

The State of Digital Marketing



Menlo Park, CA
November 2015



LUMA Partners presents the first “State of Digital Marketing” from our inaugural Digital Marketing Summit, which provides our views on the market and significant industry trends in the digital marketing ecosystem. We hope you enjoy it.

Meet the Senior LUMA Team

Terry Kawaja	Brian Andersen	Mark Greenbaum	Dick Filippini
			
Founder and CEO	Partner	Partner	Partner
<p>Terry leads strategy, banking, marketing and content for LUMA.</p> <p>He's also head comedy writer.</p>	<p>Brian is LUMA's marketing technology guru.</p> <p>He excels at coaching both little league and big clients.</p>	<p>Mark runs M&A strategy and execution for LUMA.</p> <p>He's never met a term sheet he couldn't improve.</p>	<p>Dick leads LUMA's mobile and gaming banking coverage.</p> <p>You can find him holding court every February in Barcelona.</p>
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Agenda



1. Market Update

2. Significant Industry Trends



1. Market Update



M&A on Pace for an All Time High

Market**W**atch

Global M&A activity on track for record 2015

By Ciara Linnane

Published: Nov 3, 2015 3:17 p.m. ET

Forbes

JUL 31, 2015 @ 10:19 AM

2,344 VIEWS

2015 M&A Volume Will Hit An All-Time Bubble?

THE WALL STREET JOURNAL.
M&A Deal Activity on Pace for Record Year

Companies hunting for growth drive volume

FORTUNE

M&A mania: Deal volume hits 8-year high

by Dan Primack

@danprimack

MARCH 31, 2015, 3:37 PM EST

FINANCIAL TIMES

September 18, 2015 11:31 am

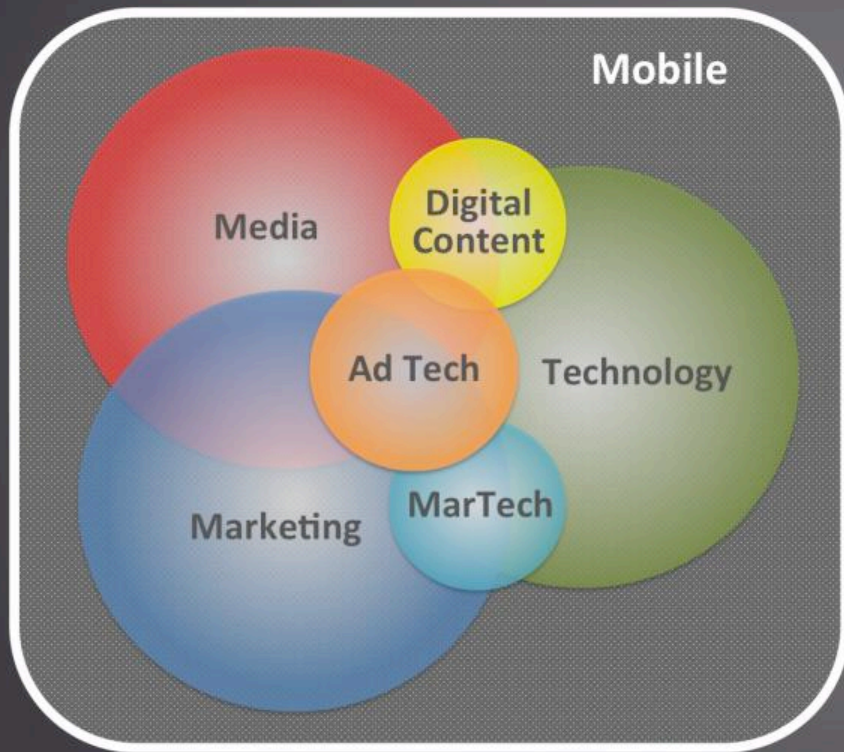
Megadeals for 2015 hit record high



Good news (especially for an M&A guy)! Global M&A is on a record-breaking pace this year. While this is an encouraging macro trend driven by, among other factors, historically cheap debt and decreasing organic growth opportunities, let's drill down to take a look at the markets on which we focus.



LUMA's Singular Focus on Digital Media



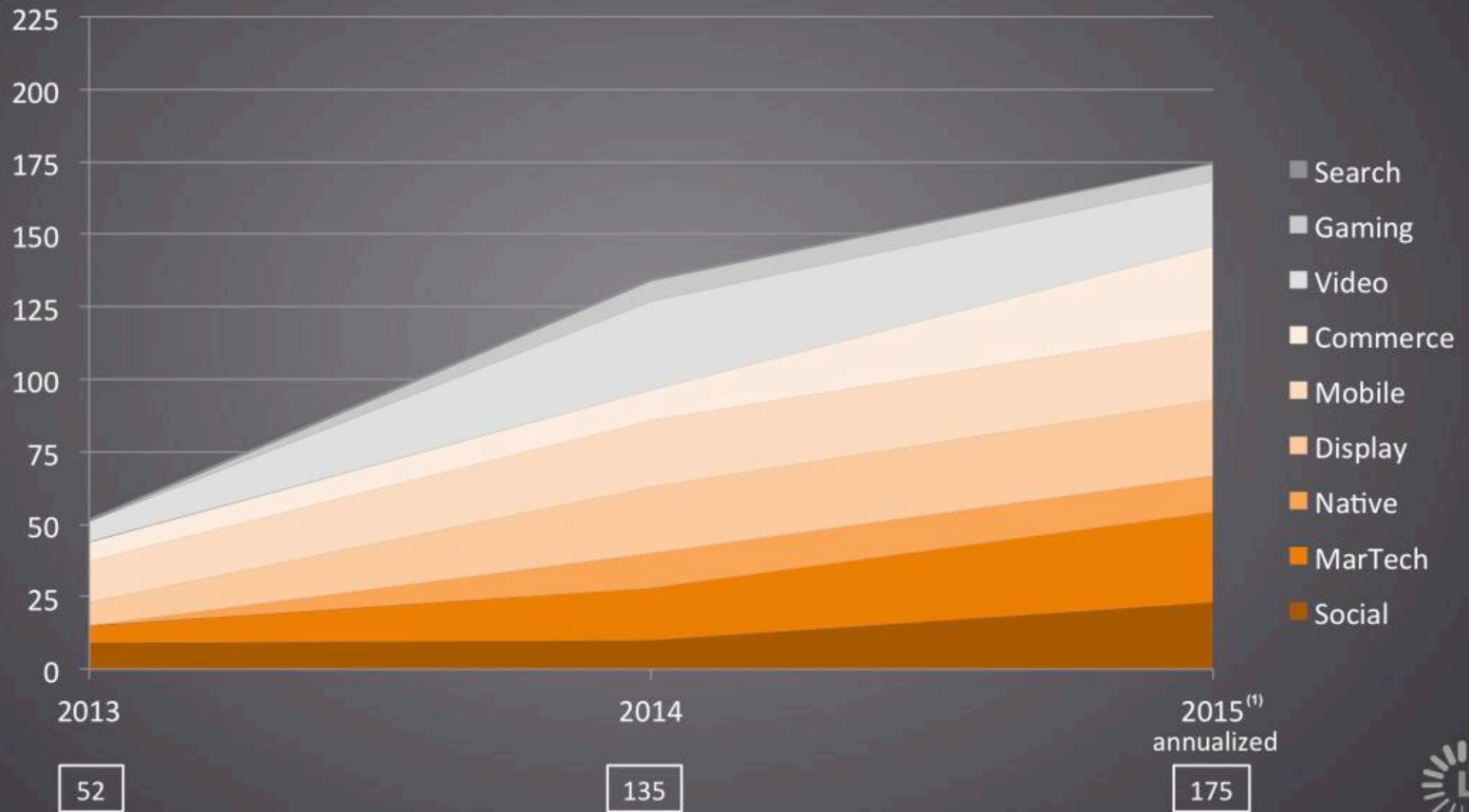
- **Digital Content:** content sites, MCNs, game publishers, aggregators
- **Ad Tech:** display, search, video, mobile, social, content marketing/native, connected TV
- **MarTech:** data, analytics, sales and marketing automation, email, predictive tools, commerce technology, shopper marketing, payments



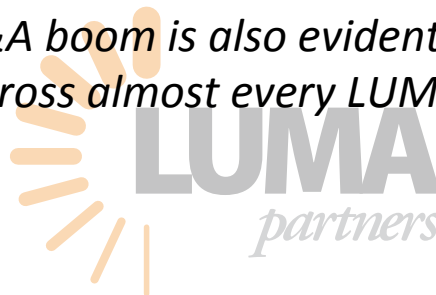
Let me take this opportunity to highlight LUMA's singular focus on the intersection of Media, Marketing, and Technology; the sectors of Digital Content, Ad Tech and MarTech all seen through the lens of mobile.



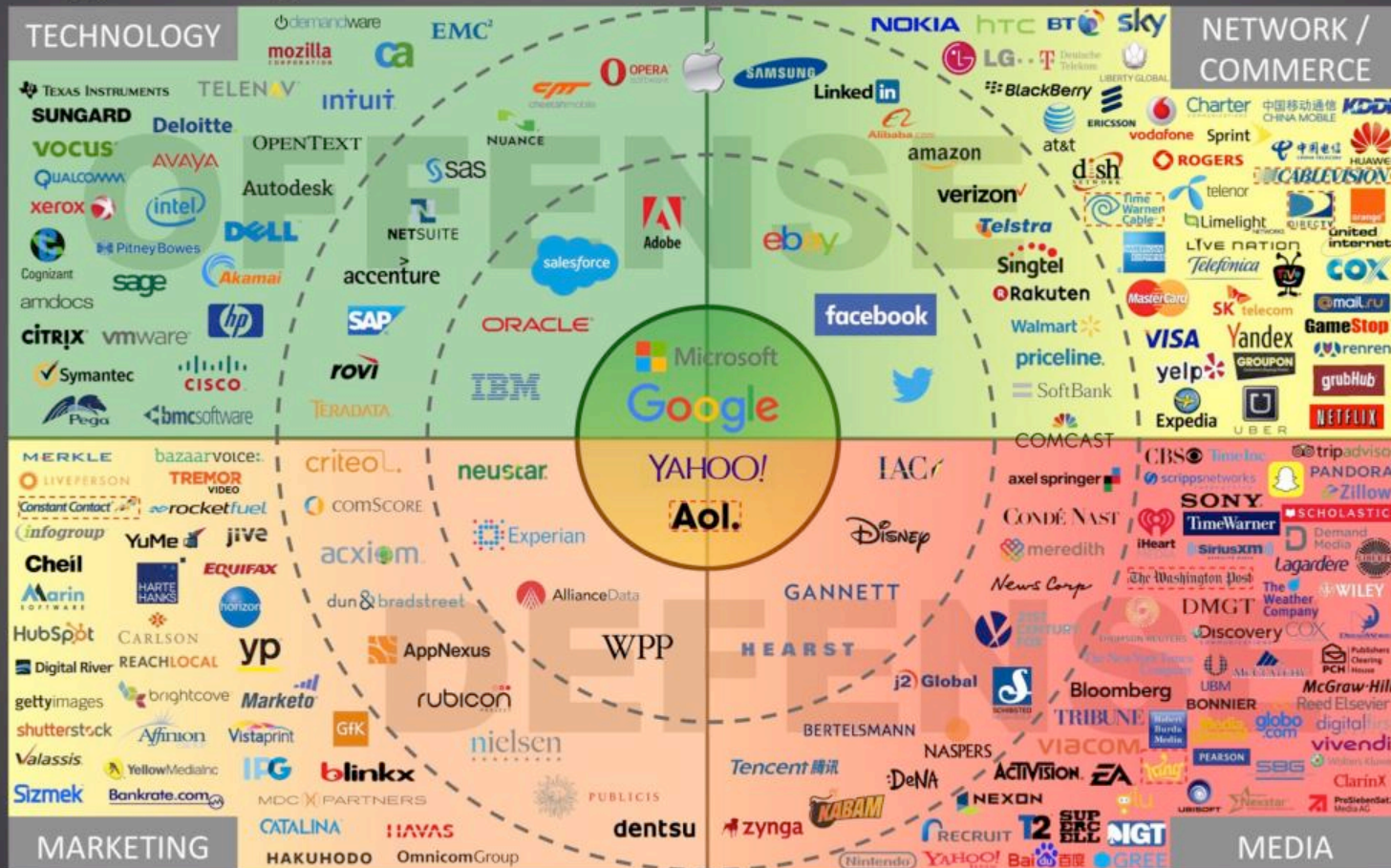
Digital Media and Marketing M&A by LUMAScape



The current M&A boom is also evident in our market sectors as deal volume is up across almost every LUMAScape.



