









STATE OF DIGITAL MARKETING

Menlo Park, CA
November 2017

LUMA presents our annual State of Digital Marketing, which covers our views on the market, industry trends, and the future of the ecosystem with a specific focus on digital marketing. We hope you enjoy it.



Meet the Senior LUMA Team

Terence Kawaja	Brian Andersen	Mark Greenbaum	Dick Filippini	Conor McKenna	Gayle Meyers
					
Founder & CEO	Partner	Partner	Partner	Vice President	CMO
<p>Terry leads strategy, banking and content for LUMA.</p> <p><i>He's also head comedy writer and performer.</i></p>	<p>Brian is LUMA's marketing technology guru.</p> <p><i>He excels at coaching both little league and big clients.</i></p>	<p>Mark runs M&A strategy and execution for LUMA.</p> <p><i>He's never met a term sheet he couldn't improve.</i></p>	<p>Dick leads LUMA's mobile and gaming banking coverage.</p> <p><i>You can find him holding court every February in Barcelona.</i></p>	<p>Conor ties it all together, managing LUMA's junior teams.</p> <p><i>He also wrangles the senior team together.</i></p>	<p>Gayle runs LUMA's marketing, events, and partnerships.</p> <p><i>Think of her as top of the LUMA funnel.</i></p>



Agenda



1. Market Update

2. Ad Ecosystem Considerations

3. Industry Trends



1. Market Update



Ad Tech & MarTech LTM Performance



+56%

+20%

Source: Capital IQ, market data as of 11/10/2017



The period since the presidential election has been solid for public markets overall, with the NASDAQ up ~30% over the last twelve months. MarTech continued to be a strong category behind Shopify's continued run, which is up over 150% to nearly \$10 billion market cap. Ad Tech companies had also been trading above market growth until recent Q3 earnings missteps hit across almost all the players.

The IPO Window Has Reopened... Somewhat



 theTradeDesk

yext

Snap Inc.

 SendGrid

Look – an IPO market! Strong equity market finally welcomed a number of new entrants last year, including...



SendGrid IPO

NYSE: SEND

- **Offering Amount:** \$131 MM
- **Offer Price:** \$16.00 (Priced above the expected range of \$13.50 – \$15.50)
- **Nov. 15th Closing Share Price:** \$18.00 (+13%)
- **Market Cap:** \$734 MM
- **Enterprise Value:** \$595 MM
- **EV / LTM Rev:** 5.8x

Yesterday's debut of email marketer SendGrid, which priced above the range, to a 6x trailing multiple before rising another 12% in yesterday's trading.



Who's Next?

IPO Pipeline

afiniti.

 AppNexus

APTTUS

Soon?

