped head first, grabbing eight million subscribers for CBS All-Access and Showtime's streaming channel before its competitors get into the pool. Smaller players such as A+E Networks and AMC Networks, meanwhile, are targeting fans of niche verticals such as horror and history.

TV and Hollywood are about to look dramatically different.

Or not. Video programmers that have already built streaming channels heavily rely on Amazon for subscriptions. And with Apple, Hulu and Roku — the other big TV tech giants — investing in wholesale products similar to Amazon's blockbuster Prime Video Channels business, it ensures that the TV industry will still have intermediaries. And with Amazon and others providing minimal data back into who these "subscribers" actually are — just try wrangling email addresses from them today — the situation doesn't look all that different from signing wholesale distribution deals with Comcast or some other cable or satellite provider.

Let's call it going indirect-to-consumer.

"There are still gatekeepers," says an executive at a major entertainment studio. "Where historically, the gatekeepers had satellites and cable pipes, many of those gatekeepers now are hardware companies."

Big media is making a big investment

For media companies, going direct-to-consumer is not just a buzzword, but an obsession.

Disney reorganized its entire business and created a new business unit to oversee its direct-to-consumer efforts, which center on Disney+ but also include ESPN+ and to some degree — after its 21st Century Fox acquisition — Hulu. Discovery hired former Amazon executive Peter Faricy as its first-ever global CEO of DTC products. WarnerMedia's top-secret streaming plans are being run by AT&T executive John Stankey, but the company has also tapped TNT and TBS president Kevin Reilly as head of content for WarnerMedia's streaming efforts. He has been hiring content executives as those plans take shape. Longtime NBCU vet Bonnie Hammer, meanwhile, is heading up that company's new DTC streaming service.

Ignore for a second the $85 billion AT&T agreed to pay to buy Time Warner, or the $71 billion Disney is paying for Fox assets. The streaming services these companies are building off the backs of those monumental mergers are also going to be costly. WarnerMedia's streaming plans include upping HBO's $2-billion content budget. Disney is spending $100 million on one "Star Wars" spinoff series alone.

Steve Kazanjian, CEO of entertainment marketing industry organization Promax, says learning the ins and outs of DTC has become a top subject among members of his organization. "Instead of just hiring people away from a CPG company, members are focused on training team members — people with entertainment marketing backgrounds — about things such as acquisition and retention marketing, pricing strategy and conversion tactics," says Kazanjian. "That's a conversation that wasn't happening 24 months ago."

OTT distributors are chasing Amazon

As media companies are investing in their own streaming services, existing tech distributors are ramping up to get a piece of that action. In January, Roku announced its own channels business, launching with programmers such as CBS, Showtime and Starz. Hulu already offers various bundles that pairs its service with HBO, Showtime and even Spotify. Apple is expected to launch its channels business later this year.

The North Star for these tech giants is Amazon and its Prime Video Channels program, which has around 200 channels and is estimated by BMO Capital Markets to be a $2.6-billion business in 2019. Amazon can account for up to 45 percent or more of a channel's total number of subscribers, according to a previous Digiday report. Prime Video Channels is responsible for roughly 35 percent of HBO Now subscribers, according to BMO's estimates.

Between Amazon, Roku and Apple, media companies are looking at the three biggest connected TV platforms in the U.S. There is no scale in OTT without the distribution might of Amazon, Roku and Apple. (Hulu, which will soon be majority owned by Disney, is in a unique position as both a subscription streaming service and a wholesale distributor of other people's live and on-demand channels.)

Direct to whom?

The question for media companies is whether they should focus on building fully owned apps for these connected TV platforms, distribute inside channel ecosystems developed by each of the platforms, or attempt a mixture of both.

Fully owned apps offer full control and information about the customer, including email addresses and credit card information. Between tech maintenance and customer billing, they are also costlier, which is one big reason why programmers have joined Prime Video Channels. With Amazon providing the platform, handling customer service and billing and making it seamless for highly sought Prime customers to add channels, the decision to choose Amazon Channels looks easy.

But that decision also comes at a cost. Amazon and Roku don't offer email information for users that sign up through their channels programs, Apple is expected to do the same with its own offering. And if Roku and Apple's channels businesses perform as well — or at least come close to the success of Amazon's Prime Video Channels — that means streaming video programmers will be dark on a significant percentage of their so-called subscribers.

"Those are not subscribers in the traditional sense, which will make a vast majority of so-called direct-to-consumer video services indirect consumer services," says Peter Csathy, founder of media firm Creatv Media. "But that's OK, because ultimately what matters is that you get growth and traction." Indeed, entertainment industry veterans argue that for new entrants, the distribution might of these tech giants is actually a good thing; they provide cost savings and a chance to be more visible on some of the most populated places on internet-connected TV screens.

Wholesale channel distributors are also a way to test the waters before going "all in" on direct-to-consumer, says Chris Erwin, founder of entertainment firm Doing Work As. "We are hearing more and more media companies talk about wanting to go DTC, but wanting to first gather intelligence," Erwin says. "Deals with the likes of Amazon and Roku can allow companies to start testing which titles and formats best resonate with different audiences, how to coordinate marketing strategies and more."

An executive at a major TV network that has channels on Amazon and Roku argues for a diversified approach to distribution. The majority of subscribers still come directly to the network's apps, but the remaining "subscribers" are distributed across Prime Video Channels and iTunes (and soon, he expects, Roku and Apple). "It's getting more diversified, not less, and that's a good thing," the exec says. "Amazon Channels is big, but they're not going to be half our service tomorrow."

Not all wholesale deals are created equal

Channels' businesses are one thing, but there are other wholesale pacts being formed between streaming companies and different types of distributors. T-Mobile, for instance, offers Netflix for free to some of its wireless customers. Hulu and Spotify have bundles that package both services for students and other users at a cheaper price.

Here, there is an opportunity for greater access to customer information. For instance, in the Hulu-Spotify bundles, Spotify manages the payment and billing process. But Spotify subscribers cannot access and watch Hulu through Spotify's platform. There is no direct access in the way channels and content are aggregated by Prime Video Channels; instead, once someone has subscribed to this package through Spotify, the music service will allow Hulu to ask users to sign into their existing Hulu account or create one. But to access these services, customers will still need usernames for both services. This allows both companies to retain that direct-to-customer relationship.

"Ultimately what matters is that you get growth."

Disney might be the exception

The truth is, there aren't many companies that have the capacity or the negotiating leverage with distributors to go truly direct to consumer. Entertainment industry insiders argue that among mass media companies, only Disney — and maybe HBO — has the ability to go direct.

Disney already has the brand awareness among a wide swath of people. With Walt Disney Studios, Marvel, Star Wars and Pixar, it also has the best content lineup in the world. The company has also secured executive and investor buy-in for Disney+, and is willing to spend gobs of money -- and sacrifice revenue in other business areas -- to succeed in the long-term.

With its Fox acquisition, Disney will also have Hulu, which already has 25 million subscribers in the U.S. and a growing expertise in wholesale and OTT distribution with its live TV business and other bundles. This doesn't guarantee that Disney+ will succeed, or even that ESPN+ will continue to add a million subscribers every five months, but it gives Disney a chance.

"It will be interesting to see what Disney does with its upcoming service," says Csathy. "Disney has the chance to be an exception to the rule, because it's all about IP, and Disney has the best IP."

Beast Mode

The Daily Beast CEO Heather Dietrick is testing just how powerful the mid-sized news publisher's brand can be.

By Max Willens

When Heather Dietrick joined The Daily Beast in 2017, she brought a lot of Gawker with her, both literally and figuratively.

Within months of arriving at the IAC-owned news title, the 37-year-old had installed former Gawker colleagues as chief revenue and product officers, who got right to work guiding the Beast toward affiliate commerce. By then, employees were already quite familiar with Dietrick's direct, no-bullshit managerial style, which she says was influenced partly by Gawker's ethos of radical transparency. And almost one year into her tenure, her first hand-picked editor in chief, Noah Schachtman, quickly proved that the Beast's newsroom would remain sharp-tongued while getting even more scoop-obsessed, a distant cousin of Gawker's enfant terrible personality.