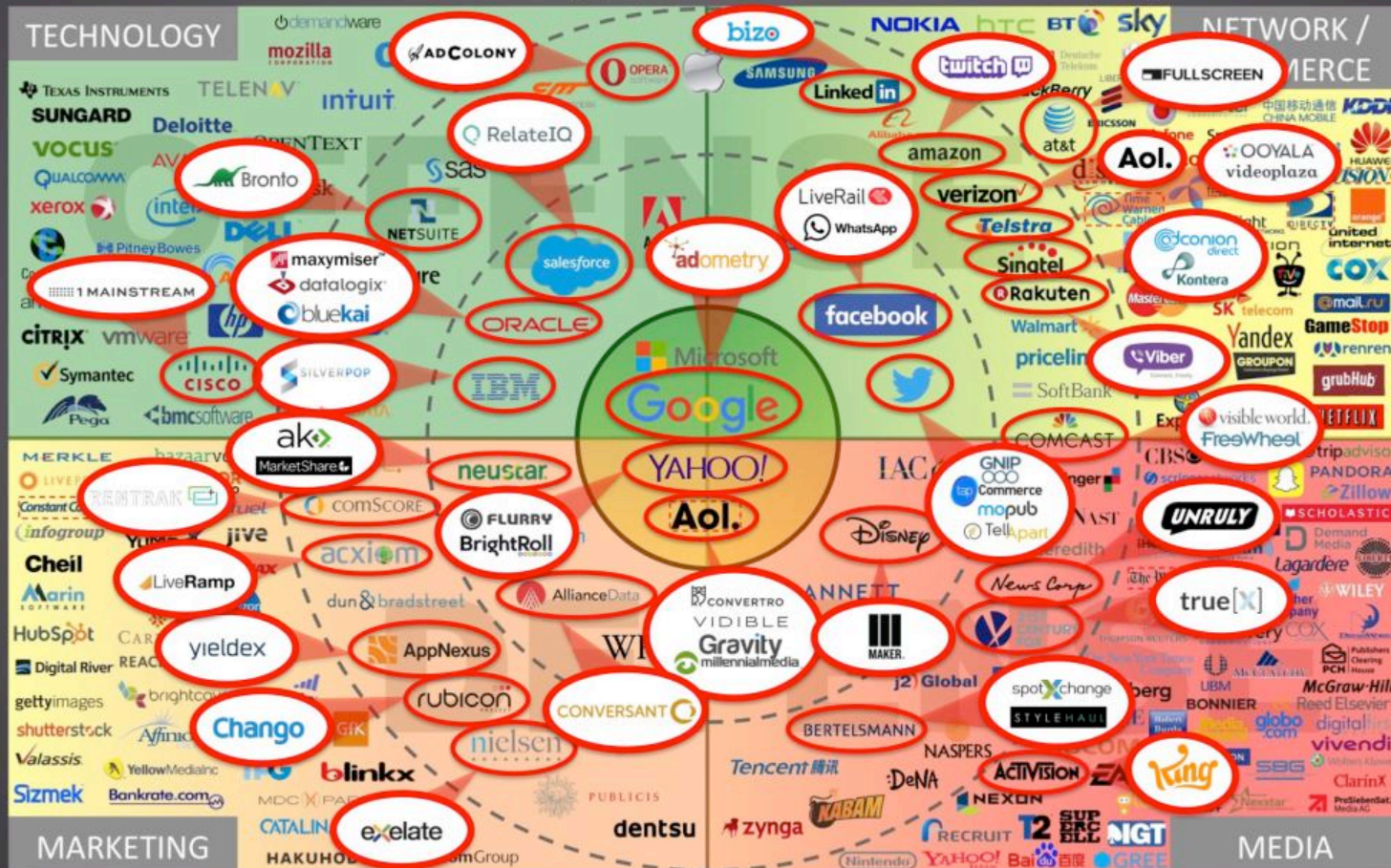
Strategic Buyer LUMAscape



Looking at the recent activity on the Strategic Buyer LUMAscape, we've seen plenty of activity from the usual suspects . . .



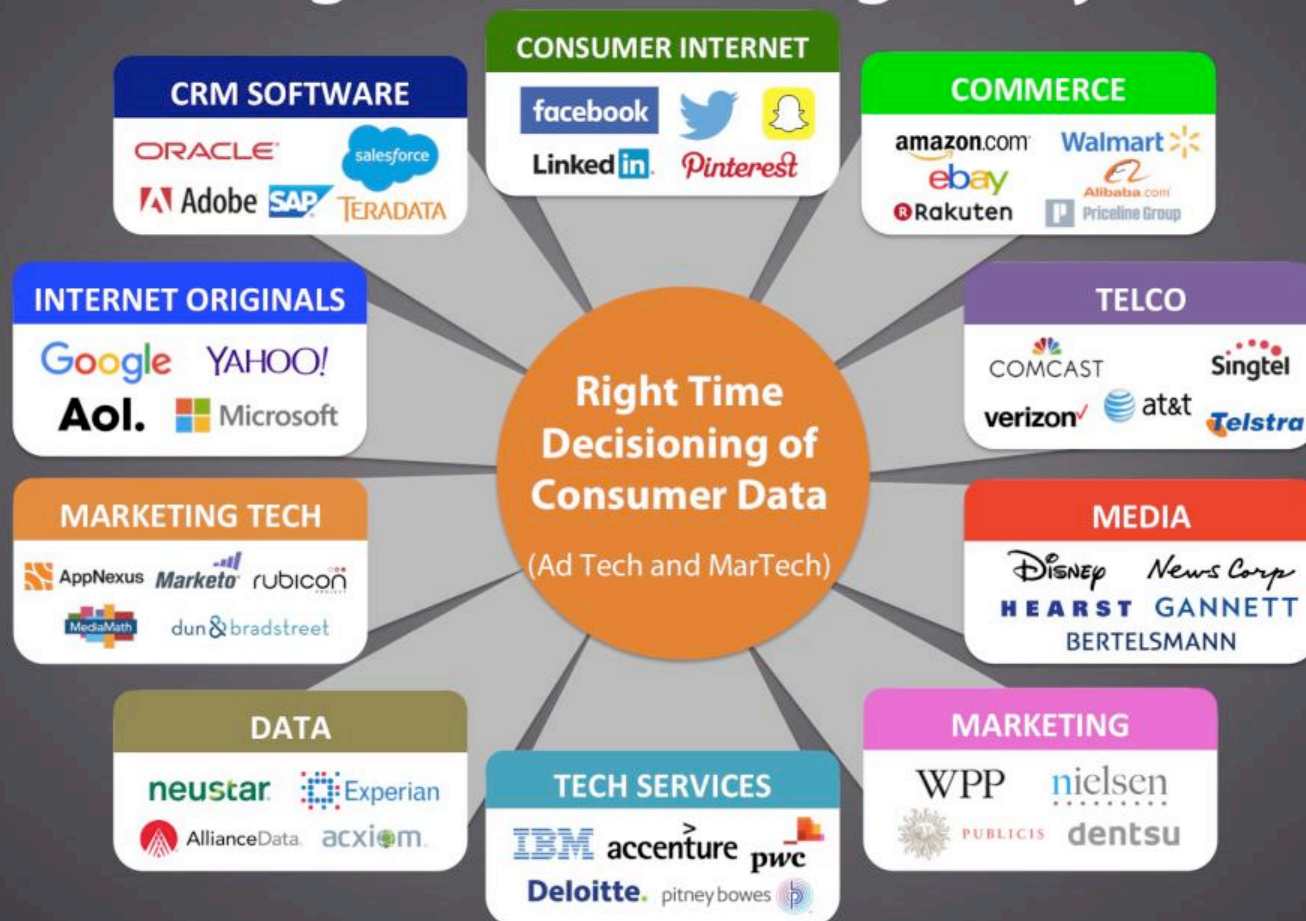
Significant Recent Digital M&A Activity



And increasingly, we're seeing active interest from a growing pool of strategic buyers.



From a Growing Pool of Strategic Buyers



This is the most encouraging trend we see as buyers across an increasingly broad set of industry verticals focus on AdTech and MarTech targets. These buyers bring differentiated customer and data assets driving strategic value and adding dynamic competitive tension for differentiated tech and data driven companies.

Both MarTech and AdTech Lag behind the NASDAQ



But not everything is up and to the right this year . . . the public markets have been much less friendly with both MarTech and AdTech trailing the broader tech index; AdTech has been hit especially hard as we emerge from what has been deemed the “cruel summer.”

Limited MarTech / AdTech IPOs in the Last 2 Years

3

in 2014

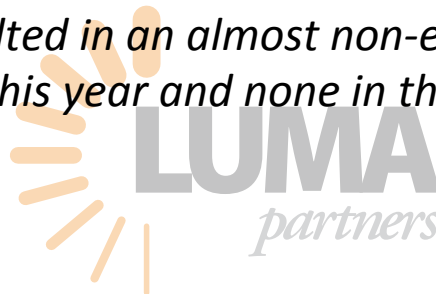


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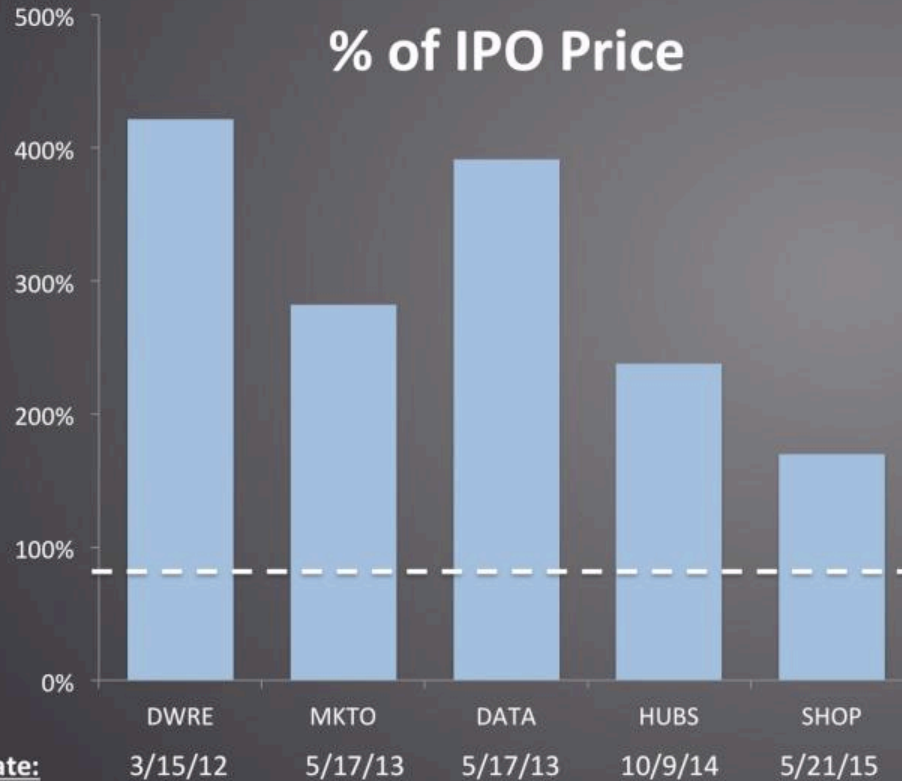
in 2015



Which has resulted in an almost non-existent IPO market seeing only one new issue this year and none in the last half year.



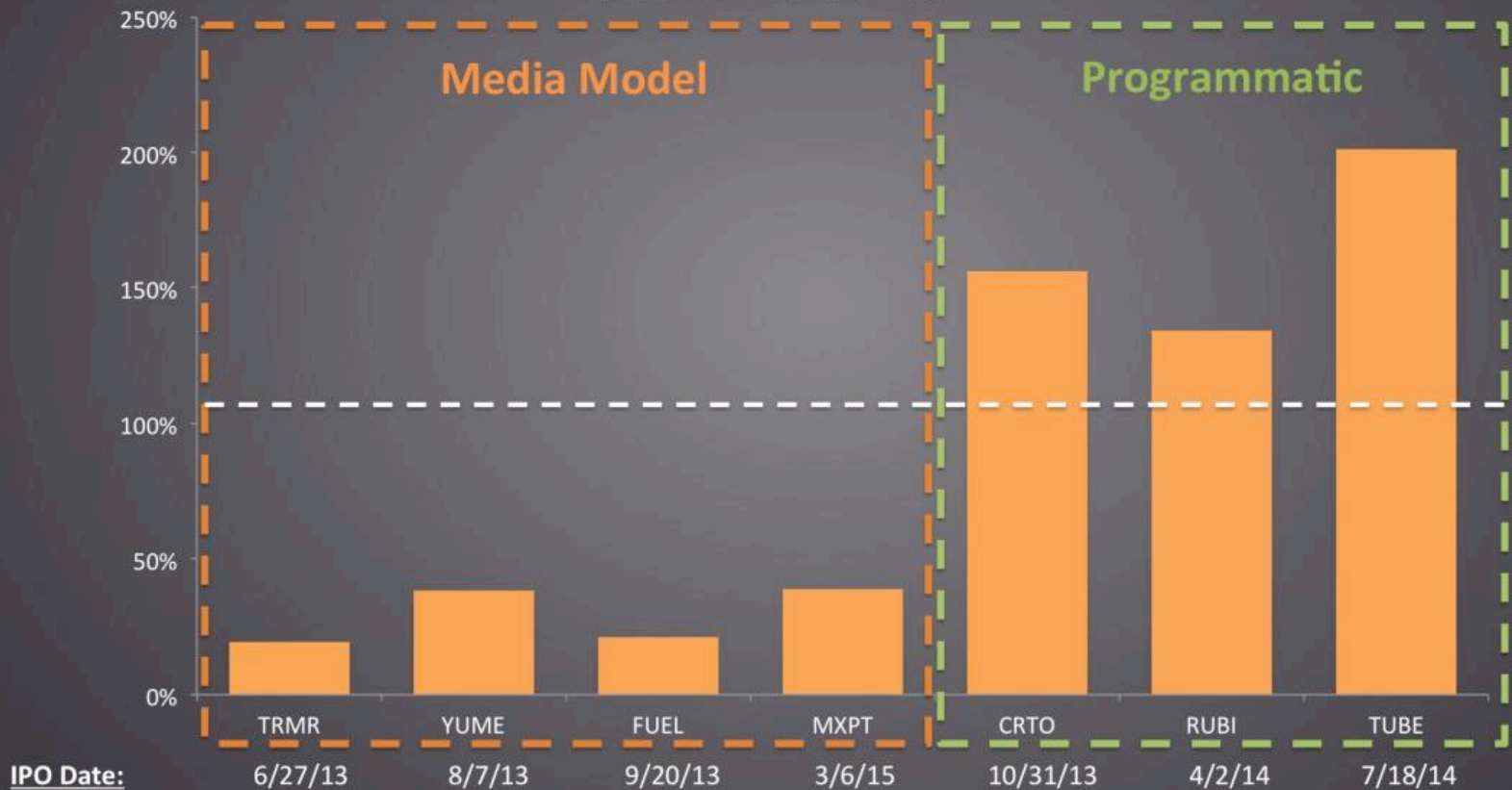
Marketing SaaS Companies Have Traded Strong ... or Been Acquired