BuzzFeed

 **Dropbox**

 qualtrics

 Spotify

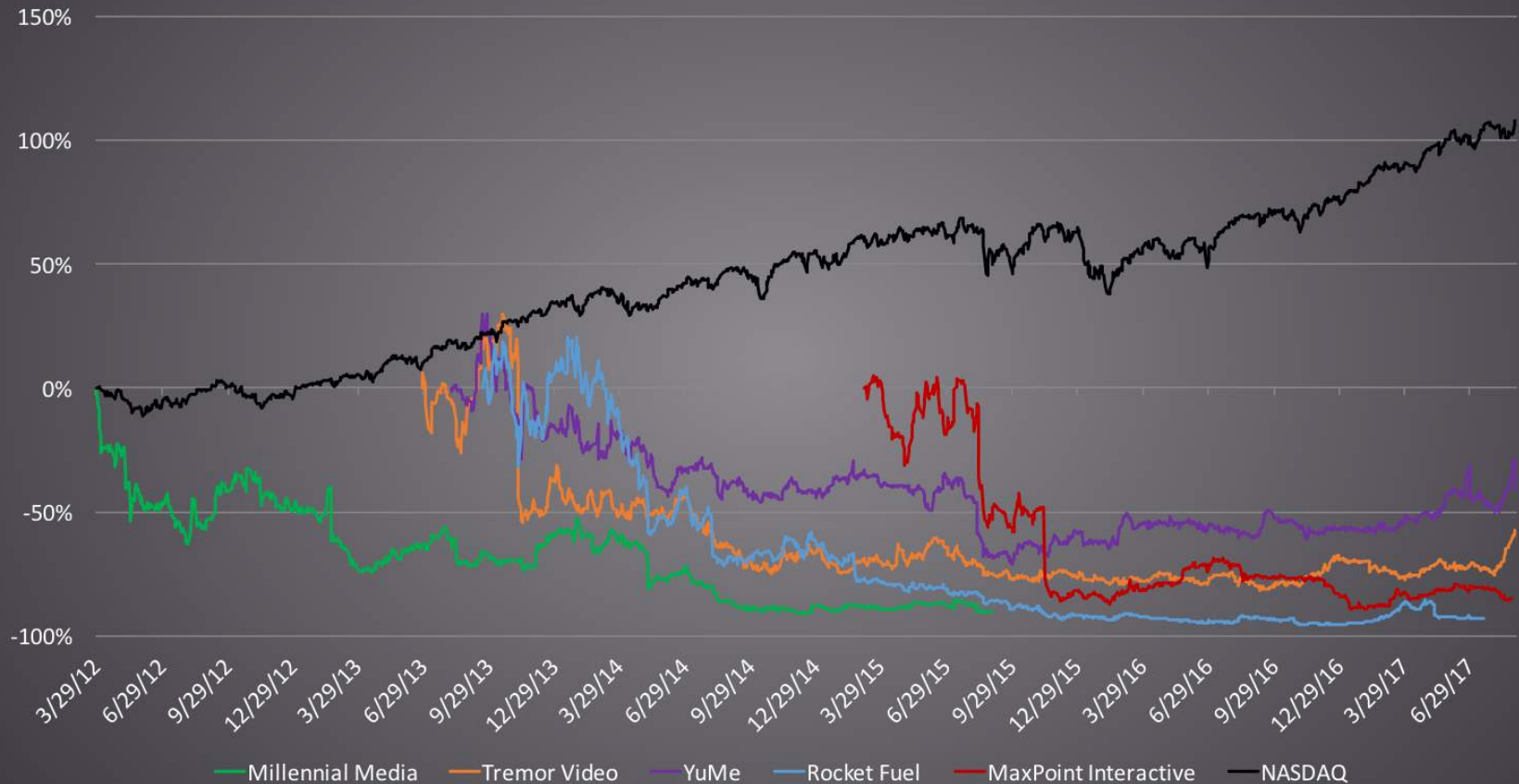
VICE



Which has us wondering who will be next with a number of scaled players queuing up in the pipeline.



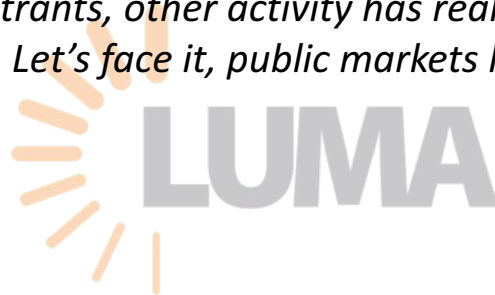
The Market Manifestation of Ad Tech's Challenges



Source: Capital IQ, market data as of 9/1/2017



Along with new entrants, other activity has really reshaped the public markets for Ad Tech and MarTech. Let's face it, public markets have been fairly unfriendly, especially for Ad Tech.



The Market Manifestation of Ad Tech's Challenges



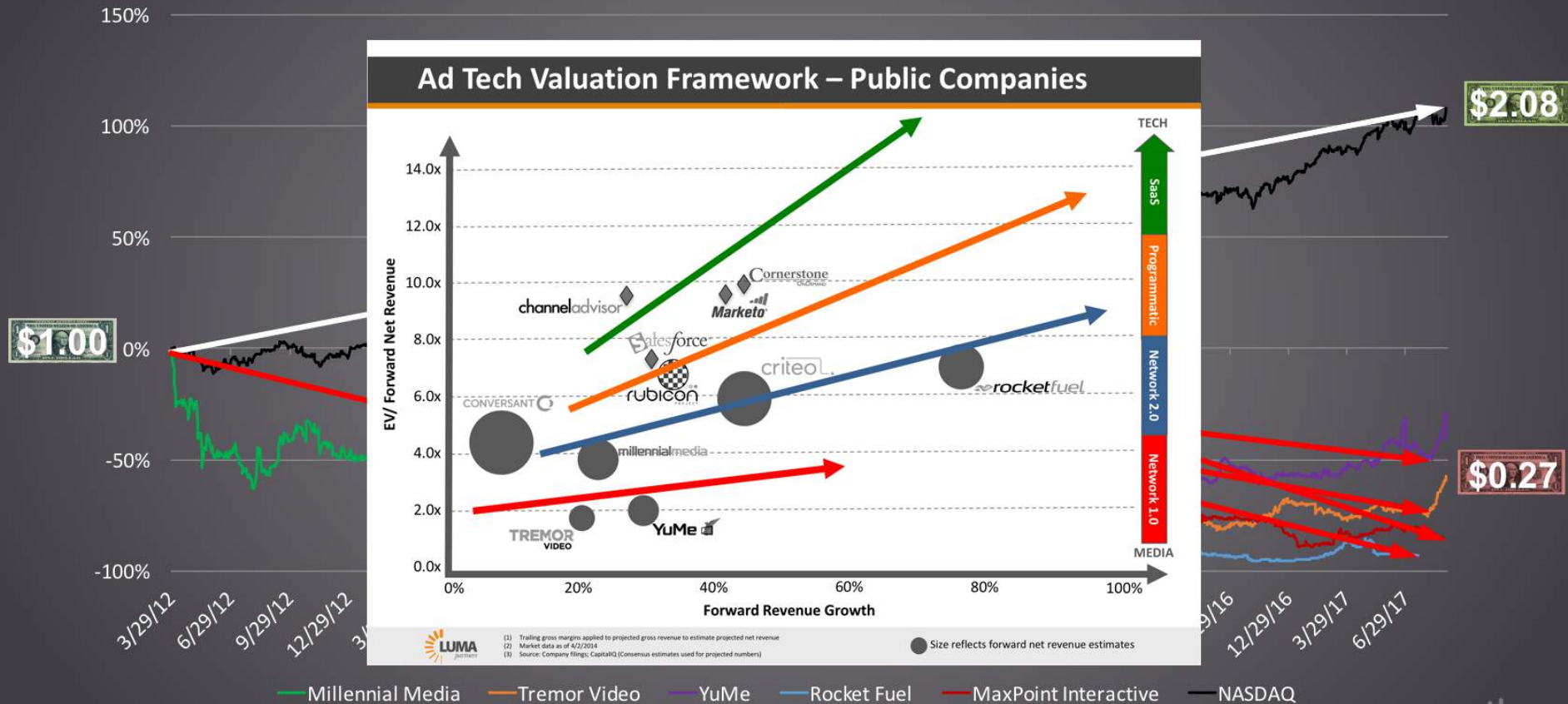
Source: Capital IQ, market data as of 9/1/2017