Dietrick didn't choose to run the Daily Beast because she could use a playbook she already knew. She chose it, she says, because in the Beast she saw the raw materials a publisher needs to win in a new era of digital media. To Dietrick, scale was out, loyalty was in; digital video warranted skepticism, not a pivot; and the most important thing a publisher could have, in a sea of aggregated sameness and platform-powered distribution, was a strong, differentiated brand.

The Daily Beast, in Dietrick's eyes, had all of the above. It began building that name for itself in 2008, when Barry Diller convinced Tina Brown, the one-time magazine wunderkind who had led Vanity Fair's comeback, to launch the digital-native news and culture publication without any firm business model in place. Despite its rocky business history — a rocky merger and decoupling from Newsweek reportedly ran up $100 million in losses; the site has had more than twice as many publishers as editors in chief — the Beast has consistently managed to break free from the pack with its voice as well as its reporting, if not with profits. (Sources say the Daily Beast has lost money for several years running.) It has broken stories about Russian oligarchs and Hollywood film directors; Silicon Valley darlings and ISIS fighters.

Consequently, all of Dietrick's plans to grow and diversify revenue involve that winsome, scrappy brand. It will be that brand, Dietrick believes, and its audience's love for it, that will get the Beast to a goal — sustainability — that has largely proved elusive for most of its 10-year history. From a top-line perspective, things look good. The site grew its revenues 40 percent this year, Dietrick says, thanks in part to a 77 percent increase in direct sales. "As Trump goes out and attacks journalism and attacks the fourth estate," Dietrick says, "it's a great time to go out and say, 'You love what we do. Support us.'"

Unlike many mid-sized publishers, the Daily Beast has a good-sized group of readers who might feel strongly enough to support the publication directly. Of the site's 20-million monthly unique visitors, around 5 percent of them visit 50 times per month, Dietrick says.

Converting those folks into paying members — and creating more like them — has been a top priority since she took the helm. In late February, Dietrick chose Mary Cullen, a veteran from the DTC world, to lead the marketing efforts for Beast Inside, a membership program launched in April 2018. Cullen's first priority will be to market to on-site visitors first, before broadening out to platforms and other channels. Dietrick says the site is in the market for more audience development and data-scientist hires to support it as well.

The Beast has also doubled down on topics and areas that work, expanding its opinion coverage and leaning more into entertainment, after noticing that the site's most loyal readers liked them. In one way, the bet paid off: In 2018, the site doubled the percentage of readers who visit five times per month.

Commerce is contributing too. While the Beast lacks the service-journalism cred that Gawker earned with Gizmodo and Lifehacker, the early returns on the commerce play are good, too. Scouted, an affiliate commerce vertical that pushes everything from high-end blenders to eBay credit cards, has doubled its daily revenue and is exceeding internal expectations six months into its launch, Dietrick says, though she declines to share specific numbers.

"You don't need lifestyle [coverage] to build a commerce business," Dietrick says. "People are so used to buying things on the internet you need a trusted brand, first and foremost."

Those bets should quickly prove just how powerful the Beast's brand is. Though Dietrick's current title is CEO, she effectively serves as its president and publisher, a job that few have stayed in for long. Though Diller has taken a long view on the Beast's path to sustainability, the Beast has not achieved profitability in years, according to multiple former executives. A spokesperson declined to comment on whether the site is currently profitable.

"I think they face what they were always facing," one former executive says, noting that the road to profitability has always been rocky for mid-sized news publishers. "I think [their mission] is incredibly important, but I don't think there's a ton of great prospects."

Whether Dietrick manages to steer the site into the black is unclear. But as it charts this new course, "We'll do it in the Beast way," Dietrick says. "Which is to punch above our weight."

Heather Dietrick

Deconstruction of the MCN

YouTube's middlemen have fallen as the platform and its creators mature. ***By Kerry Flynn***

In a Jan. 24 video, YouTuber Matthew Patrick, better known as MatPat, makes a blunt point about the rough-and-tumble world of YouTube creators: "The bigger you get the more willing people are looking to cheat you, exploit you, use you and throw you away." The impetus: The meltdown of Defy Media, a multichannel network, meant Patrick and other YouTubers were out what he estimates to be $1.7 million in fees they are due from running ad campaigns on behalf of Defy clients.

Defy is just one of MCNs that has collapsed as the industry struggled to adapt and survive in the changing world of digital video. Machinima, which had been owned by AT&T, closed in February. Disney acquired Maker in 2014 and has, over the years, reduced the property. Big Frame got bought in 2014 by AwesomenessTV, which itself faced layoffs in August 2018 under parent Viacom. MCNs, once heralded as a critical part of the YouTube ecosystem, has become a dirty word. They are middlemen who are no longer necessary as the platforms mature and traditional agencies and media companies embrace digital creators. In short, they were created to solve a short-term problem — vetting quality content and helping those creators make money through direct brand deals — that eventually went away as YouTube matured its own platform, and the MCNs themselves failed to change fast enough in the meantime.

"YouTube was and is a platform, an engineering company. At the time they weren't interested in producing content. They were a website that needed stability. In principle, [MCNs] made a lot of sense. It's not an invalid assumption and, quite honestly, it's a version of the agency model that existed in Hollywood and entertainment for forever," MatPat says. What would become MCNs started in the late 2000s, only a few years after YouTube was founded, when creators themselves and other industry executives saw an opportunity to professionalize online video. YouTuber and actress Lisa Schwartz recalled her first experience with an MCN in 2009 as visiting an apartment in Marina Del Rey with just one person at a desk. "The MCN aspect wasn't there. It was just like these people got together and started [shooting] sketches, basically what people are doing now with collabs," Schwartz says.

YouTube itself was a big driver (and supporter) of the creation of MCNs. For Big Frame co-founder Sarah Penna, the rise of MCNs began in the summer of 2010 when she was driving down Sunset Boulevard and took a call from George Strompolos, a YouTube employee and future founder of Fullscreen. As companies like hers sprouted up, YouTube requested they formalize themselves into a "network." MatPat wasn't just a creator involved in MCNs. He was Big Frame's seventh hire and served as the audience-development lead prior to investing in his own channel. Back then, the company worked out of one room in an office building just off Hollywood and Vine.

"The intention, of all of us, starting back then was good. It was to help creators. I was on a one-woman mission to professionalize this industry because I saw very clearly if talent did not have guard rails in place bad things would happen," Penna says.

In the beginning, things were good. MCNs negotiated for creators with representatives inside YouTube and with advertisers. In return, the companies got a cut of the creators' earnings. The theory was these businesses made it easier for all involved by having insights into what was happening with the ecosystem. Schwartz said she worked with several MCNs: Seventeen magazine's, Fullscreen, Maker, Defy. They offered money upfront and a guarantee on ads to help her grow her channel. Maker provided studio space and helped her sell two TV shows. Most importantly for her they provided someone to talk to if any problems occurred since "it's hard to get a hold of someone at YouTube," Schwartz says.

But that period of success was short-lived. The downfall of several MCNs, notably Maker, Fullscreen and Defy, came from their attempts to scale too big and grow from what was already a questionable financial model. While managing tens of thousands of channels may sound impressive to some, it became infeasible; MCNs couldn't provide services to the majority of their clients. MCNs having to pay employees' salaries based on splitting checks of ad revenue with creators and YouTube wasn't amounting to enough.

Meanwhile, YouTube began altering its own practices, removing the limit on who could have ads. "The end result was several apocalypses. The marketplace was flooded with YouTube content and advertising demand didn't go up as fast with it," says one industry insider.