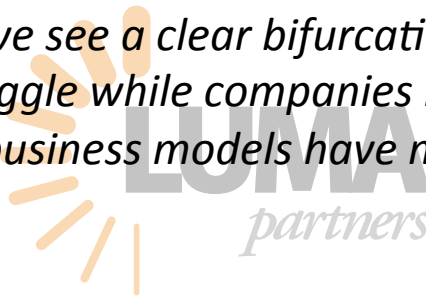
To highlight a few bright spots: while public markets may struggle to fully comprehend and value emerging AdTech and MarTech business models, technology-driven business models are being rewarded. We see this evidenced by the Marketing SaaS companies which have continued to trade well or have been acquired at strategic multiples.

Bifurcation of Programmatic and Media Models

% of IPO Price



And in AdTech we see a clear bifurcation: traditional media models continue to struggle while companies leveraging technology-driven programmatic business models have maintained premium valuations.



Significant Private Financings in 2015



AppNexus



NewsCred

Taboola

Percolate



DEMANDBASE

MAGNETIC™

livefyre

Localytics

blippAR

ALTITUDE
Digital



clypd

OTUNE

TAPAD

RADIUS™

leadspace

iSpot.tv

ScribbleLIVE



The private financing market remains active as we've seen a number of sizable deals in the space. And while we've certainly heard increased chatter about fallen unicorns, this has largely impacted consumer-driven businesses (especially those with immature models) and felt less by companies in our coverage universe.

2. Significant Industry Trends



Every Marketer's Goal:

DRIVE MORE REVENUES!

(at lowest cost)

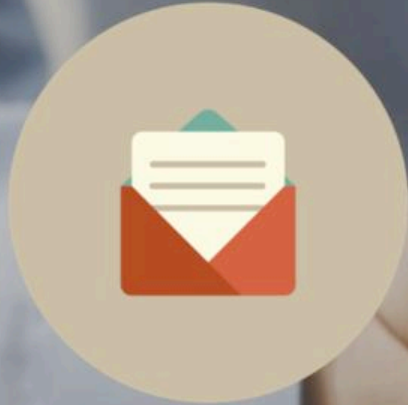
revenue

A hand is shown drawing a glowing blue upward-curving arrow on a dark background. The arrow starts from the left and curves upwards towards the right, ending in a bright blue arrowhead. The hand is holding a blue marker.

Sometimes the goal that marketers are trying to achieve gets lost in all the noise when discussing marketing trends, companies or technologies. But the goal is clear: drive more revenues... at the lowest cost.



Optimize the Customer Experience



The Right Message



The Right Time



The Right Person



A key focus area for marketers trying to achieve this goal is to optimize the customer experience through delivering the right message at the right time to the right person. From the “marketing clouds” down to small start-ups, technology vendors are focused on providing solutions to enable this (or at least an element of this) for their clients.

“Big Data” Powering Data Driven Marketing

Predictive Analytics

- Web & Email Personalization
- B2B Lead Gen / Lead Scoring
- Mobile Lifecycle Management
- Content Marketing

Identity

- User profile
- Cross-device
- Online-offline



Two recurring technology themes we hear from MarTech vendors that are focused on the customer experience is the use of “Predictive Analytics” (which enables the “right message at the right time”) and “Identity” (which enables the message to be delivered to the consumer on whatever device they may be on).

Top Digital Marketing Trends



Top Trends

1. **Mass Personalization
(Cross-Channel)**
2. **Content Marketing**
3. **Mobile: Lifecycle
Management**
4. **B2B Marketing**
5. **AdTech / MarTech
Convergence**



Top Digital Marketing Trends



Top Trends

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Management**
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Convergence**



1:1 Marketing

Brand Advertising



Name?
Sex?
Age?
Location?
Interests / Preferences?

A white rectangular box with a thin black border. On the left side, there is a black silhouette of a person's head and shoulders. To the right of the icon, the following text is listed in red: 'Name?', 'Sex?', 'Age?', 'Location?', and 'Interests / Preferences?'.

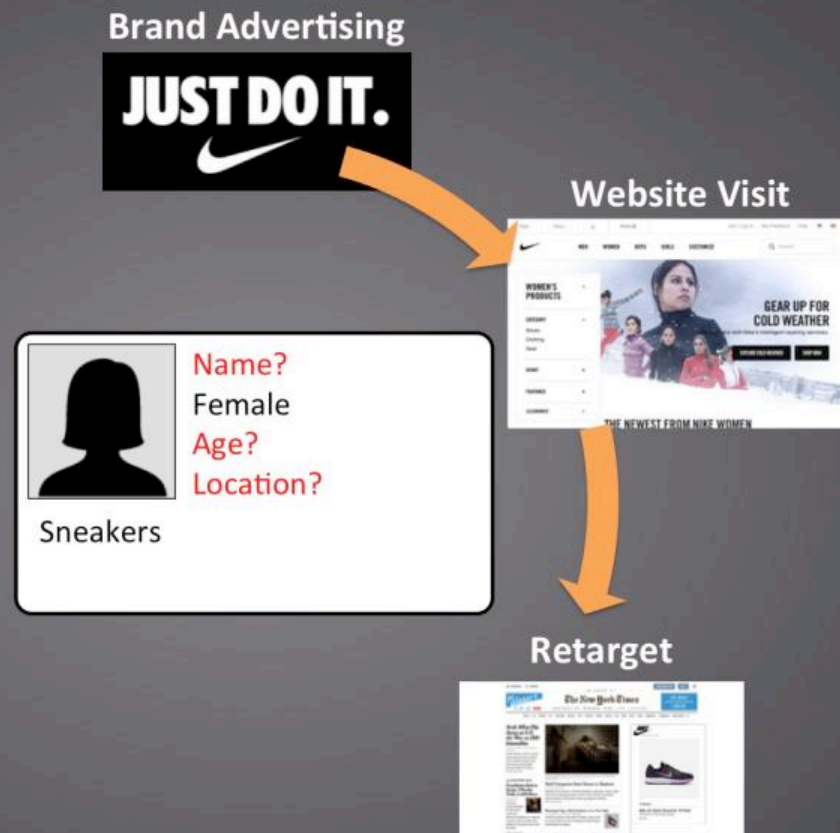
The state of personalization has advanced rapidly in the past five years. Not long ago personalization tools were very manual and / or broad-brush. But now, with “big data” (and predictive analytics / identity), 1:1 personalization has become a reality (though is still nascent in its adoption by marketers).

1:1 Marketing

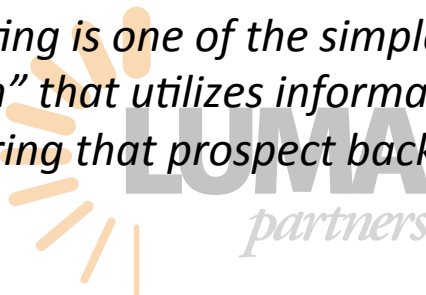


In every interaction, such as a brand ad driving a consumer to look at women's shoes on a website, marketers can start creating a profile of that user to more intelligently target future interactions.

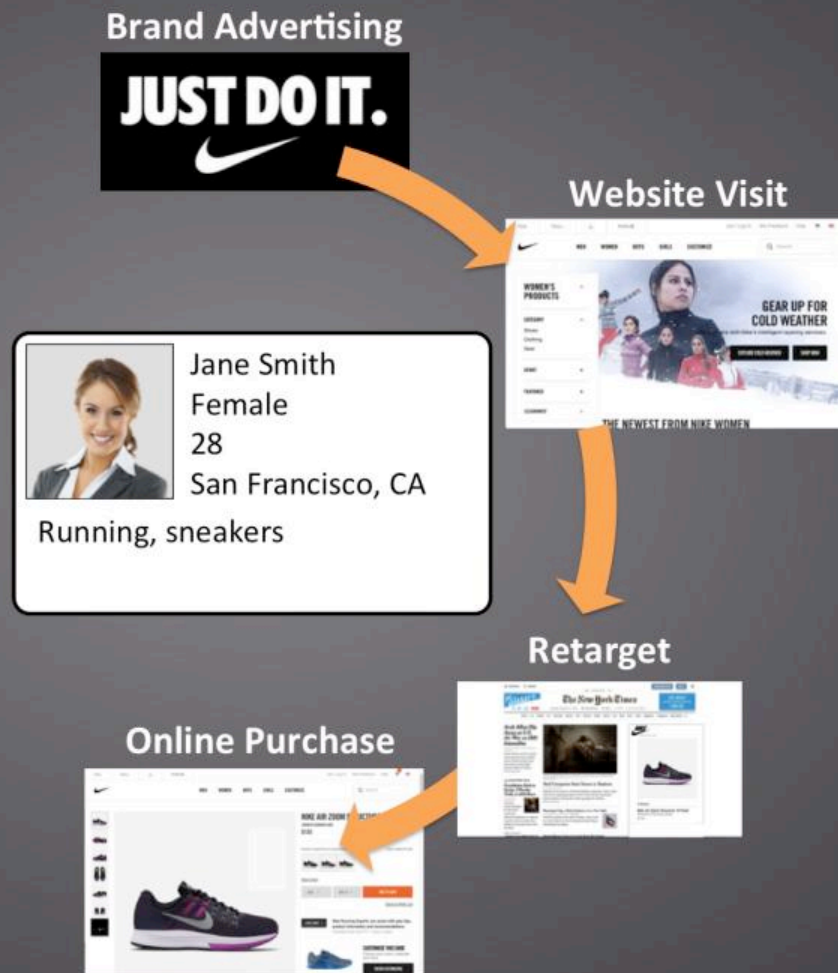
1:1 Marketing



Display retargeting is one of the simplest, and most effective, uses of "personalization" that utilizes information derived from a site interaction to bring that prospect back to the website.