If we look back 5 years, a dollar invested in the NASDAQ would have doubled while a dollar invested in the Ad Tech players would have lost almost two-thirds its value. This started when Millennial Media went public on the premise of mobile and then promptly missed its first quarter.



The Market Manifestation of Ad Tech's Challenges



— Millennial Media — Tremor Video — YuMe — Rocket Fuel — MaxPoint Interactive — NASDAQ



Source: Capital IQ, market data as of 9/1/2017



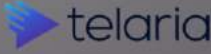
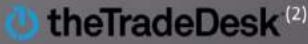


This first misstep by Millennial Media demonstrated that legacy media I/O based models lacked the predictability public markets value and thus tainted the followers even as business models evolved. So much so that in 2014 we published “Color by Numbers” to highlight the differences and valuation implications among business models ranging from network, to programmatic, ultimately to true SaaS, which public markets appeared to struggle to differentiate.

The Great Ad Tech Cleanup

- By Q1 2018, all public I/O business model ad tech companies will be gone from the markets leaving only platform companies
- This remaining cohort should make for better comps for platform businesses seeking an IPO

I/O-Based Ad Tech Companies Acquired	
	0.8x
	0.3x
	ND
	0.7x
	0.7x
Average LTM Revenue Multiple: 0.6x	

Remaining Platform Ad Tech Companies	
	2.2x
	NM
	0.8x
	7.1x
Average LTM Revenue Multiple: 3.4x	

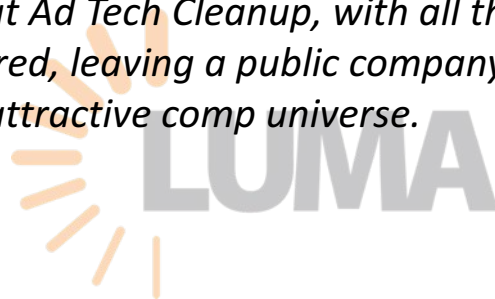
(1) Divested I/O business, rebranded SSP platform as Telaria.

(2) Revenue multiple metric represents net revenue.