MCNs tried to change their tune. MatPat recalled at VidCon 2016 some companies began referring to themselves as multi-platform networks or digital video representatives. But they struggled by not owning anything. "You're de-facto licensing and when that goes away you're left with dust," one industry insider says.

Not every business failed. Rooster Teeth, for example, operates an MCN, but it focuses more on producing its own content in-house. "We don't just want to do a lucrative business. We want to add value. Otherwise you're constantly in discussion about scale and retention," Rooster Teeth co-founder Burnie Burns says.

While the value proposition of MCNs have faded, the services they provide still exist. YouTube creators can access monetization and thumbnails without working with a network as long as they meet a certain subscriber threshold. YouTube also is testing a tool for creators to manage copyright violations themselves. And YouTube is even helping orchestrate brand deals via their acquisition of FameBit.

"It's going to take a while to correct this ship, but I think if you look back at the history of the last five to six years, the tools YouTube has implemented gives creators the ability to take control of their own services," MatPat says.

Though, when it comes to YouTube creators, the middleman is far from dead.

"If you're building a business on YouTube, you're building it on another platform. Ultimately YouTube is the greatest middleman in this world. There's no bigger multi-channel network than the network itself," Burns says.

> **"YouTube was and is a platform, an engineering company. At the time they weren't interested in producing content."**

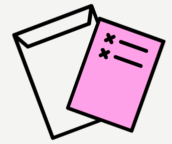
Online Publishing By The Numbers

We polled hundreds of publishing executives from our proprietary research panel on key trends in the industry. Here's what they said:

Publishers rank their easiest platforms to monetize

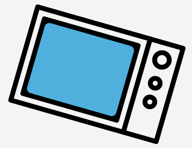
1. Facebook
2. YouTube
3. Apple News
4. Snapchat
5. Instagram

Source: 91 publisher executives surveyed by Digiday, October 2018



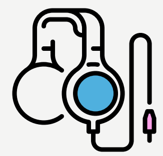
82%

of staffers at publishers say they are worried about layoffs at their companies this year.



33%

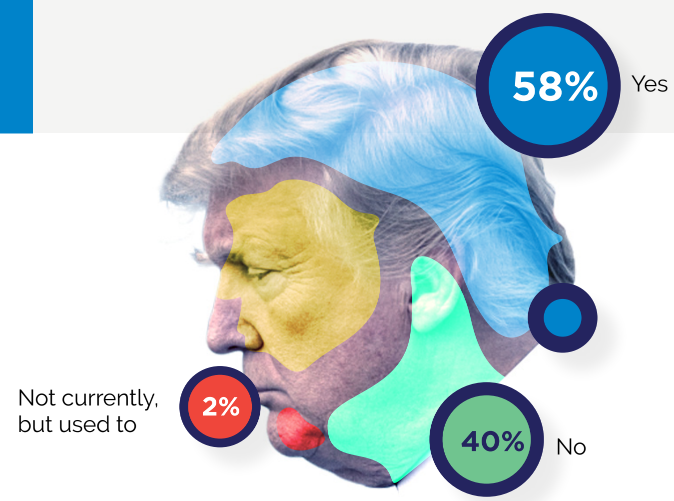
of publishing executives expect video advertising to drive the most revenue growth for their companies this year.



90%

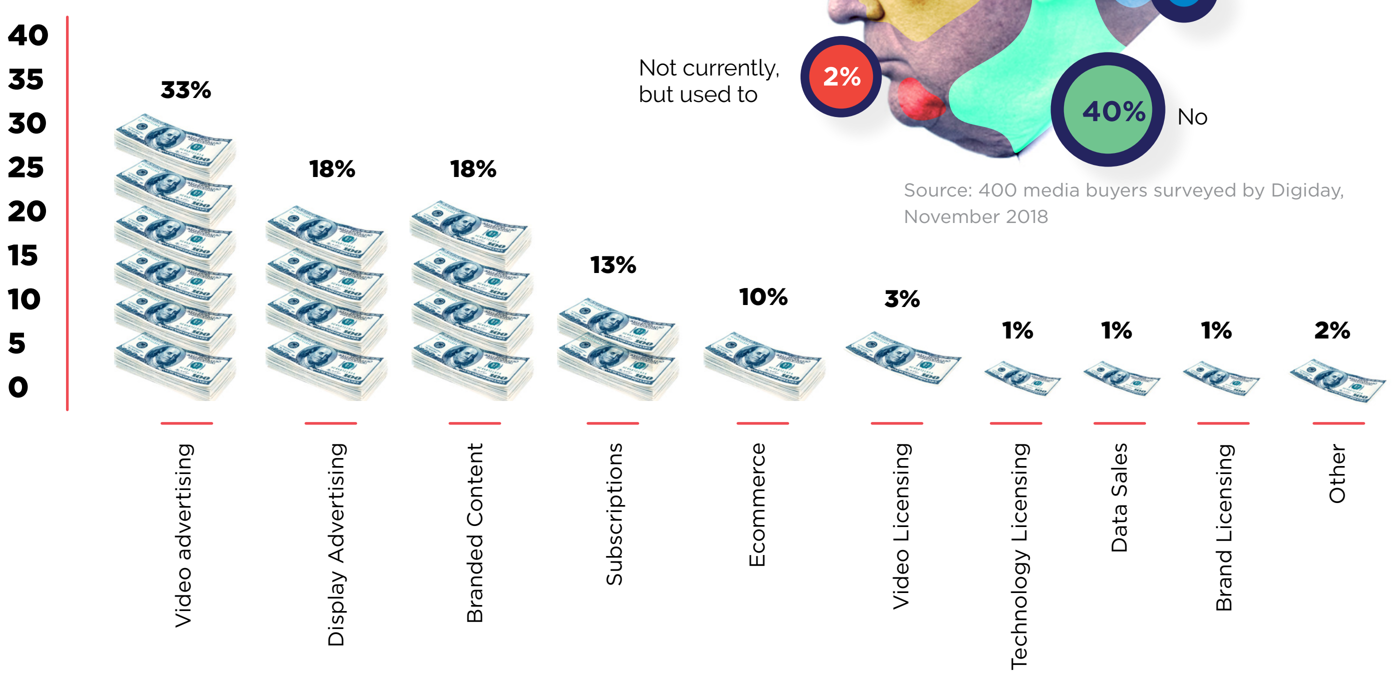
of podcast publishers say they plan to increase their podcast output this year.

Do ad buyers avoid advertising alongside Trump-related content?



Source: 400 media buyers surveyed by Digiday, November 2018

Where do publishers expect to see their greatest revenue growth in 2019:



Source: 91 publisher executives surveyed by Digiday, October 2018

Facebook's Long War

Watch hasn't worked yet, but that doesn't mean Facebook's going to give up. ***By Sahil Patel***

Facebook has poured over $1 billion into Watch, its YouTube-like video viewing section, to little success. It's tried entertainment shows. It's tried daily news shows. It's tried live sports. It's tried Tom Brady and LaVar Ball. And while Facebook says the platform has grown to 75 million users, who spend at least one minute inside Facebook Watch every day, it is nowhere close to the billions spending time on YouTube.

But this is a fight Facebook can't lose. Facebook wants TV-ad dollars and will

continue to tinker away at a video product that can draw users and brand budgets in a significant fashion. What that leaves is a platform that is still in the midst of an identity crisis.

Facebook's first attempt at Facebook Watch echoed mistakes made by predecessors such as Go90: Funding a large volume of content — mostly unscripted, lifestyle formats such as Hearst's "Wiki What?" and Insider's "The Great Cheese Hunt" — that filled out the platform but did not attract users. Ricky Van Veen, the Facebook executive who has largely been in charge of content on Facebook Watch, would later describe these formats as "shows for nobody."

Facebook did not provide a comment for this story.

Facebook Watch launched with hundreds of funded shows. What little viewership was happening was being driven by the news feed; users simply were not visiting Watch. Facebook's solution? Making longer-form shows that "have the look and smell of TV-type formats, not Facebook-type formats," said a Facebook Watch production partner of that era.