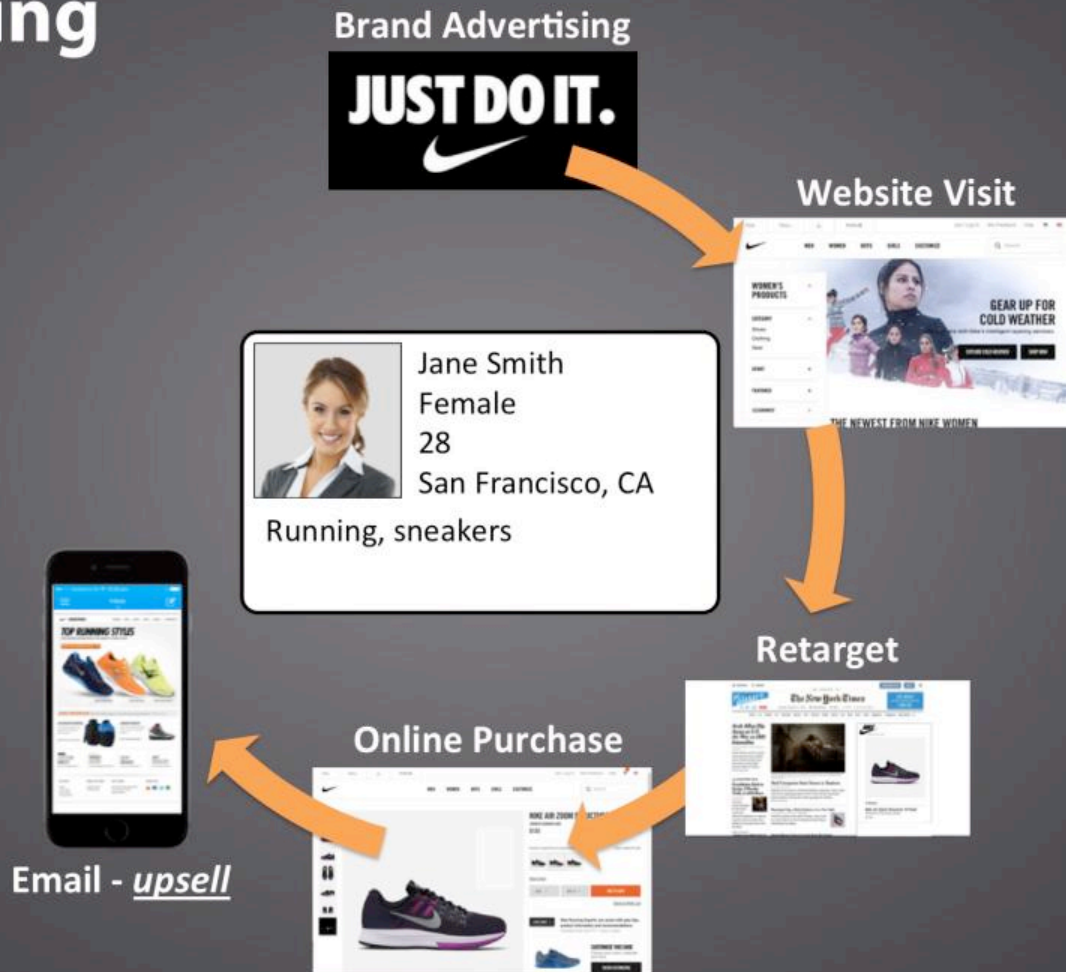
1:1 Marketing



Once a user becomes known, such as when she makes a purchase, it opens up even more marketing channels, such as email (and other email-centric targeting solutions such as Facebook Customer Audiences or Twitter Tailored Audiences),



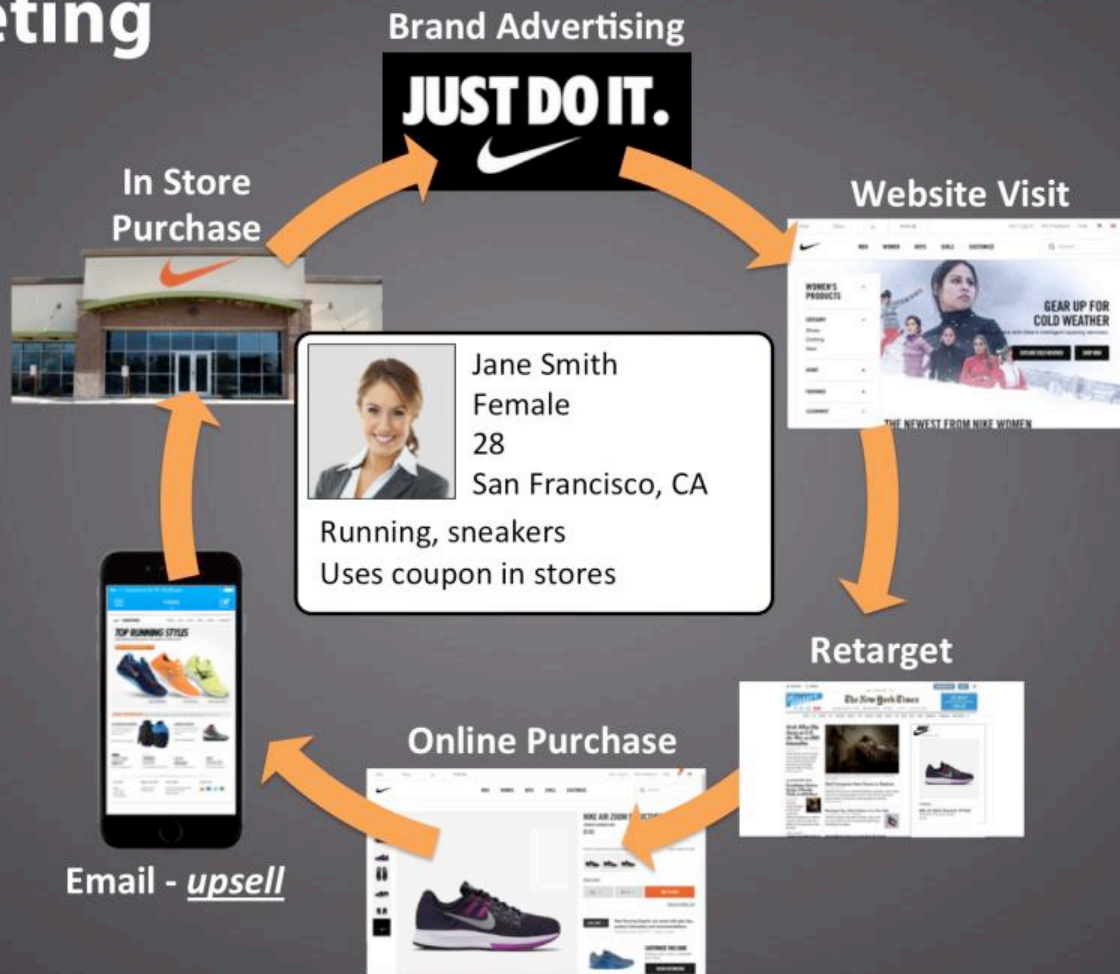
1:1 Marketing



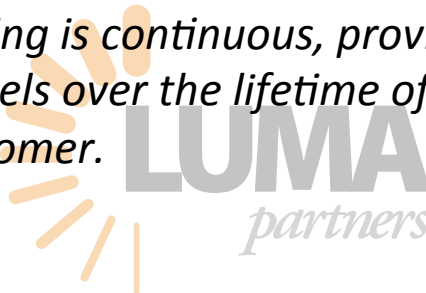
Now, instead of just a “blast” email program, 1:1 marketing enables “triggered” emails that can be personalized specifically for each individual. These emails can be personalized with specific content / products / offers as well as optimize the send times (by sending at the times each user has the highest probability of opening the email).



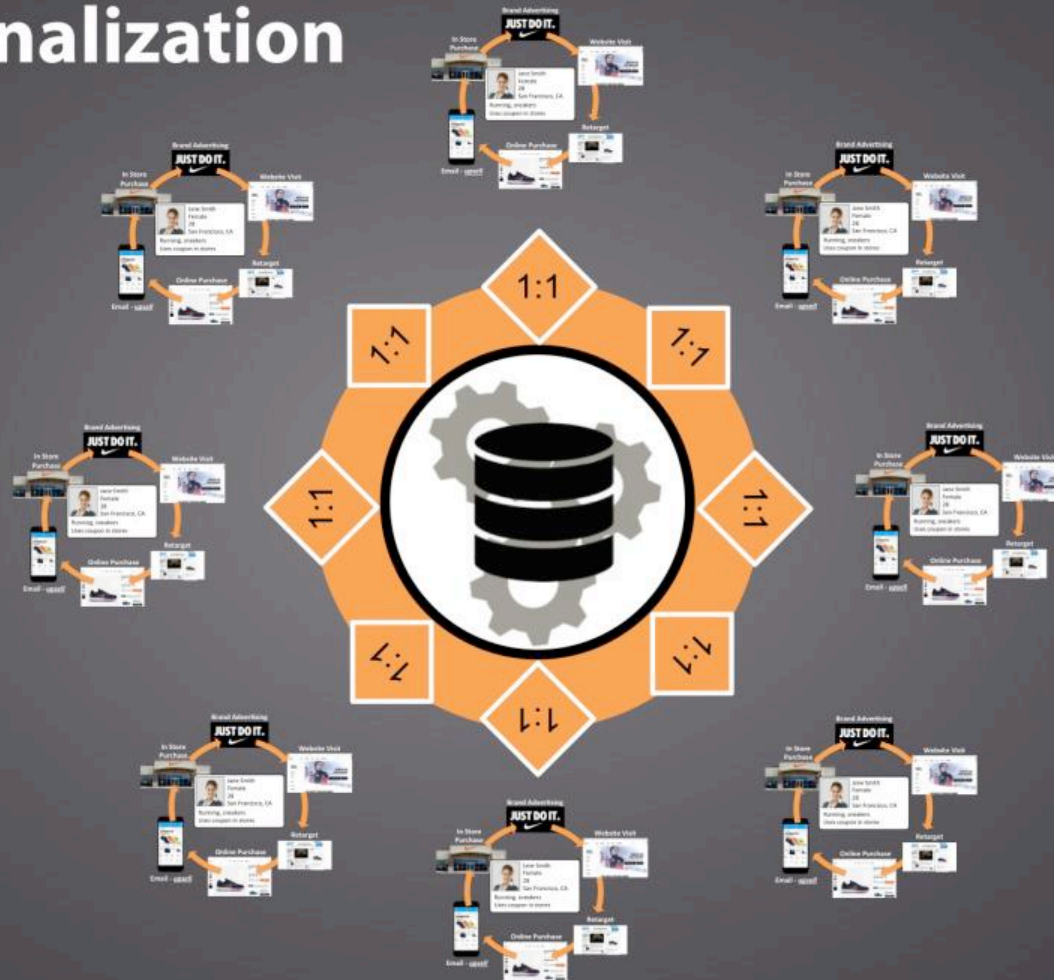
1:1 Marketing



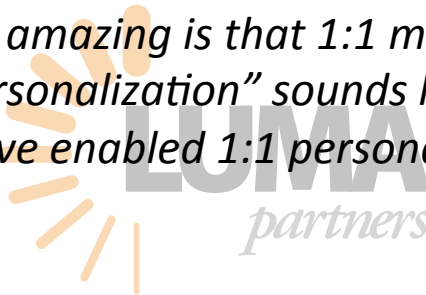
This 1:1 marketing is continuous, providing that consistent experience across all channels over the lifetime of a customer, which increases the LTV of that customer.



Mass Personalization



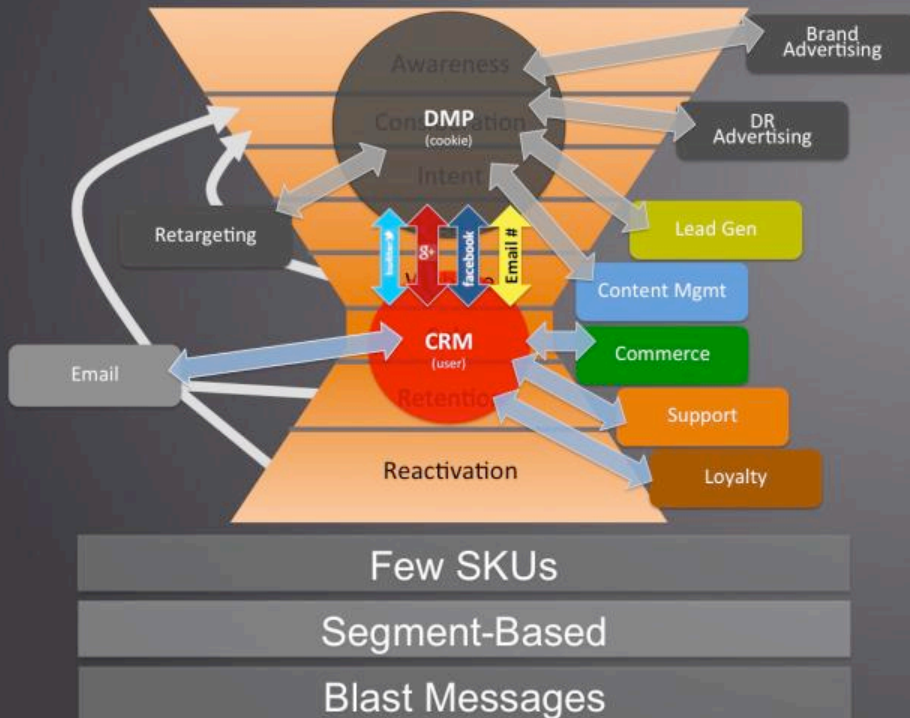
Further, what is amazing is that 1:1 marketing is happening at scale. While “mass personalization” sounds like an oxymoron, big data technologies have enabled 1:1 personalization to finally be delivered at scale.