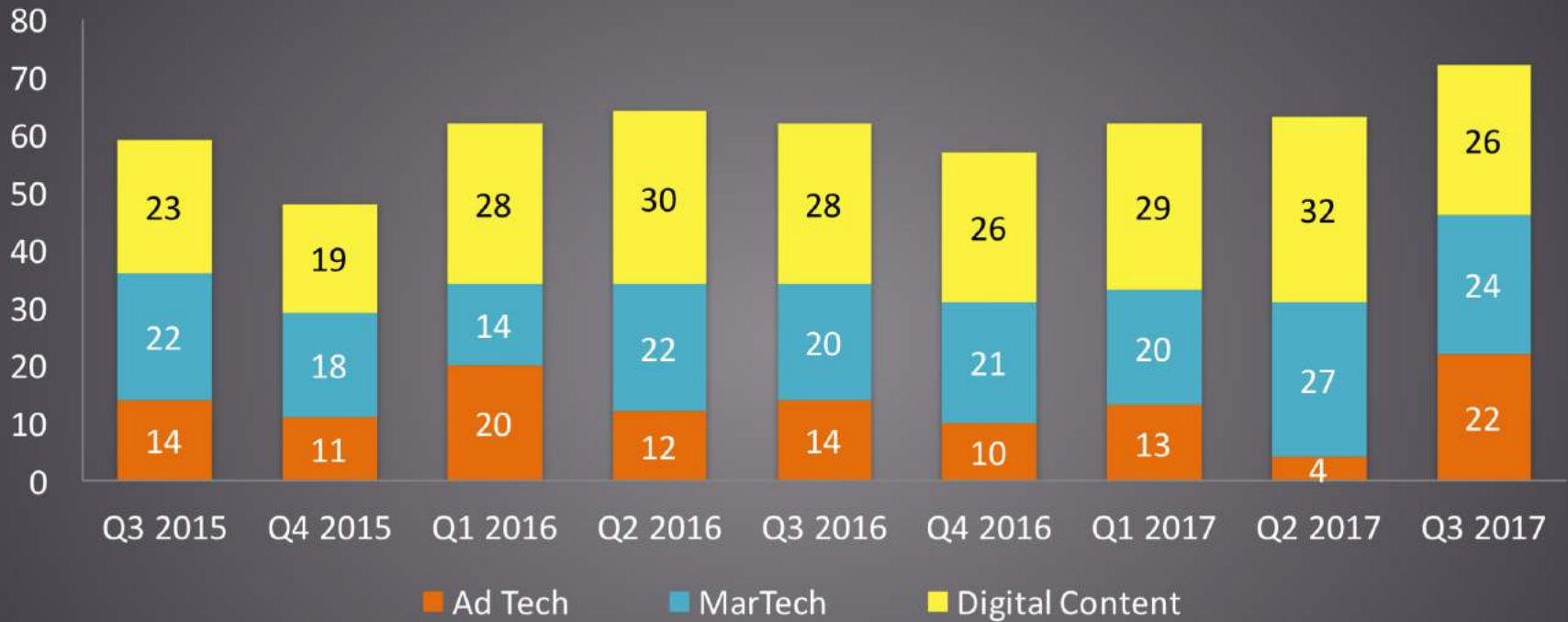
Source: Capital IQ, market data as of 11/10/2017.



2017 saw the Great Ad Tech Cleanup, with all the remaining I/O based businesses having been acquired, leaving a public company cohort with platform business models providing a more attractive comp universe.



M&A Remains the Primary Source of Exits



# of Transactions Over \$100M								
13	6	9	13	13	11	7	10	17



Source: LUMA



So that's a lot about the public markets, but let's get real, M&A remains the primary source of liquidity and remains very active.



M&A Remains the Primary Source of Exits



# of Transactions Over \$100M								
13	6	9	13	13	11	7	10	17

Importantly, looking at scaled exits over \$100 million, we saw 45 deals.



2017 M&A: Active Market <\$1 Billion

	→	GIGYA	\$350M		→	 birst	~\$100M
	→	YuMe	\$119M		→	 zoominfo	\$240M
	→	Simplifi	ND		→	jive	\$341M
	→	SPOTX	\$404M		→	MOAT	ND
	→	MAXPOINT	\$108M		→	 Experian	\$400M
	→	DV	\$300M		→	Teads	\$308M
	→	 rocketfuel	\$147M		→	TURN	\$310M
	→	Placed	\$135M				



While 2017 lacked some of the +\$1 billion deals of the prior year, we saw very solid exits across Ad Tech and MarTech categories.