Just three months after launching Watch, Facebook started telling partners that it wanted to fund fewer shows, but at bigger budgets and longer lengths. Instead of 5 minutes or 10 minutes per episode, Facebook began pushing production partners to go 20 minutes or higher.

While publishers such as Attn and Insider have been producing Facebook Watch shows from the beginning, daily and breaking news was initially kept out of Watch. Facebook, which continues to struggle with the spread of misinformation on its platform, elected to focus on formats that steered far away from its controversial relationship with news.

That changed when, in the spring of 2018, Facebook set aside $90 million for daily and weekly news programming on Watch. Since then, the company has released news shows made by outlets such as ABC News, CNN and Business Insider — though, some, such as "Mic Dispatch," fared poorly and were canceled by Facebook.

The pivots did not stop there. In June 2018, Facebook decided to completely "rip the Band-Aid off" — as one former Facebook executive describes it — and open Watch to everybody and all types of videos.

The move felt counter-intuitive to the original intention of Facebook Watch, which was a place for professionally produced video series that would look like TV. But Facebook's decision was driven, in part, by a company culture that emphasizes growth. And with Facebook Watch still struggling to capture viewership, Facebook made a drastic call.

As Facebook opened up Watch to all creators, its content executives started talking about wanting to fund formats that were "unique" to Facebook. Typically, these shows came in the form of shows that would ostensibly drive conversations on Facebook. Interview shows such as Jada Pinkett-Smith's 'Red Table Talk" would drive comments or get people to interact with each other inside Facebook groups.

Facebook executives have always been attracted to projects with celebrities. But in the latter half of 2018, Facebook started prioritizing projects with celebrities and social media stars even more. This includes a new program called Match, which is designed to pair publishers with influencers on Watch shows funded by Facebook.

"I had a conversation with Ricky a few months ago, where he basically said that on Facebook there's 'hot start' shows and 'cold start' shows," says a digital publishing executive. "'Cold start' is if you're an influencer or publisher and you're not big on Facebook. He said that's very hard for Facebook to [greenlight]." These kinds of shifts have driven away some publishers that don't pitch Facebook as much as they used to. Some, while still open to taking Facebook's money, are convinced that Facebook Watch will never work. "It's just not what people go to Facebook for," says the publishing exec.

And this constant pivoting hasn't only impacted publishers, but also the company's own employees. "You know you're going east, but the degrees of east are always changing — that's the constant environment there," says the former Facebook executive. "How do you get people aligned and bought into something when you know this all might change in six months?"

"Shows for nobody."

Meet The New Boss

Apple's magazine subscription service disappoints publishers.

By Max Willens

When Apple acquired subscription service Texture in the spring of 2018, its executives probably thought it had acquired seeds for a healthy new crop of subscriber fees. But as Apple News prepares to release its long-awaited subscription service, publishers are having flashbacks to past disappointments with platforms.

For one, publishers who were using Apple News to drive their own subscriptions are mad that Apple is cutting off a promising source of customers. The device maker has not offered any clear information about whether publishers will be able to continue to sell direct subscriptions or not. "There have been so many mixed messages," says one publisher source.

Others, even those that are locked into contracts with Apple, are galled by the 50 percent cut Apple will take out of the subscriber revenue Texture generates.

That bite, more than the 30 percent it takes through channels such as the App Store, leaves the publishers participating in Texture with some back-of-the-envelope math that's not very appealing. Over the past 12 months, Apple News' monthly active user base has hovered steadily around 60 million users, according to Comscore. If Apple keeps up with industry standards and converts around 1 percent of that user base into paying customers, it will have around 600,000 subscribers each paying $10 per month.

After Apple's cut, that leaves about $36 million in annual revenue to split up between as many as 200 different publishers, many of whom are desperately trying to diversify their revenues.

That publishers would keep 100 percent of the ad revenue they'd make through Texture offers cold comfort; publishers have described Apple News as an "abysmal" channel for ad monetization, with few prospects for improving.

But many publishers' resistance to Texture goes beyond their balance sheets. Though none of the publishers contacted for this story would say so on the record, many fume privately that Texture preemptively kills off their chance to develop a new stream of revenue and a new relationship with their audiences.

"Journalism and newspapers work when the readers have a close contact with the organization," says Tien Tzuo, the CEO of subscription service platform Zuora. "You're working on behalf of your readership. And when you destroy that, you cheapen the whole thing."

Texture left a lot to be desired for publishers before Apple acquired it. The would-be Netflix for magazines had amassed barely 200,000 subscribers, a number far below what ownership had expected and Texture's parent company, Next Issue Media, hired a banker in 2017 to find someone to buy Texture before it ran out of money, according to one source familiar with the matter. By the time Apple got out its checkbook, Texture had been dangled in front of many different companies.

But the agreements Texture had in place with its publisher partners made it an attractive product for Apple: In acquiring Texture, it was able to buy itself a few years to experiment with a paid-content product. "They bought it primarily because the relationships were already negotiated," one source says.

For lifestyle publishers that might have had a tough time building a subscriber base on their own, it's an experiment some are happy to conduct. Instead of investing substantial resources in customer acquisition and marketing, they can rely on Apple's audience and infrastructure.

But for legacy news publishers including The New York Times and The Washington Post, which have made those investments and managed to build healthy subscription businesses without Apple, it has been a non-starter.

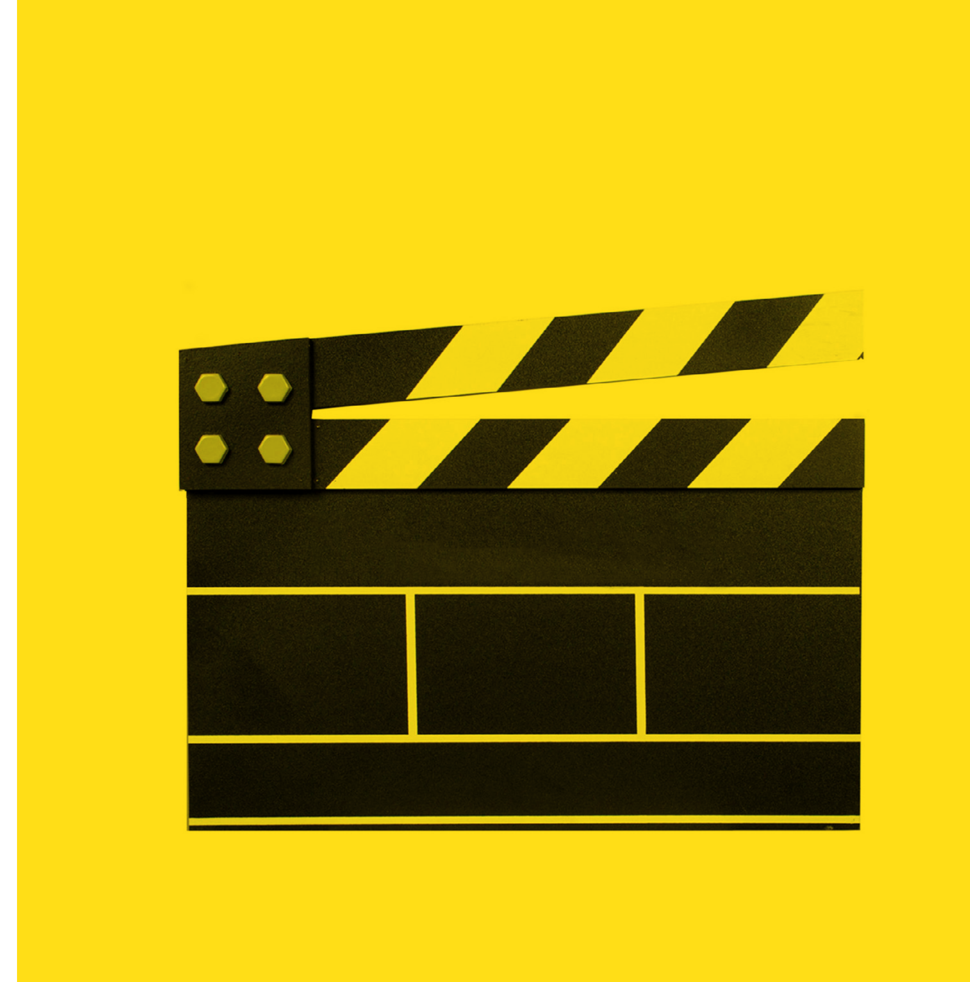
Those publishers aren't against bundles as an idea. The Times, for example, has launched bundles with tech products including Spotify and Scribd over the past 18 months. But being the news complement to a popular digital product is one thing; becoming one source of content among dozens, including one's competitors, is another.