Mass Personalization: Enabling Technologies

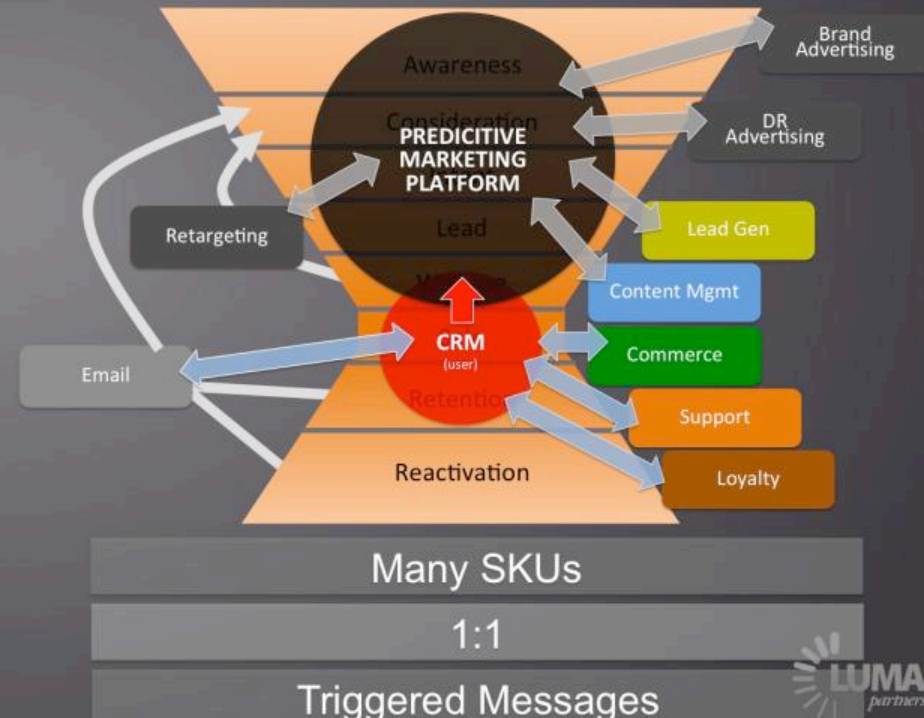
Brand

CPG | Financial Services | Entertainment



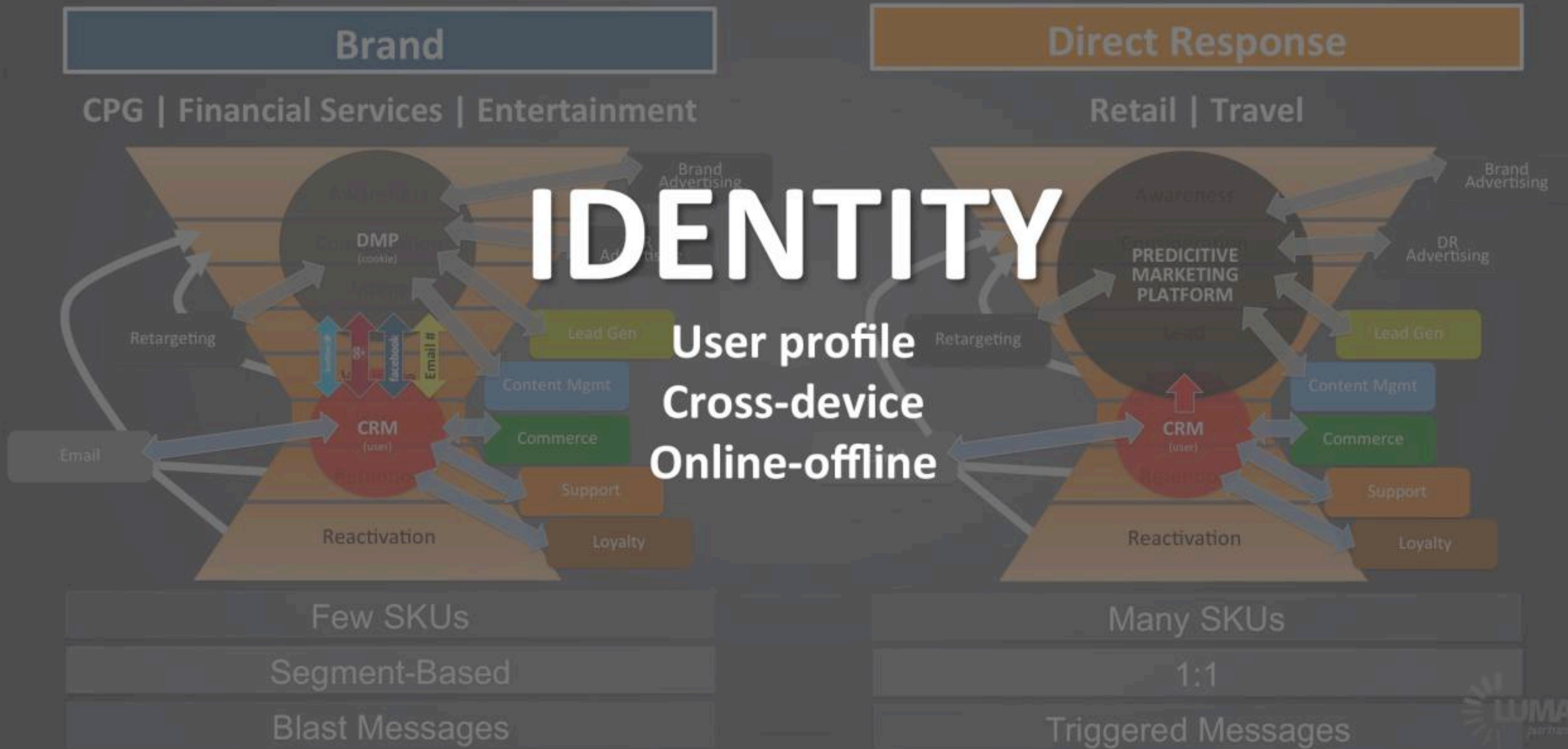
Direct Response

Retail | Travel



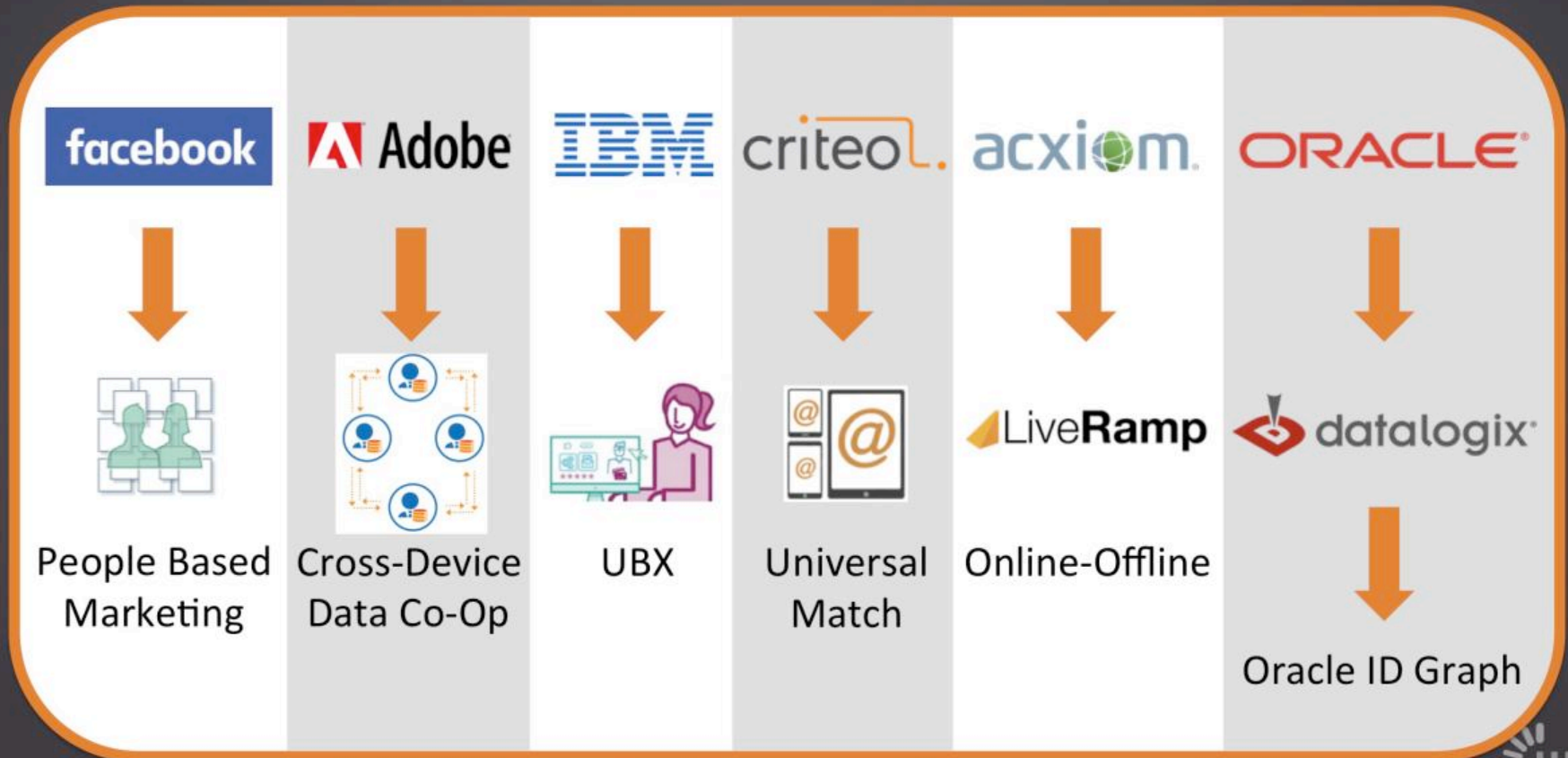
At LUMA, we started using the chart on the left years ago to discuss the role of the data management platform (DMP), which was to manage cookies (and now mobile IDs and other identifiers) to unite the upper portions of the funnel. In the past couple years, “predictive marketing platforms” have emerged for 1:1 marketing (particularly for retail), with DMPs being used more for segment-based marketing.

Mass Personalization: Enabling Technologies



But “identity” is critical for all marketing, whether it be segment-based or 1:1. To provide that consistent customer experience, and to be able to provide the right message at the right time, marketers need to create a user profile and then be able to find that user on whatever device he / she may be on.

“Identity” Recent Developments



The importance of “identity” is clear. Facebook has long focused on, and had significant success with, its “people-based marketing” solutions. Other large software vendors have responded with acquisitions (such as LiveRamp and Datalogix), or organic development / partner programs.

Top Digital Marketing Trends



Top Trends

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2. Content Marketing
3. Mobile: Lifecycle
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5. AdTech / MarTech
Convergence

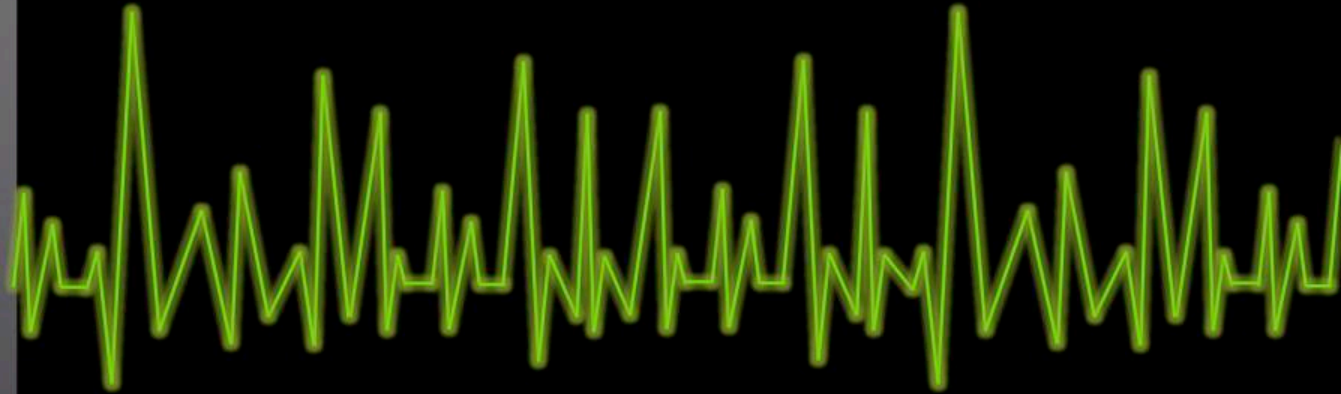


The Evolution of the Marketing Cycle

Legacy Marketing Cycle



Today's Marketing Dynamic



Marketers used to have the luxury of being able to develop marketing campaigns and craft all the necessary marketing materials with timelines set by the marketer. However, in today's world with Facebook, Twitter and 24/7 news cycles, the marketing dynamic is much more real-time and dynamic – and marketers must adjust to this.