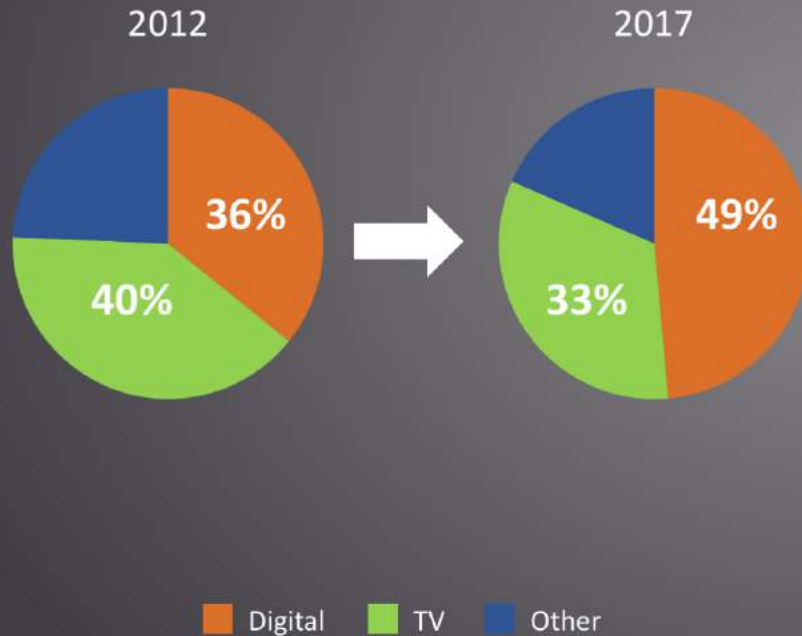
2. Ad Ecosystem Considerations



Digital Media Continues its Rapid Growth

Usage

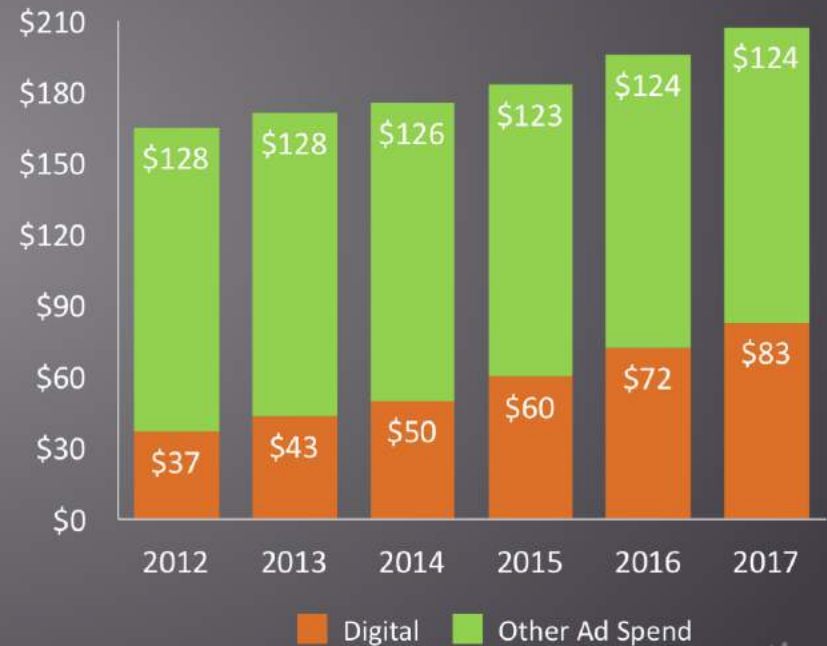
Time Spent Across Media in U.S.



Monetization

Total Ad Spend in U.S.

(\$ in billions)



Source: eMarketer



A lot of what is happening in MarTech is being driven by what's happening in the advertising ecosystem. Great news: digital media continues its growth. Consumers' time continues to shift towards digital consumption channels and ad spend continues to grow.

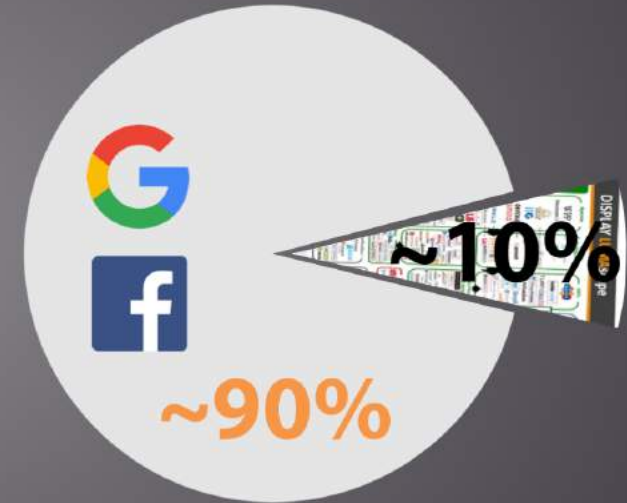


But the Duopoly is Taking Nearly All of the Growth

U.S. Digital Ad Spend



U.S. Incremental Ad Spend



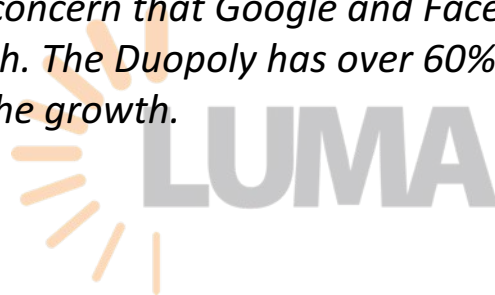
Share %

	35%	39%	40%	41%	40%	42%	41%	41%
	0%	4%	5%	6%	7%	11%	14%	19%
Total %	35%	43%	45%	47%	47%	52%	55%	60%

Source: eMarketer, IAB, Company Filings, LUMA
*Google Advertising Revenue reflects Advertising Revenue Ex-TAC



However, there is concern that Google and Facebook are taking a big and dominant share of the growth. The Duopoly has over 60% market share of all ad spend in digital and almost all of the growth.