Back when Apple was trying to build Apple Music's subscriber base, it picked up the check for an exclusive Taylor Swift concert film and a visual album by Frank Ocean, as well as short-term exclusive streaming rights for a number of hotly anticipated albums by artists including Frank Ocean and Future during Apple Music's first year on the market.

Many observers expect Apple will try to execute a similar strategy for Texture. It hired a special projects editor, Jason Tanz, away from Wired, and according to multiple sources it has been inquiring about the prospect of securing exclusive rights to certain stories or packages, even offering to float design and development resources to make them really stand out.

But it's not clear how much those moves moved the needle for Apple Music. All those moves, along with more than a year of hype, TV advertising, an automatic installation on hundreds of millions of iPhones, reportedly helped Apple Music amass about 15 million subscribers in its first year, before Eddy Cue vowed to fix the product at Apple's famous Worldwide Developers Conference. It has more than 50 million now, nearly three years later, but it's not guaranteed that publishers can afford to be that patient. ◘

Stuck In The Middle



Chasing tech giants, big media giants are getting bigger. But where does that leave studios and production companies that aren't as big, but not small either?

By Sahil Patel

Talking to an executive at a major U.S. production company, I begin to feel like a therapist. The patient has very complicated feelings about a relationship. On the one hand, he loves Netflix. Netflix is great to work with, offers a ton of creative freedom — and is happy to pay a premium for shows that it really wants.

But this executive also knows that sometimes he is leaving more money on the table by taking his show to Netflix, which prefers to buy shows outright (hence the premium). By doing this, he has to forego money on the back-end from reruns and global distribution.

Then there's the fact that Netflix is growing its own studio, which raises the risk that one day Netflix might not even need his company anymore.

And let's not even talk about Netflix's debt. What if Netflix's spending catches up with the company? That would reverberate across the entertainment industry, which has been spending more on content than ever before.

"They have broken the mold and upended TV, so much so that Disney is changing its entire business model," says this executive. "I have a healthy amount of respect for what they do — and we want to continue doing business with them — but it's tough times if you're in traditional TV."

The feeling is existential. And while Netflix is a big reason for the drama, it's clear that the entertainment industry is feeling the heat from all of FAANG, the industry term for Facebook, Amazon, Apple, Netflix, Google. That fear of tech has driven some major mergers, including AT&T-Time Warner and Disney-21st Century Fox, and a push from these new "vertical media giants" to control everything from content production to distribution.

But that leaves a certain class of companies in a precarious position: as media giants become bigger in an attempt to compete with the deep-pocketed tech giants, what happens to the production companies and TV networks that don't have the luxury of being owned by a bigger entity? In TV and entertainment's race to the top, who gets left behind?

The definition of big has changed

Lionsgate is a huge supplier of original and licensed TV shows for TV networks and streaming platforms. In the most recent quarter, the company's TV production arm, which is behind "Orange Is the New Black" on Netflix and "Fear of the Walking Dead" on AMC Networks, generated $216.5 million in revenue.

Now, Lionsgate benefits from owning Starz, which ended 2018 with 25.1 million TV subscribers, and a media networks business that generated $366.8 million in revenue in the last three months of 2018. And Lionsgate produces shows such as "Outlander" for Starz, which has a subscription OTT channel business that includes a Starz-branded streaming channel, Tribeca Shortlist and BeFit. The main Starz-branded streaming channel is estimated to have roughly 3.7 million subscribers, according to BMO Capital Markets.

For all intents and purposes, Lionsgate is big — but by old entertainment standards. And now it's going up against competition that is only getting bigger and better funded. HBO's quarterly revenues got close to $1.7 billion in the last three months of 2018; and AT&T and WarnerMedia reportedly plan to raise HBO's annual content budget, of $2 billion, as the brand becomes the center point of an all-new streaming service. Disney, too, is spending big bucks: a new "Star Wars"-based series will reportedly cost $100 million for 10 episodes.

"It creates an upward pressure," says Peter Csathy, founder of entertainment advisory firm Creatv Media. "And there is the danger of your brands and content being lost in this increasing noise. This requires building a brand for an engaged audience that will seek the brand out and stick with them — and in this new landscape, that will be costly."

Pure production companies are feeling the squeeze

For major production companies that do not have the premium cable networks that Lionsgate does, there will be even more pressure to produce hits — especially as Netflix focuses on IP ownership and long licenses.

"For the middlemen producers, they will have to keep hitting consistent doubles to stay alive," says Chris Erwin, principal at entertainment firm Doing Work As. "One bad inning, and their razor-thin production margins could mean they're out of the game for good. That doesn't sound like a fun way to operate."

In this environment, it's arguably easier to be a smaller production outfit, says the aforementioned TV executive. "When you're small, it can work because you don't have as many mouths to feed."

"But you're still investing in development, and pitching and building relationships and doing reels," he adds.

There is some hope. It's expected that as WarnerMedia, Disney and other media giants go direct to consumer, there will be more places to pitch and sell content to. But even here, it's expected that these media giants will favor their own studios and production entities whenever possible. Everyone else will have to deal with a much narrower window for developing, pitching and selling content.

"The middle is going to struggle," says the production company executive. "Everyone will struggle unless they own something, and own something that the consumer is interested in. But that's tough to do when you're a pure production company."

"There is the danger of your brands and content being lost in this increasing noise."

The Middle Class Squeeze

A large-scale bundle could be the only hope for the subscription efforts of mid-tier publishers. ***By Jack Marshall***

For mid-tier publishers chasing subscription revenues, a sobering year lies ahead.

As subscription fatigue sets in and consumers think more carefully about what content they are actually prepared to pay for, publishers occupying the middle ground between large, established brands and small but passionate audiences are about to find out how big (or small) their subscription businesses can really be.

For this class of publisher the success of a large-scale subscription bundle — such as the "Netflix for news" service Apple is currently out pitching to potential partners — could be the only way to push their subscription offerings beyond the limitations of their own brands, products and distribution.

The economic feasibility and consumer demand for such a bundle remains to be seen, however, let alone any real incentive for big-brand publishers to help power such an initiative.

The growth in subscriptions in recent years at big-brand news publishers such as The New York Times and The Washington Post is evidence that consumers are willing to fork out for high-quality content. The Times grew its digital-only subscription revenue 18 percent to reach $400 million in 2018.

At the other end of the spectrum publishers with small but highly engaged audiences are seeing success with consumer subscriptions, too. In January, Barstool Sports convinced 8,000 people to pay $100 for its new Barstool Gold annual membership in just two days, for example, while The Athletic says it has attracted over 100,00 subscribers for its own network of local sports writers.

But publishers without a laser-focus on serving specific audiences or the brand cache and journalistic heft of brands like the Times are at risk of getting lost in between. They'll lack the scale to compete with larger, more established brands, while a lack of focus will simultaneously dilute the appeal of their products and the price points they're able to support.

"If you're a paid news or lifestyle site… the reality is many of those products are really easy to substitute with something else that's free," says former Chartbeat CEO Tony Haile, whose new company Scroll offers consumers the opportunity to pay a subscription fee for ad-free versions of publisher pages.