Traditional Marketing Practices: Siloed



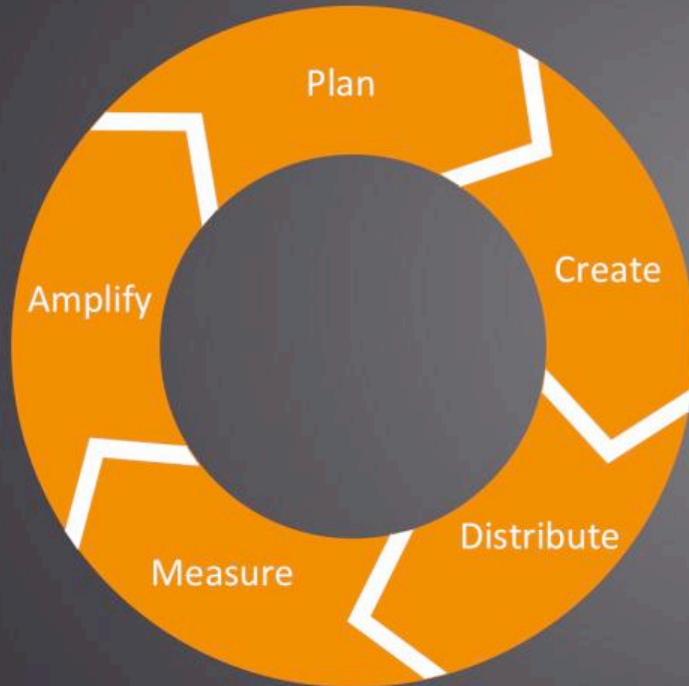
Issues

1. Inconsistent Customer Experience
2. Multiple Content Repositories / Little Content Re-use



However, traditional marketing was generally organized and executed in silos. Web teams running the website, email teams managing the email program, etc. But this type of approach created an inconsistent customer experience. Additionally, since different teams create specific content in separate systems, there is difficulty in discovering and re-using existing content.

Content Marketing Lifecycle



“...we see a huge value in **investing in content** and it truly is how you **create great content** and the **distribution plan** you put in place for that content...We’ve looked at ways to put it into our paid media plan, **amplify** it that way...we work on our **media optimization** daily.”

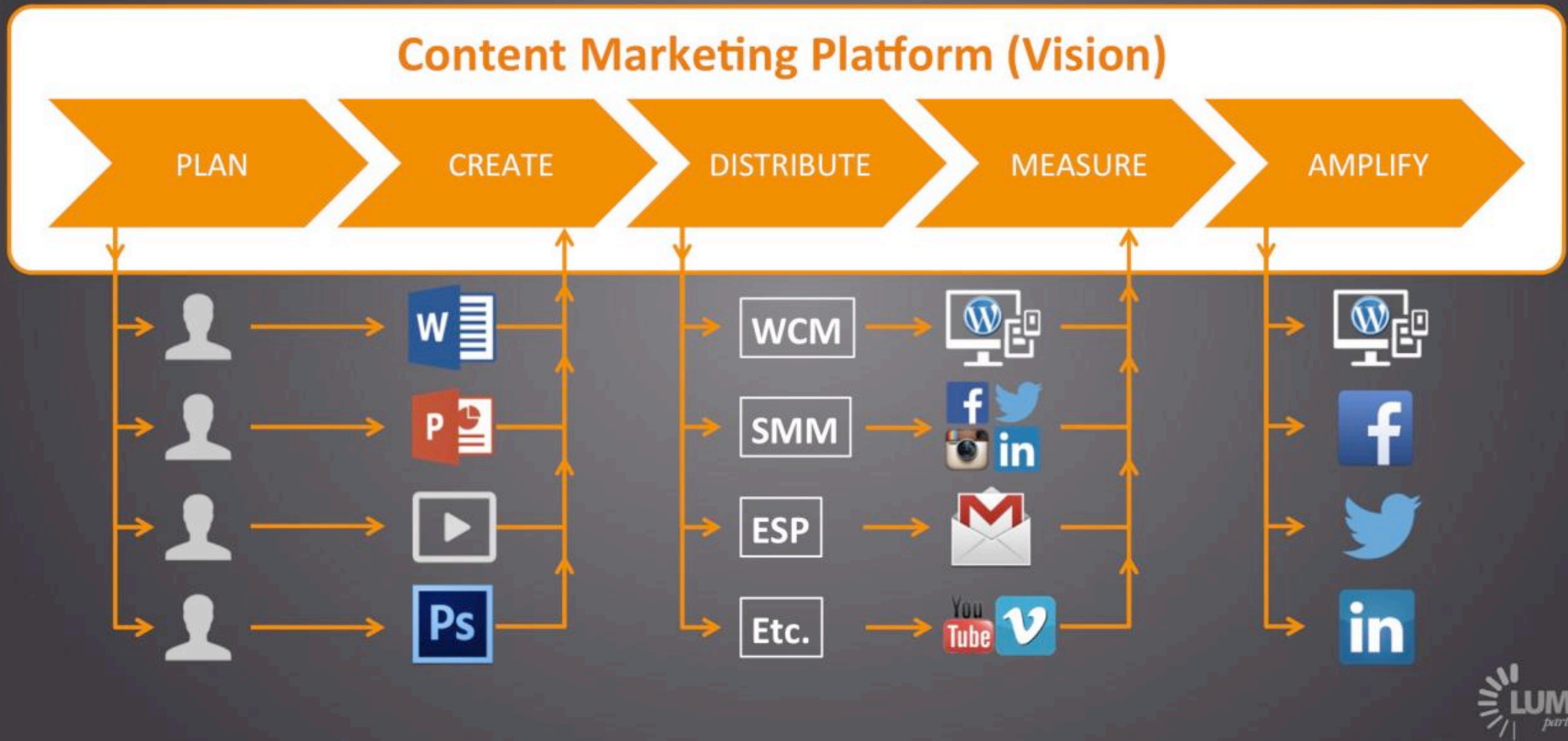


Rebecca Brown



To break down these silos, leading marketers have created integrated content marketing programs. As an example, Intel employs teams that create content every day, deploy that content in a coordinated fashion across channels, determine what content is resonating and then amplify that content across paid channels.

Content Marketing Platform Vision



And we have seen software companies emerge to enable efficient and effective content marketing programs. Companies such as Kapost, NewsCred, Percolate, ScribbleLive and others are focused on providing integrated platforms to plan, create, manage, distribute, measure and amplify marketing content.

Top Digital Marketing Trends



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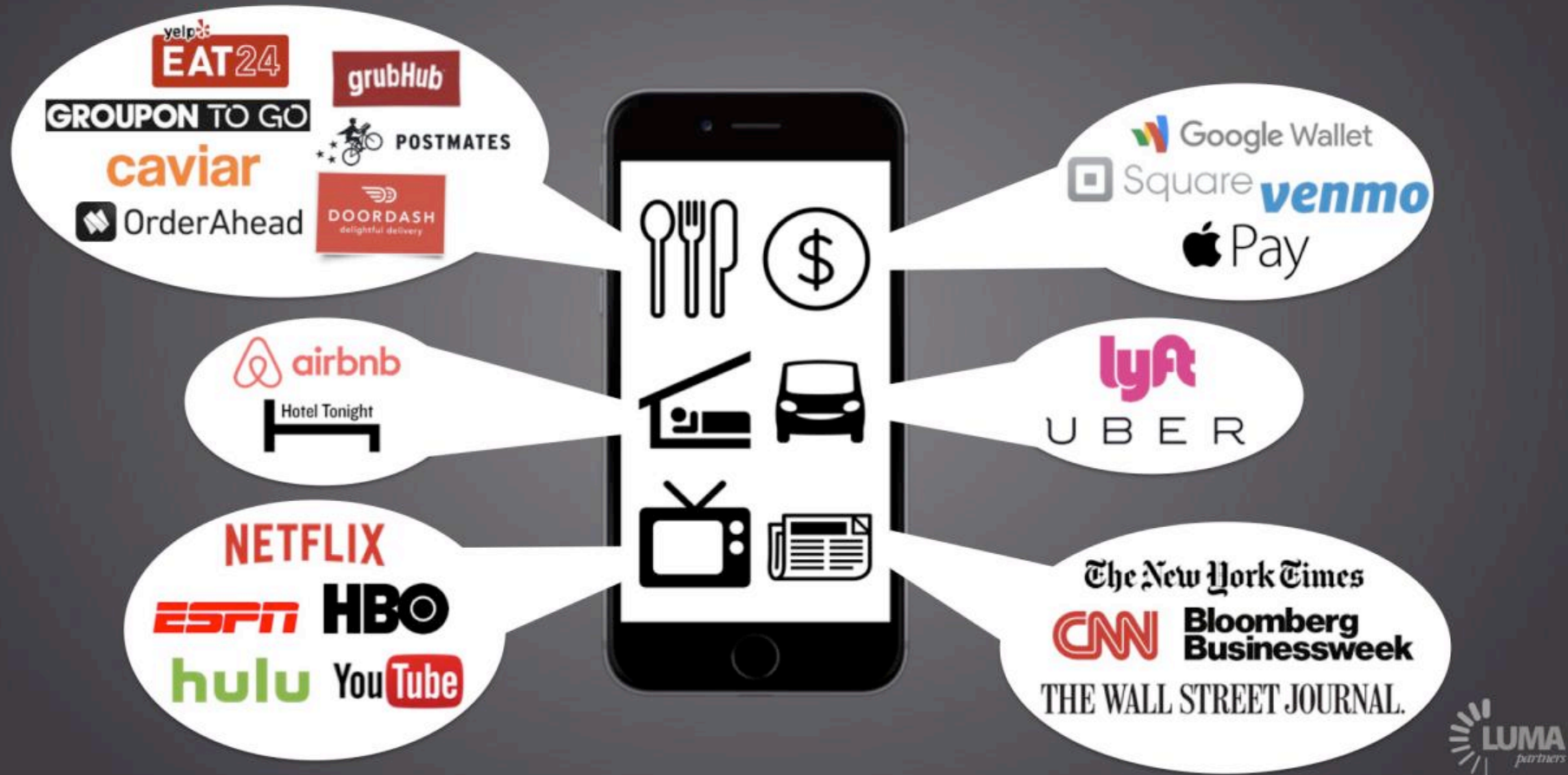
Mobile Devices: The Remote Control for our Lives



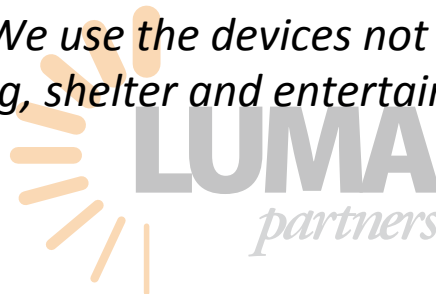
I recently heard a comment that mobile devices “are the remote control for our lives.”



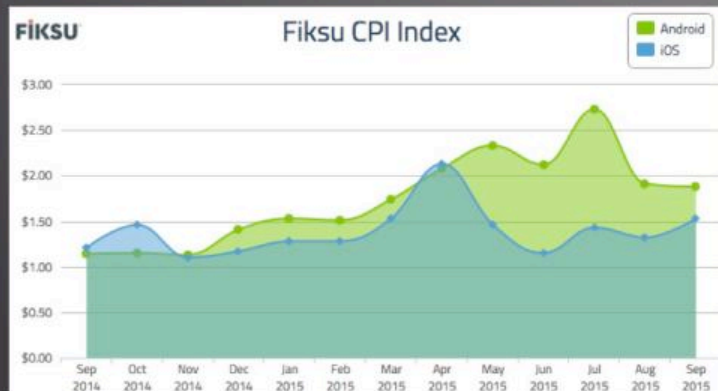
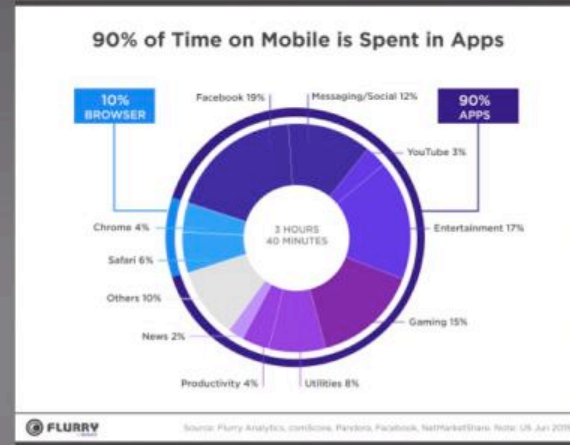
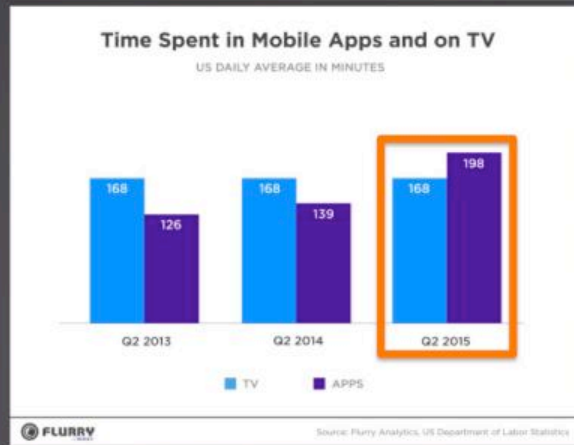
Mobile Devices: The Remote Control for our Lives



And it is true! We use the devices not only for communications, but for food, lodging, shelter and entertainment.