But the Duopoly is Taking Nearly All of the Growth

(\$ in billions)



Share %

	35%	39%
	0%	4%
Total %	35%	43%



Spend

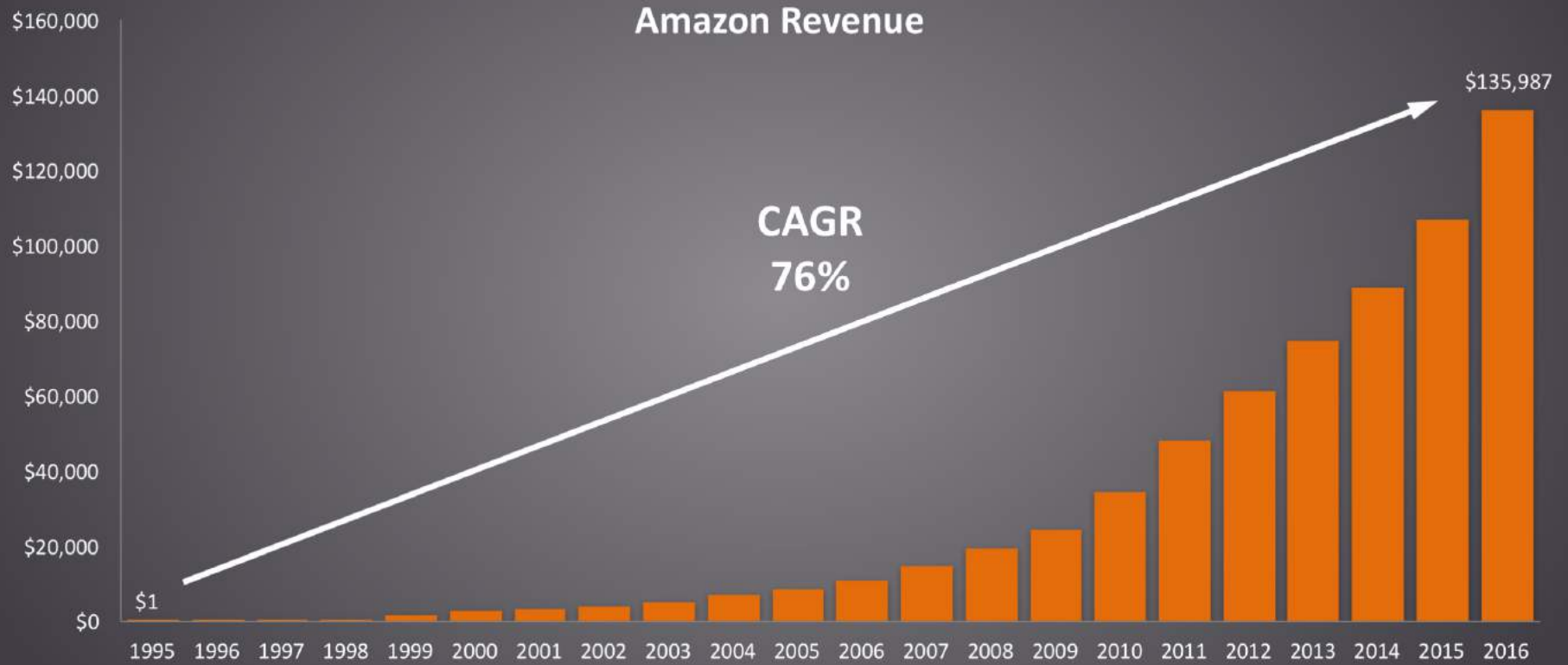
Source: eMarketer, IAB, Company Filings, LUMA
 *Google Advertising Revenue reflects Advertising Revenue Ex-TAC

If this trend continues, it will make our life making LUMAscapes a lot easier since it will just be down to a couple of companies, or maybe three with new entrant, Amazon.



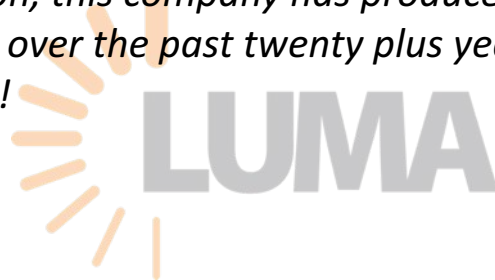
The New Goliath: Amazon

(\$ in millions)



Source: Statista

Speaking of Amazon, this company has produced revenues with an incredible 76% compound growth over the past twenty plus years. Compound growth like this for 20 years is hard to do!