"If you're somewhere in the middle, you're in a tough spot. You can't charge for content but you're not niche enough that specific audiences will look to support you," said USA Today Network chief operating officer, Michael Kuntz, on a recent episode of the Digiday podcast.

Proposed bundles such as Apple's will therefore prove most appealing to this middle class of subscription publisher with relatively commoditized content and little to lose.

But for big-brand publishers such as the Times and the Wall Street Journal, it's understandable why they would balk at the idea. They have little incentive to lend their brands to a product that promotes competitors' content while they continue to build direct-paying consumer relationships at a healthy clip. And without major publishers onboard, most Apple users will have little incentive to pay for a selection of content from brands they could take or leave.

If Apple or another major platform can convince consumers to sign up in the millions for a subscription bundle, there could be revenue growth up for grabs, therefore. But that's no simple task, even for a company with massive distribution.

If not, middle-tier publishers may find their subscription efforts hit a ceiling that's far lower than they'd hoped.

DIGIDAY VIDEO AWARDS

The Digiday Video Awards is the industry's annual recognition of the companies, campaigns and technology that are using video to modernize media and marketing. This year, judges from Vice, Lyft, Comedy Central and more selected winners in 22 categories. Congratulations to the winners.

2019 Winners

Best Video Ad
Initiative

Best Live Moment
Glow

Best Social Video Campaign
purple

Best Multi-Platform Video Campaign
Innovid

Best Advertiser in Video
Mustache

Best Video Ad Tech Innovation
LoopMe

Best Streaming/OTT Platform
DAZN

Best Video Distribution Platform
JW Player

Best Use of Youtube
Fullscreen

Best Snapchat Show
The Rundown

Best Use of Instagram Stories
Vice

Best Facebook Watch Show
group nine

Best Snapchat Discover Publisher
NBCU Digital Lab

Best Video Distribution & Programming Strategy
Fullscreen

Best Publisher Pivot to TV
Uninterrupted

Best Video Advertising Agency or Publisher

Best Video Publisher Partner for Brands
CH Media

Digital Studio of the Year
Complex Networks

Video Executive of the Year
cheddar

Most Valuable Streamer
Yahoo! Sports

Best Branded Film - Single
OSK Oliver Schrott Kommunikation

Best Branded Film - Series
Awesomeness TV

"We're A Brand Safety Haven"

Hearst UK chief wants to win the brand safety war. ***By Jessica Davies***

In the face of industry-wide challenges, Hearst UK grew its digital ad revenues by 30 percent in 2018. Magazine print circulation remained steady, and the group raked in millions of pounds in new revenue by licensing its magazine brands as products, from Men's Health beef jerky to two Country Living hotels.

"I think of us as a marketing-services business rather than magazine publisher," says James Wildman, CEO of Hearst UK. "When you think about all the products and services that sit on top of our brands and audiences, we can talk to advertisers about solving, rather than selling their challenges. That makes us more strategic, partner friendly, and more interesting to do business with. It's less about selling pages or impressions and more about genuine partnerships and integration. That's a big shift. We've sharpened up our game."

The conversation has been condensed and edited.

James Wildman

What has driven the increase in digital ad revenue?

There is an increasing gravitational pull toward lighthouse brands with purpose. We're a safe haven in a world that is increasingly negative. We can offer premium experiences, so it's partly that brand-halo effect, and partly because we have invested significantly in journalists and digital talent. But we've also had a clear focus on everything from video to our ad stack strategy to data generally, to e-commerce, viewability, to our digital publishing model reach versus engagement, all parts of our digital acceleration plan. We have a clear focus.

Do you attribute any of that digital ad revenue uplift to advertisers shifting spend from YouTube and Facebook because of brand safety issues?

I'm sure that's a part of why [digital ad] revenue is up so much. It's difficult to pinpoint it exactly when it's traded programmatically, but there is a correction taking place. We have also invested a lot in our creative solutions. We have 20 people in that team doing integrated deals. It's an antidote to some of the worst brand safety issues that are going on elsewhere. There is no risk for brands with us.

Has there been any fallout for publishers as a result of advertisers' tighter control on brand safety?

We're frustrated that blocklists aren't managed particularly well. So we're getting blocked for keywords like "shoot." We write about photo shoots constantly. The Duchess of Sussex, who we write about a lot, gets blocked because the title has the word "sex" within it. Seriously, this is a big problem. The word "Manchester" still gets blocked, as they [advertisers] haven't updated their blocklists [since the Manchester Arena bombing in 2017]. We are doing quite a bit of work to shine a light on how crazy it is. There are as many as 2,000 blocked words for some of our big advertisers. Advertisers are genuinely worried about it because of the issues of appearing next to disgusting content on the platforms.

Who is to blame?

These big platforms are doing big global deals with the top people in marketing teams at advertisers, agencies are completely disintermediated. Agencies aren't controlling how much money is spent on these platforms; the deals are done outside their remits often. But publishers should get on the front foot talking about the huge benefits of working with us. The duopoly takes all the column inches, but we should be talking more about us.

How have conversations changed with brand clients over the last six months?

More clients come to us directly now, often unsolicited. We're doing more strategic, longer-term work with them that's more valuable and of more mutual benefit. But I won't bite the hands that feed with the agencies. We get asked a lot how we get on with our agencies and whether we think their agencies are representing them well enough. We handle it diplomatically.

Where do you see the growth coming for Hearst this year?

We have four diversified revenue streams: licensing, events, accreditation [affiliate] through our Good House Institute, and our content marketing agency. We will soon take that to six: e-commerce and consumer products. In 2017, print accounted for 70 percent of our revenue, now it's more 60:40 print to digital. Of our digital revenue, diversified channels are close in size to our advertising. Around 40 percent comes from diversified revenue streams. We expect to see that start to tip the other way.

Would you consider online subscriptions?

I wouldn't rule anything out, but a paywall would be problematic. We're testing in the U.S. on two properties. But we won't put the whole brand behind a paywall. We're doing so well at growing our digital ad revenue, putting a paywall around our content isn't the right route for us right now.

Debbie Klein

The Winds Of Change

Sky's group marketing chief Debbie Klein on life after the Comcast acquisition.

By Lucinda Southern

Debbie Klein has been Sky's group marketing chief since just last June, yet knows the pay-TV operator intimately. As the former CEO of marketing and communications group Engine, Sky had been a client of Klein's for 12 years before she took up the role.

Last September, after an intense bidding war with 21st Century Fox, cable giant Comcast bid $39 billion for Sky, which has over 23 million subscribers across Europe. This rich data on its customers' interests means it's not primarily an ad-funded broadcaster, placing it in an attractive position to insulate itself for the future. The conversation has been edited and condensed.

What are your priorities?

We looked at the master brand, its consistency and how we're connected to all our customers in all seven countries. Through a corporate affairs lens, my first few months were dominated with [Comcast] merger and acquisition. In October, we started to look at what Sky does best and where we invest, customer experience, technology as a force for good, and using our voice, scale and position for positive change. The one thing that struck me was how many things we do in each area that matters to customers. It's joining that up and telling the story.

What are the biggest challenges in telling that story?

We're much more than a satellite TV company, whether that's because we're investing £6.5 billion ($8.7 billion) in content and half a billion ($657 million) on Sky original productions. The bigger story is we are the largest direct-to-consumer entertainment business in the U.K. There's always been a mindset of renewal and disruption. When we launched Now TV people said we were mad, but that's successful. Even how we evolve things like Sky Q, our pay-TV service, which we're known for. It's joining that up. That's what you'll start to see as we pull those strands together.

How has your perception of the challenges for broadcasters changed from coming into the business?

Understanding the full repertoire of products and people's attitude toward them and how that changes. Viewing the behavior and attitudes of today as a predictor; there are 11 million voice requests each month on Sky Q, that's a fundamental change in how younger people access content. Perhaps I didn't understand the nuance before, the fact that people have a number of different services, different need states and products to meet their needs. That's replicated in our place in the overall competitive set. On Sky Q, for instance, you have Netflix, Spotify and voice control, it makes me hugely optimistic about the story I've got to tell.