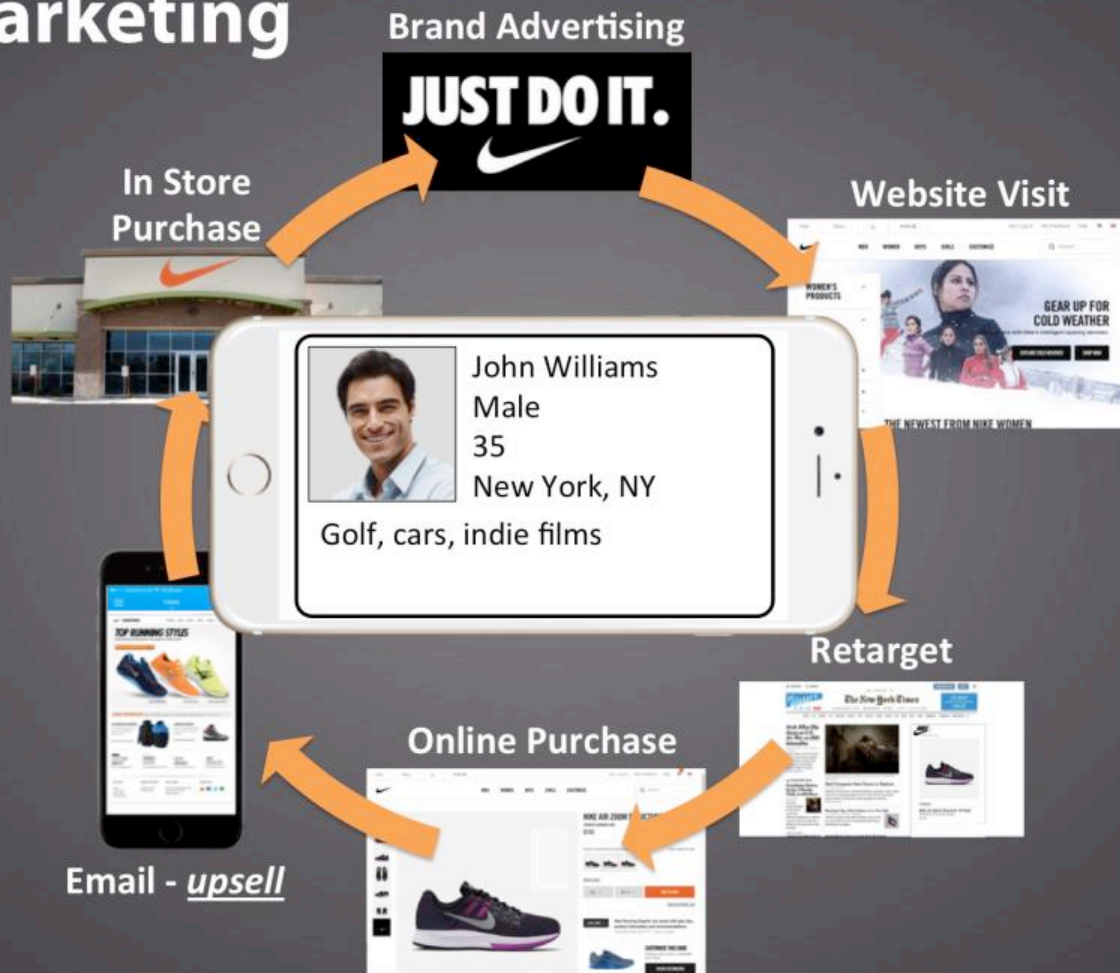
Mobile App Dynamics



So it is no surprise that this year, 2015, we use mobile apps more than we watch TV and that 90% of our time spent on mobile devices are with apps. But with over 1.5 million apps in both the Apple App Store and in Google Play, customer acquisition is a challenge with the cost to acquire a loyal user now over \$4.00.



Mobile Marketing



With high user acquisition costs, and the fact that most apps are free, it is an imperative for mobile marketers to maximize the LTV of each user. Therefore, just like in the “mass personalization” discussion previously, mobile marketing has taken off – with the user profile / ID critical to coordinate the user experience.

Mobile Marketing



Mobile marketing platforms are utilizing tried-and-true methodologies such as A/B testing, retargeting and deep analytics. Additionally, in-app messaging, push notifications and email are triggered to improve the experience, bring back lapsed users or upsell virtual goods or services. Finally, we have just started to see these platforms be used for general purpose marketing for mobile-centric companies, displacing traditional ESPs.

Top Digital Marketing Trends



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B2B Marketing



For a long time, B2B Marketing did not advance nearly as rapidly as B2C. Salesforce.com dominated the sector with its CRM platform. Then marketing automation vendors helped drive more qualified leads into the marketing funnel. But sales teams continued to demand more leads and better leads!

B2B Marketing



Key Trends:

1. Account Based Marketing
 - Right Message at Right Time to Right Accounts
2. Predictive Analytics
 - Identify Prospects
 - Intelligent Lead Scoring



Two trends have emerged recently in B2B marketing. First, Account Based Marketing is focused on delivering the right message at the right time to the right accounts – since companies are the “buyers” in B2B, not consumers. Therefore systems need to be designed specifically for accounts and provide a consistent and personalized experience for those accounts.

B2B Marketing



Key Trends:

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**Drive Revenues
(at lowest cost)!**



Additionally, predictive analytics are now being utilized in B2B marketing in order to 1) intelligently identify new prospects that should be targeted, and then 2) score each opportunity so that expensive direct salespeople are focused on the highest-value opportunities that have the highest probability of closing. Therefore, driving revenues at the lowest cost!

Top Digital Marketing Trends

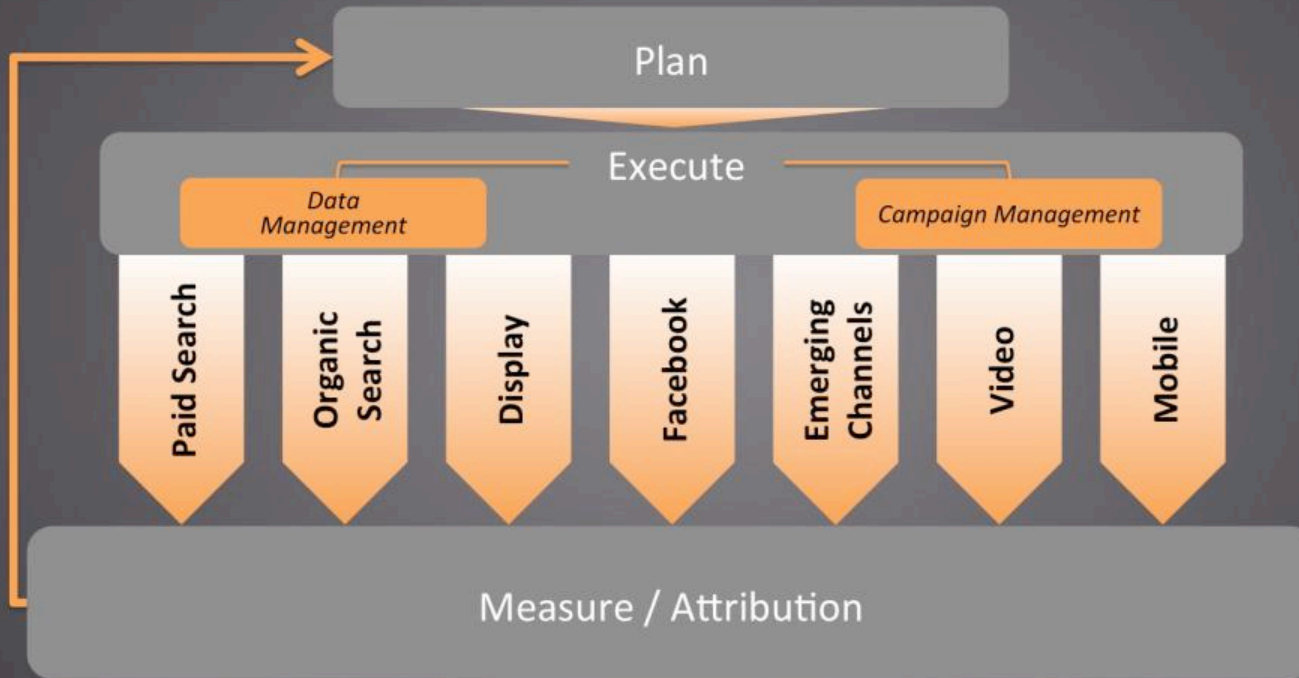


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Digital Advertising: “The Dream”



If you were to draw up a fully integrated advertising platform for enterprises, it would look something like this – integrated planning, execution and attribution with common data and campaign management, and a feedback loop to the planning software to adjust / optimize spend.

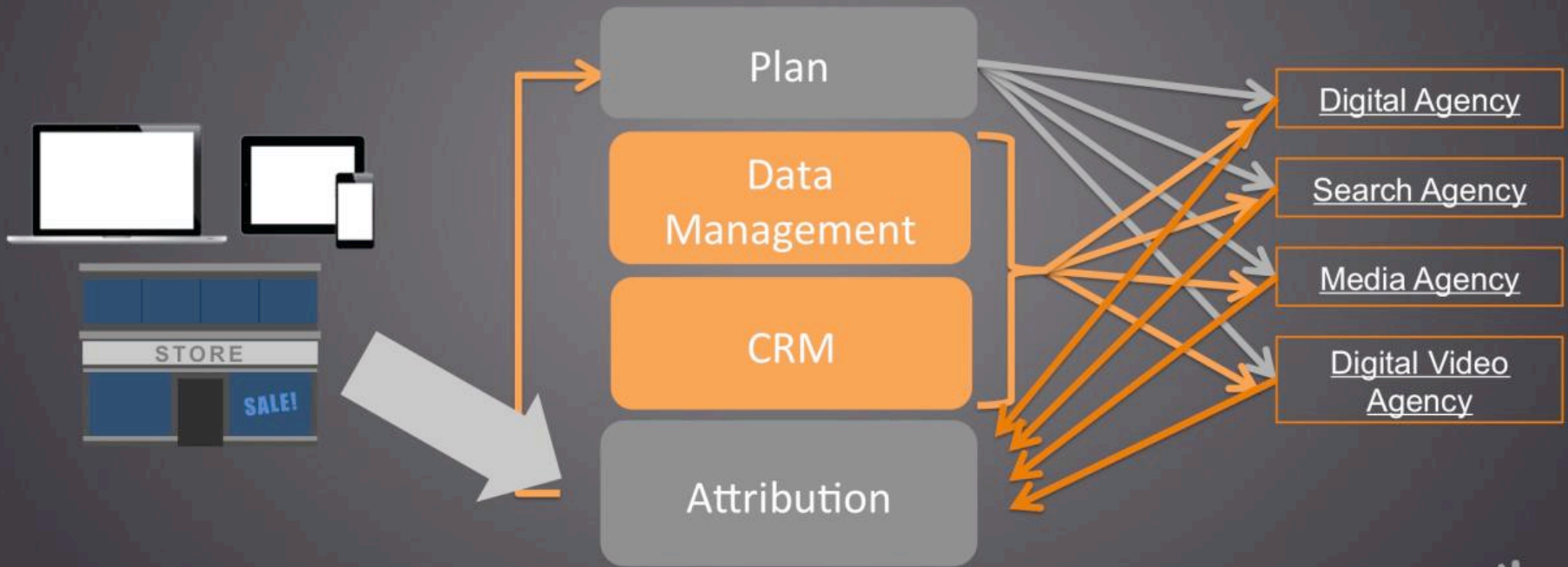
Digital Advertising: "The Reality"



However, the reality is different. Execution of marketing campaigns – especially media campaigns – are typically performed outside the enterprise. Digital agencies running digital programs, media agencies executing TV buys, and many other specialized networks for other channels. And each entity is planning and measuring its campaigns / channel independently.