The Retail Armageddon is Here...



amazon
+284%

Walmart ✨
+6%

🎯 TARGET
-19%

Kroger
-32%

★ macy's
-71%

sears
-88%

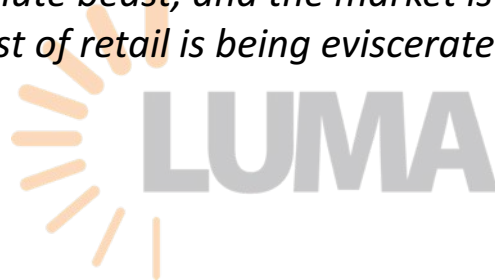
...And Amazon is thriving



Source: Capital IQ, market data as of 11/10/2017



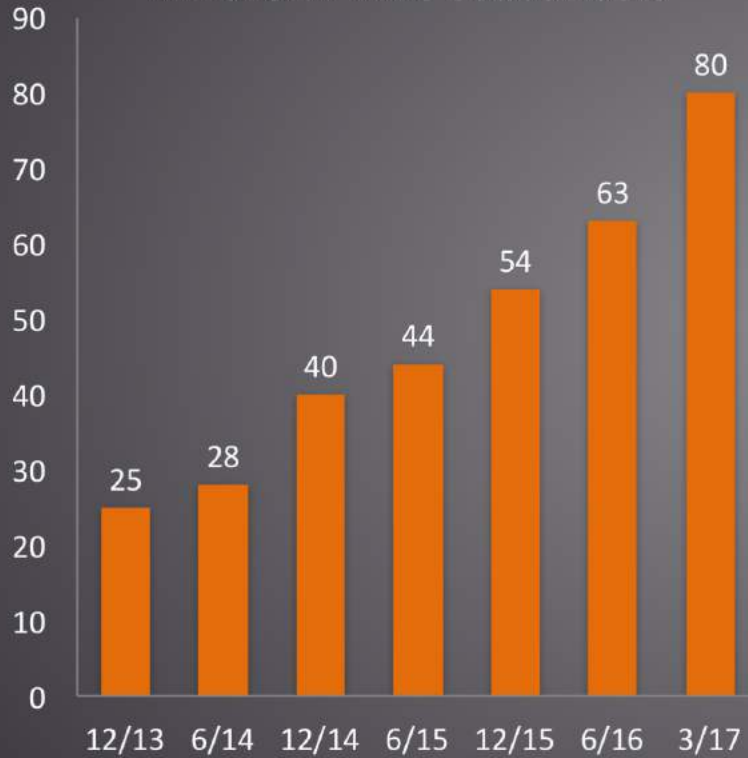
Amazon is an absolute beast, and the market is recognizing this. The stock has been on a tear while the rest of retail is being eviscerated in its path.



Prime Drives Amazon's Booming Business

(millions)

Amazon Prime Subscribers



Average Spend per Customer (past 12 months)



Source: Statista



One of Amazon's main revenue drivers is the subscription program "Prime", which now has over 80 million subscribers. Not only does Prime provide Amazon a predictable revenue stream, but it also increases the average amount an Amazon customer spends and creates "stickiness".

LUMA

Amazon is Displacing Search for Commerce



Source: Bloomreach



Even more incredible is that they have managed to circumvent Google. With its ubiquitous search bar, Google used to own the the top part of the funnel, but Amazon has quietly become the top choice for searching products to buy. According to a study by Bloomreach, over half of shoppers start their search on Amazon rather than Google.



More Touchpoints than Traditional Retailers

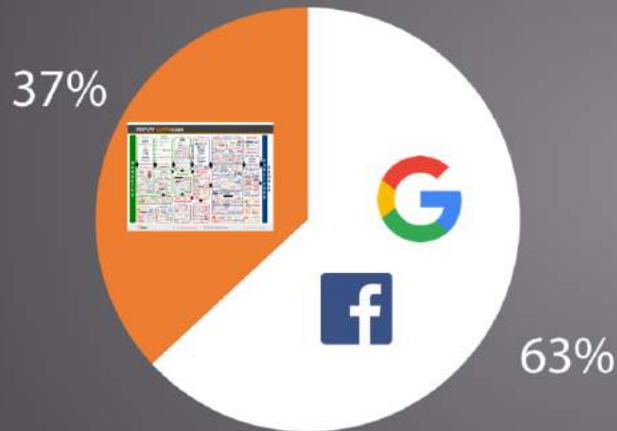


Amazon is well on their way to being a major player. In a world of consumer touchpoints, Amazon has an amazing array of abilities to interact with the consumer, whether it's through the e-commerce app, video or one of the fastest growing and potentially most disruptive new forms of media, voice.