What's the strategic importance of Sky's monthly subscription service, Now TV — which reportedly has 1.6 million subscribers — and how do you plan to grow it in a crowded subscription services market?

When it launched in 2012 we could see there was a group of people wanting to access content in that way. It reaches people looking for that type of content. It's as important, it's not necessarily becoming more important. Whatever content and whatever way people want to find it we need to deliver and reach them in the right way. In marketing terms we put upward spend on a different medium.

Is Now TV an accompaniment to Netflix?

It's true that we see people stacking services, whether that's Sky or Now TV and others. To really state the obvious, that's one of the reasons why Netflix is available on Sky Q: we know people want to be able to access different experiences.

Sky is still the biggest U.K. advertiser but you cut media spend last year in the U.K. by 30 percent. Why and what was the impact?

We're always evolving our approach and learning how people want to read the news or listen to music. Cinema works really well for us because we're showcasing the investments we've made in original epic drama, and it's got the local flavor. For Now TV we spend a lot on radio to reach a younger demographic. We launched [new show] "Curfew" as a partnership with The Independent and the Evening Standard, so it's horses for courses.

What changes have there been since Comcast's $39-billion takeover of Sky, besides the company using Now TV's technology for its streaming service?

Under the new ownership Comcast made it clear we would run ourselves independently. Overall, in their approach and public commentary, it's clear they respect the brand. They made commitments saying they believe in our culture and an admiration and willingness to support that. They've been complementary about the business and the management team. But there's a good sense we'll be better together. There's a lot we can share around products and technologies. We see the last 30 years not as the ceiling but as the floor.

"We're much more than a satellite TV company"

DIGIDAY
2019 AWARDS SCHEDULE

Entry Periods

DIGIDAY PUBLISHING AWARDS
Regular Deadline
April 12, 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 RETAIL AWARDS
Early Deadline
August 16, 2019

Fashion Whisperers

Style experts are proliferating.

By Jill Manoff

At Neiman Marcus, they are called digital stylists. At Bergdorf Goodman and Nordstrom, they are personal stylists. Modcloth has ModStylists, MatchesFashion has MyStylists, the list goes on.

Call them what you will, but fashion's e-commerce players are increasingly looking to differentiate not just by the power of the algorithm but the human touch. In the age of the feed, these companies are seeing the need to provide personalization the old-fashioned way: Through advice from those in the know.

In October, the Neiman Marcus Group hired Stefanie Tsen, formerly of Sephora, to be its first svp of omnichannel customer experience. Tsen has expanded the styling team from two to 40 stylists. The retailer is now looking to add to that pool, hiring in key markets like Chicago and L.A.

"Online shoppers are over-served by content and assets, but underserved by curation," she says. "To me, the real genesis of omnichannel is making customers feel there is a real option; whatever channel they choose, they'll find the same level of service."

The Neiman Marcus stylists work remotely, receiving ongoing training on new brands and promotions, and they communicate with shoppers through online chats, email, phone calls and texts. They also meet with customers in-store for styling sessions and in their homes for closet edits, when geographically possible.

Tsen says most Neiman Marcus customers have taken advantage of the program. They spend two-times more per transaction when a digital stylist is involved and return 50 percent less.

For now, Neiman Marcus' styling service is offered on an invitation basis, as Tsen navigates how to scale the service to meet increasing demand.

Trunk Club, the 10-year-old clothing subscription company, is also seeing a surge in digital styling interest, says Linda Bartman, Trunk Club's chief operating officer. To meet demand, it's currently hiring 175 stylists in Chicago, Los Angeles and Dallas.

"We pioneered the idea of the stylist," says Bartman. "But this is still a relatively new category, and as we serve customers, we're finding there are more people who really want more curation."

Every week, Trunk Club stylists create more than 45,000 outfits for customers, and by the end of 2019, they will have created more than 1.8 million customer outfits. Since 2016, the online business has grown from 66 percent to 83 percent of total sales, growing 78 percent year-over-year from 2017 to 2018. The company is on pace to be a $500 million business by 2021.

Twenty-three-year-old fast-fashion brand Lulus recently launched its digital styling service to bring its concept of affordable luxury to life. Its stylists include general stylists, fit experts and members of a bridal concierge that assists brides-to-be.

"As soon as we put, 'Chat with a fit expert,' on our product detail pages, our customer contact went up exponentially," says Colleen Winter, Lulus co-founder and CEO.

To meet increasing interest, she hired a customer-relationship manager in November to oversee stylists. She's now hiring four digital stylists who will be more specialized than those formerly in the role, who doubled as customer service reps.

Because the styling department has proven an effective revenue driver, Winter says the company is looking for ways to build on its momentum.

"As the world gets larger, the fewer personal relationships there are," says Winter. "We'd really like to change that."

Jian DeLeon's Guide To Berlin

As told to Jill Manoff.

The Brooklyn-based editorial director of Highsnobiety shared where he goes when he visits HighSnobiety's Berlin headquarters. "Berlin is a great place because it's got a rich history and there's a lot to discover. It's where creatives from all around the world can come and feel at home. Our office is more central, and the vibe is cool, a bit downtownish."

Stay

"When I started visiting Berlin, I stayed at Airbnbs in Kreuzberg. The area is such a hub for creative people, and it's amazing what you can get for your money: a flat with a living room for €50 a night. Now that I'm at Highsnobiety, the Mondrian Hotel is one of my go-tos; it's central and has that same homey feel. It's where we have our annual summit."

Eat: Breakfast

"There's a coffee shop I go to next to our office called Ritter Cafe. My regular is a croissant, and it's really hard to get a decent cold brew outside of New York, so I go for a flat white. And there's a really nice coffee shop called Westberlin near Checkpoint Charlie. They have a nice little stack of books and magazines, and you can get some good pastries and a decent cup of coffee, and just relax and get into the day from there. There's also Companion Coffee, which is super casual. It's inside of Voo Store, one of my favorite shops."

Eat: Lunch

"Every time I'm in Berlin, I go to Cocolo -- it's a little ramen shop. The ramen is consistently good and they have really nice mixed drinks. It's quick enough that I can get it for lunch, and I usually get a matcha, too."

Eat: Dinner

"I will stop by Soho House at any point in the day, but dinner is always good because they have the burger that's a mainstay. I always know I'm going to run into somebody I know: contributors or some of our contemporaries from publications like 032c. When Kanye West was in town, he and his entourage did a late-night takeover of the space. The rooftop has the best view of the city; you can look from West Berlin to East Berlin and see the change in architecture, from traditional European to more grey and brutal."

Eat: Late-Night

"My late-night food spot is definitely Curry 36; it's pretty chill and very cheap. You can't go to Berlin as a visitor and not have currywurst. It's this sausage that you cut up, and it's covered in sauce and curry powder, and traditionally it's served with a side of frites."

Drink

"I recently discovered Newton Bar in Mitte. It a good place to get a drink. You walk in, and there's this giant Helmut Newton photo. It's sort of an old-school throwback in the ambiance. In Germany, I'm always drinking some form of Aperol, and you can't go wrong with any beer. As someone in my mid-30s, I'm not necessarily going to go to Panorama Bar or Berghain. I've been to those clubs, but there comes a point in one's life where you can't stay out until 8 a.m."

Shop: Streetwear

"If you're going to go shopping, you have to go to a street called Torstrasse and hit Soto Store and Firmament. Soto Store is one of the first places I went where they mixed Nike and Dries Van Noten. And Firmament is one of Berlin's premier streetwear and high-end sneaker stores. You can get all these crazy Japanese brands, more affordable local streetwear and up-and-coming labels."

Shop: Sneakers

"There's no shortage of sneaker stores in Berlin. I prefer Solebox, which is clean in its execution and there's this really cool robotic arm in the back that grabs the pair of sneakers you're looking for. It's a really nice Instagram thing to see."