Digital Advertising: The Enterprise Stack

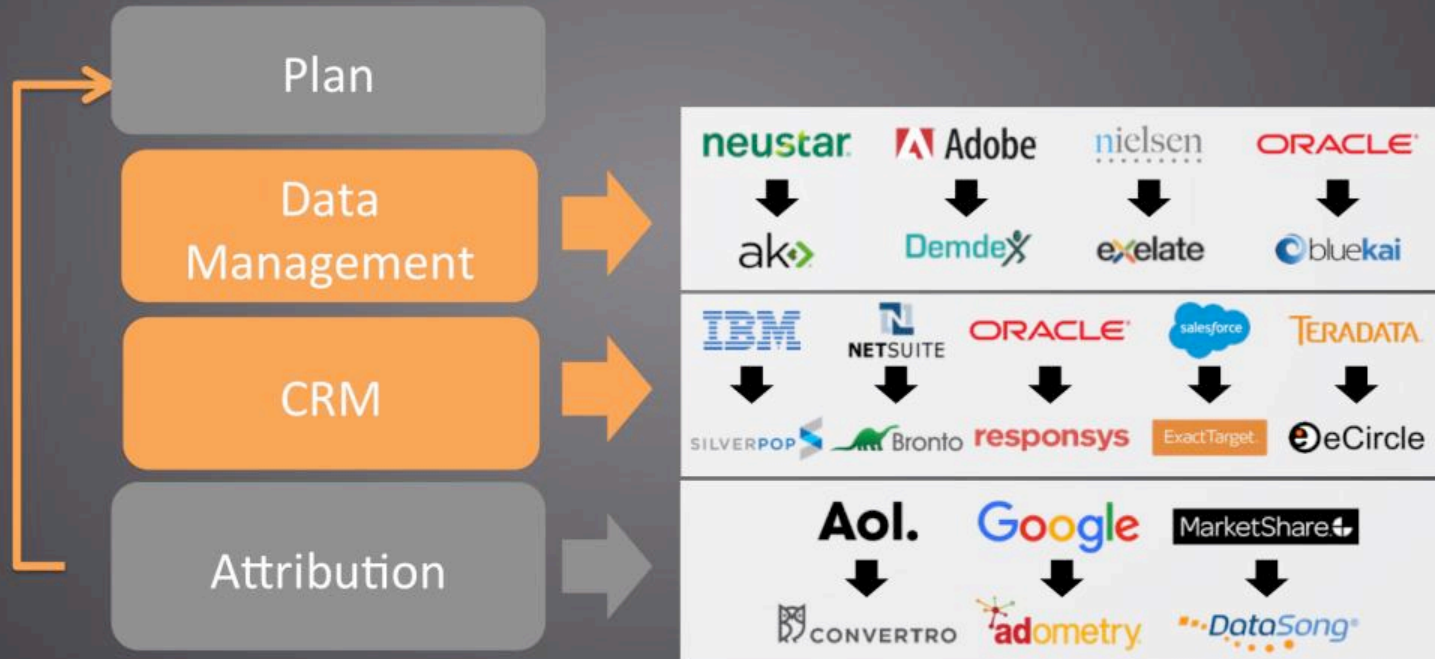
“The Intelligence Layer”



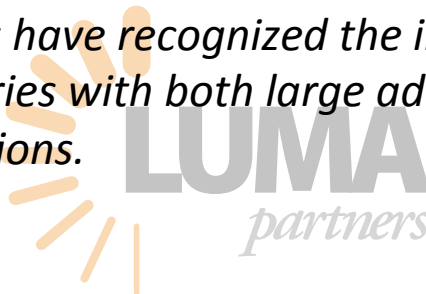
But there is an “enterprise stack” emerging. A planning solution to allocate the spend among marketing and advertising channels. In today’s data-driven marketing world, systems to manage, segment and activate data is required: a DMP to manage anonymous data and a CRM solution to manage customer data. Finally, an attribution system to measure results – and to continually optimize the marketing efforts.

Digital Advertising: The Enterprise Stack

“The Intelligence Layer”

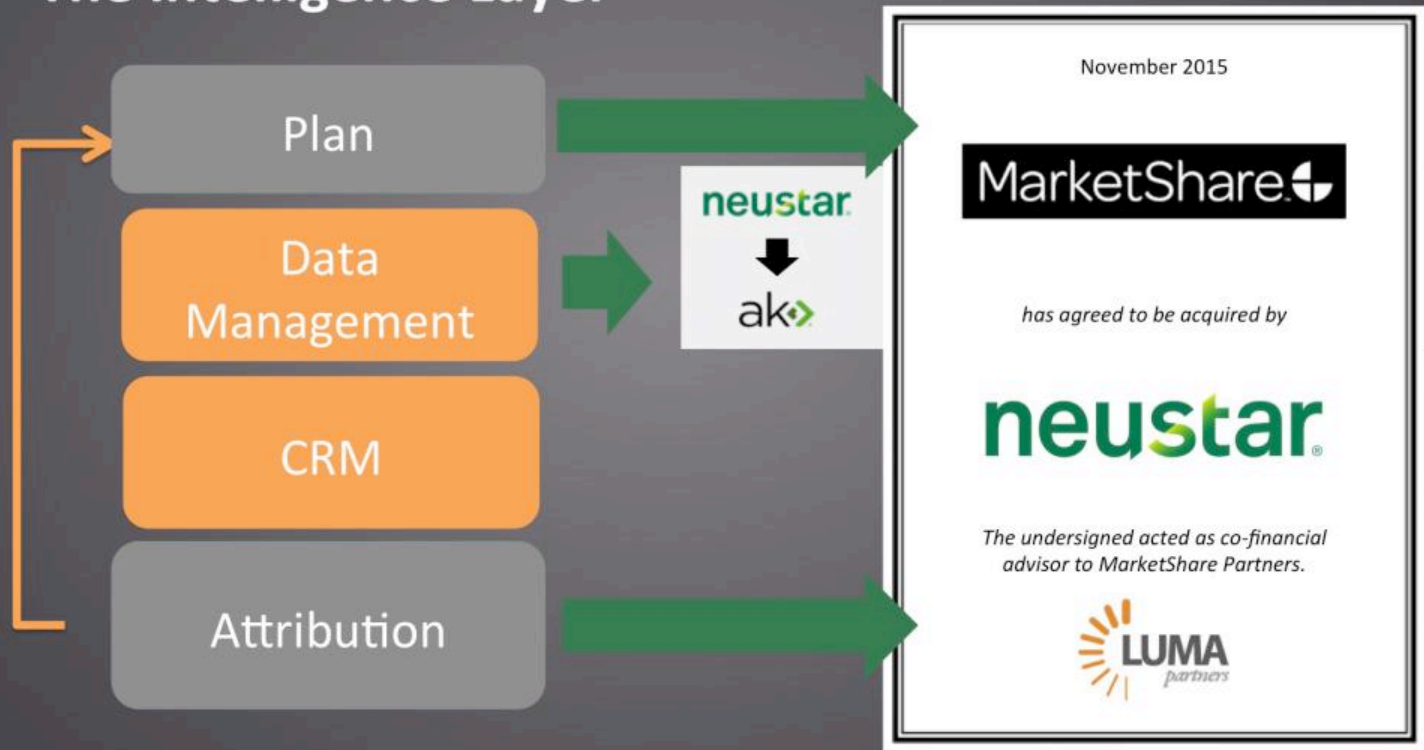


Strategic buyers have recognized the importance and strategic nature of these categories with both large advertising and software vendors making acquisitions.

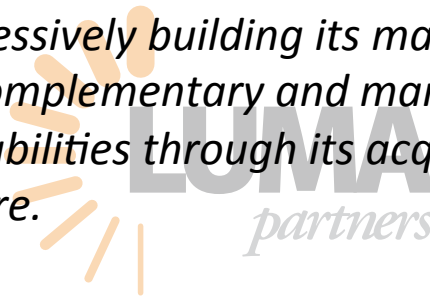


Digital Advertising: The Enterprise Stack

“The Intelligence Layer”



Neustar is aggressively building its marketing solutions business and now has very complementary and market-leading DMP, planning and attribution capabilities through its acquisitions of Aggregate Knowledge and MarketShare.



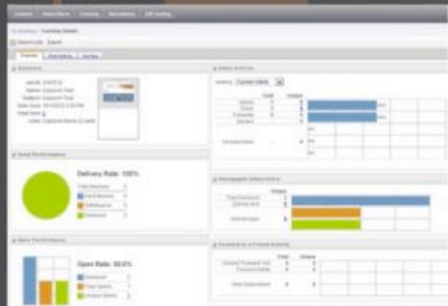
Digital Advertising: "The Reality"



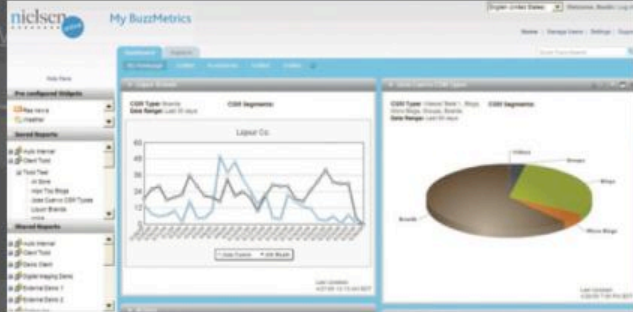
Another aspect created by the distributed aspect of execution is that it makes it difficult for marketers to get a true understanding of what is happening across their marketing activities. The good news is that today's systems generally have robust analytics and reporting...

Digital Advertising: "The Reality"

Enterprise



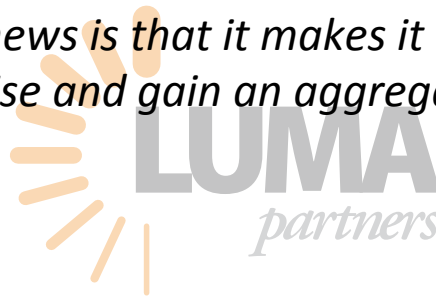
Agencies



Networks



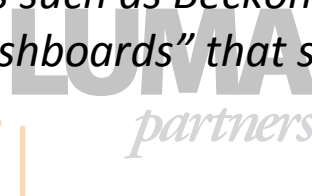
... but the bad news is that it makes it very difficult for marketers to sift through the noise and gain an aggregated view of their business.



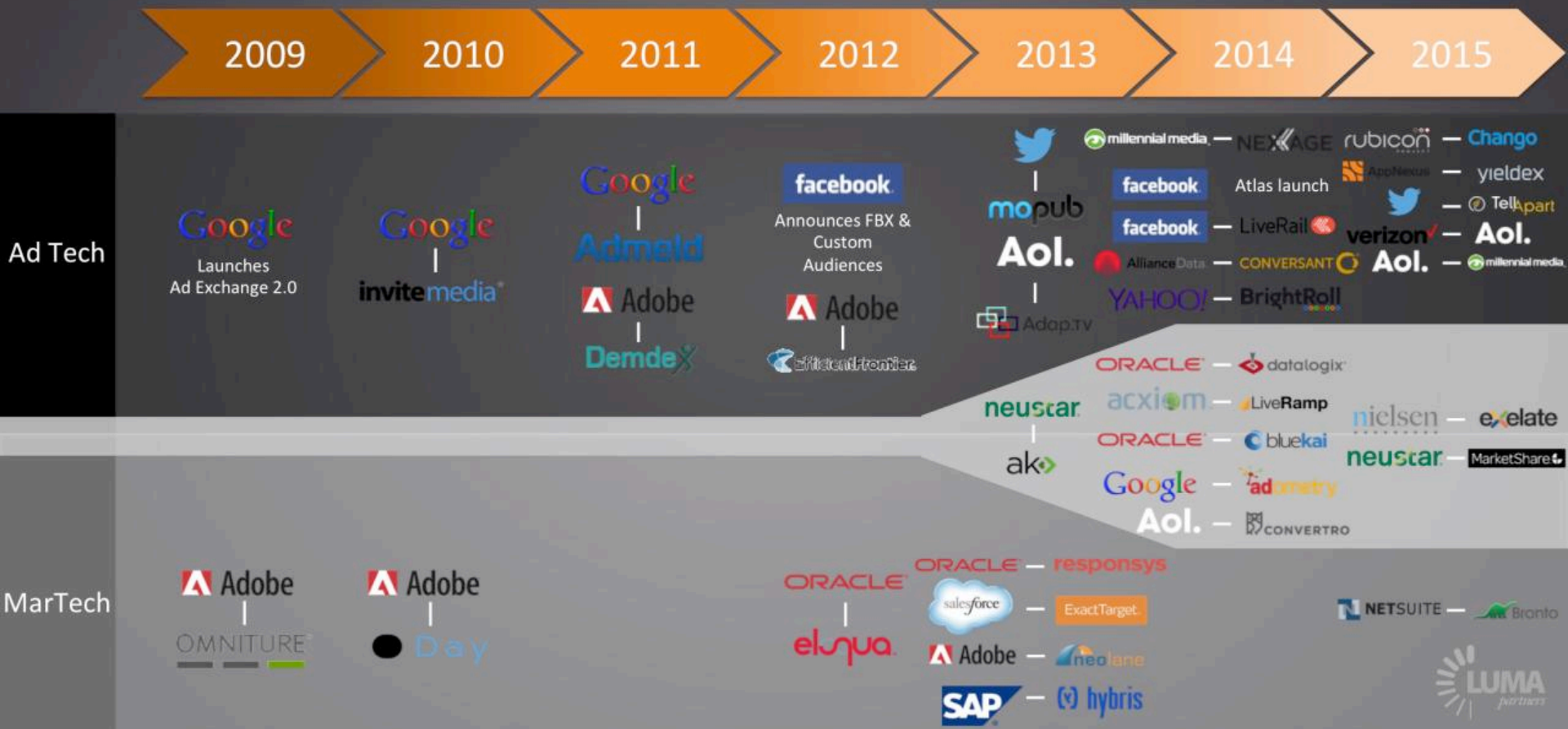
"CMO Dashboard"



To solve this issue, there are innovative start-ups attacking this challenge. Companies such as Beckon and Origami Logic are providing robust SaaS "CMO Dashboards" that surface the most critical metrics marketers require.



Convergence of Ad Tech and MarTech



The unifying element between AdTech and MarTech is data-driven marketing. There have been many acquisitions of AdTech companies and an accelerating number of MarTech deals as well. But a key strategic area is the convergence of these markets (the gray area), where large software and media companies are acquiring data-centric capabilities: marketing planning, DMPs, online-offline data and attribution.



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New York | San Francisco | Palo Alto

We hope you enjoyed the presentation! Please feel free to contact LUMA Partners to discuss these trends – and M&A strategies and targets – in more depth.

Thank you!