Day In The Life: Dave Portnoy

The Barstool Sports founder is still cranking out content.

By Max Willens

In 2019, the "day in the life" story format has become a near-parody of itself, with people eagerly rising at 5 a.m. to perform a sun salutation before crushing a smoothie made of kale and nut milk. As a corrective, we have decided to profile somebody we knew would shoot straight with us: Barstool Sports founder Dave Portnoy. Here, he describes a Tuesday in late February.

On a day like this, I'll let myself sleep in as late as I can.

I wake up, check social media, quickly — I rarely post anything before I get to the office — then shower.

I like to be in the office by 10 a.m. — 10 a.m. is the start of the day for the content people — but during the football season, we've got so much going on, it could be 8 a.m., depending on other people's schedules.

I listen to music on the way to work every day. I have one playlist that I started, I don't even know how many years ago, called Wrecking Ball. I didn't understand how Spotify worked, and the first song I put in was Miley Cyrus's "Wrecking Ball." It has about 600 songs now. It has everything: Miley Cyrus, Jimmy Buffett, AC/DC, country, Kanye. If I like a song, it goes on it.

I don't eat breakfast.

I think breakfast is a scam.

People say it's the most important meal of the day, it's just not true. I'm not hungry, I don't need the calories, I eat way more. I don't buy into the whole breakfast agenda.

I have a ton of coffee. This morning, I knew I was tired, so I had an Adderall, then coffee in the morning. Tommy [Scibelli, aka Tommy Smokes, to Stoolies] gets me the coffee. I walk in, it's sitting here every morning. He'll probably bring me three more like this throughout the course of the day. Same size [a Starbucks Venti].

[My] schedule up here, if it's in blue, it means it's official. I don't write it. [producer] Frankie [Borelli] writes it. There's this girl Daniella, who works closely with Erika [Nardini, Barstool's CEO], she writes on there, too. For the most part, anybody can get on the schedule, but if I look at it and I'm like, 'I don't want to do that,' I don't have to do it.

A lot of times, I'll have an idea of what I'd like to do. Today, I have written down: I want to get a Roger Goodell clown car for the Daytona 500. I have to go ask Erika if I can have a table at Saratoga. I want to go to Talladega and Bristol, so I've gotta look into that. And then Malia Obama, there's a picture of her drinking rosé, so I want to blame that on LeBron [James]. I have to write a blog that LeBron is corrupting everybody. That's just stuff I have to mix in with everything else.

Around noon I go eat pizza, every day [to produce content for Barstool's pizza app, One Bite Pizza Reviews]. We've exhausted every place around here. Sometimes I'm gone an hour, hour and a half, with an hour and 15 minutes spent in a car, which sucks.

Around 1:30 or 2 p.m., we film Barstool Sports Advisors, which is our gambling picks show. 3:00 p.m. every day is a rundown, a recap of the day's stuff, and then from 4 to 6 p.m. I do Barstool Radio. In between those things, on a daily basis, people come in asking if they can do certain things for content, getting permission for travel, complaints, you name it.

It gets a little draining. By the end of it, with the radio show, I've probably talked about anything I'm going to talk about.

People like it when I'm upset about something. My show tends to skew a little bit more toward internal controversy. The second hour of the radio show can sometimes drag a little bit. We try not to let that happen, we take calls, but when it's 5:30 p.m. on a Friday, there's times I just want to get out of here, and I'll just be like, 'Peace, I'm out.'

A lot of times, because I'm so busy from about noon till 6 p.m. there's people who are waiting after to talk to me. So I get stuck, with my jacket and my headphones in, and I'm like, 'OK, what do you want to talk about?'

If you went out there and asked what I'm like, people would say, 'Dave's short.'

I try to leave right away after that.

At home, I order from one of three places every single night. I either get a grilled chicken sandwich if I'm feeling good and trying to be healthy – maybe two, because they're not very big – or I order from a place called Mighty Bowl. I used to get sushi all the time, but I got mercury poisoning, so I had to cut that out.

After that, TV. Lately, it's college basketball. I generally have bets going, and I'm always on social media, 24-7. It used to be a lot more blogging, but blogging is one of those things you have to be in a flow to do. If I'm in a flow, I'll blog all night. But I do a lot more now on video and radio. During the games, I'll pause them so I can keep checking my phone.

After that, I'll generally get into bed and spend another hour on social media. There's always something going on. I'm fighting with someone on social media, I'm retweeting, I'm bragging, there's something that's going on.

I have to force myself to put the phone down before I go to bed. That's just built into my brain. Even if it's not a work day, if I'm out on a date, I have a hard time not checking my phone, even if there's nothing to check.

Sometimes I have a hard time sleeping. Sometimes I watch movies just to think about them, because it takes my mind off of Barstool.

"I think breakfast is a scam."

Myth Making

By Brian Morrissey

We chose a unicorn for our cover image to make the point that profitable, sustainably grown media companies may seem like they're the stuff of legend. One of the core tenets of Digiday is around honesty: There are a lot of things held to be true in digital media and marketing that aren't. Lately, I've been asking people in the industry their top myths. Here are some common ones.

Programmatic means fewer people. At a panel I recently hosted for the Boston Interactive Marketing Association, Centro CEO Shawn Riegsecker spoke to this myth by noting that a media planner he spoke to needed 75 different logins for various platforms. Programmatic, which was famously described as "the opposite of manual," in fact requires just as much labor. For all the talk of AI and algorithms, the common refrain I hear on both sides of the industry, is around talent. In Milan, at our Digiday Publishing Summit Europe, one publishing exec bemoaned finding tech talent who doesn't want to work at Google. Both publishers and agencies face deficits in top talent needed.

The pivot to paid will sustain publishing. The move by publishers to charge for content or roll out a membership program is a healthy trend overall. After all, if you have a unique brand that is valued by an audience, you should get paid. This also will align publishers more with their readers as customers versus their advertisers as customers and their audience as a product to be mined for data and bombarded. But too many publishers introducing paid models are stuck in the middle. Jack Marshall wrote about this problem in this issue. Many subscriptions and membership schemes will fall apart, as they run into too much conflict with the needs of an ad-driven business. What's more, the very needs of the ad-driven model required publishers to go as broad as possible, which will then in turn work against their paid business. An extra conflict cited by one tech exec to me: The craziness of having different people responsible for ad revenue and for subs revenue.

Marketing is all going in-house. The topic du jour is the move by clients to take many marketing functions in-house. Like much in digital media, there is a kernel of truth that is being blown out of proportion. While many cite control and speed as reasons, cost is a big factor. The initial savings that many marketers will see are likely to evaporate as their tech fees mount – and they don't have the luxury of preferred pricing secured by agencies. For many marketers, a hybrid model is the most likely outcome. It's no surprise, then, that people like Martin Sorrell are betting on agencies that cater to clients wanting more control over services and data – and at a good price.

Scale is dead. The troubles at BuzzFeed and Vice Media have led to some triumphalism that the lure of scale in media was always a false promise. That's missing a big part of the picture. The issues at BuzzFeed, Vice and other large publishers are mostly a result of growing too big too quickly, leading to costs out of control. Scale is still an advantage in both ad-driven models and diversified media models. There is no one-size-fits-all model for media – many will do quite well with scaled models.

Advertisers care about brand safety scandals. At this point, YouTube has suffered just about every possible instance of horrible content on its platform. The travails of Facebook and other platforms when it comes to the spread of misinformation on everything from politics to vaccination has pointed to a flaw at the heart of these tools supposedly meant to unite people and make them more informed. But brand execs love to make a big deal about scandals and then not do much. Just about every instance of pulled spending results in advertisers being easily mollified and turning the spending back on. For the most part, these rituals are PR exercises and – as Shareen Pathak reported earlier – driven mostly by wanting to avoid ending up in the news.

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