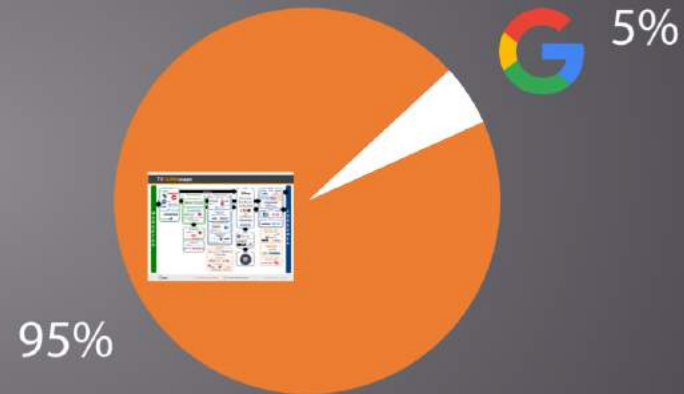
The Digital Market Opportunity is Huge

U.S. Digital Ad Spend



\$83B

U.S. TV Ad Spend



\$76B



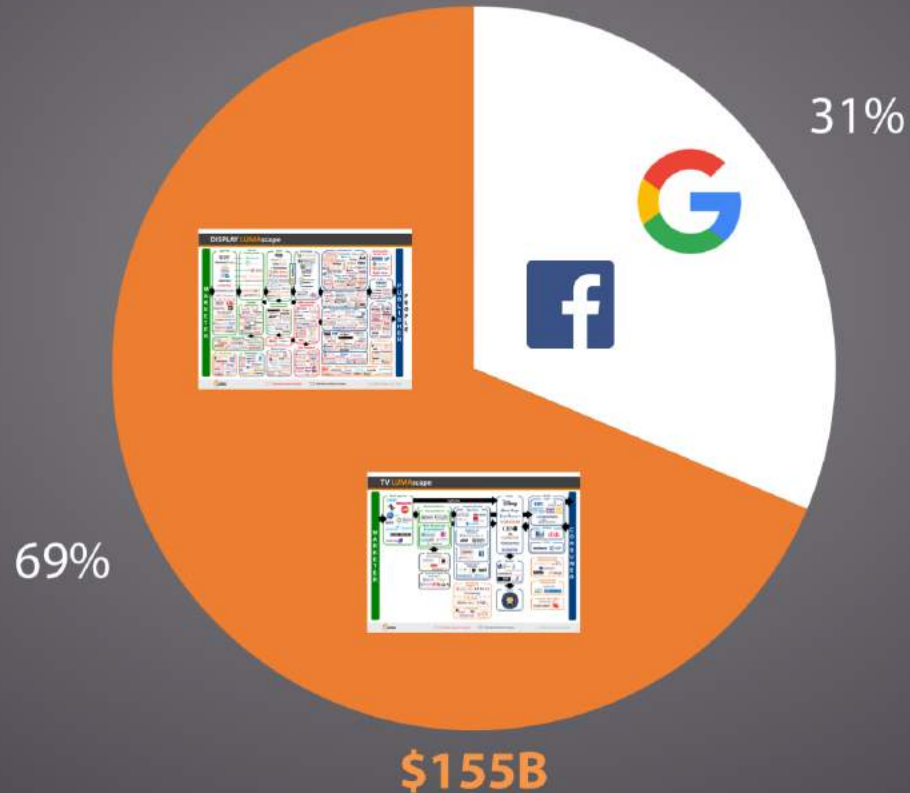
Source: eMarketer

Back to Facebook and Google, who own almost two-thirds of the share of digital ad spend, leaving a paltry 37% for everybody else. However, 37% of a \$83 billion market is \$31 billion, which is still pretty big and it is not static. There is a constant shift between players in that slice of the pie, which gives new players opportunities in a very dynamic marketplace. More importantly is the opportunity coming from the addressability of TV, an enormous market where the Duopoly have substantially less share.



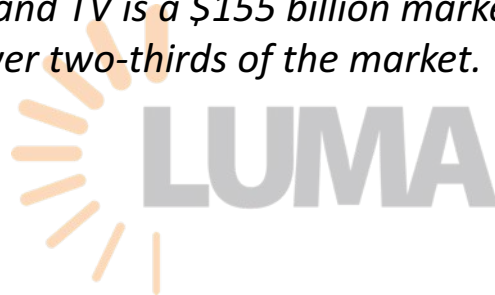
And About to Get a Lot Bigger!

U.S. TV & Digital Ad Spend

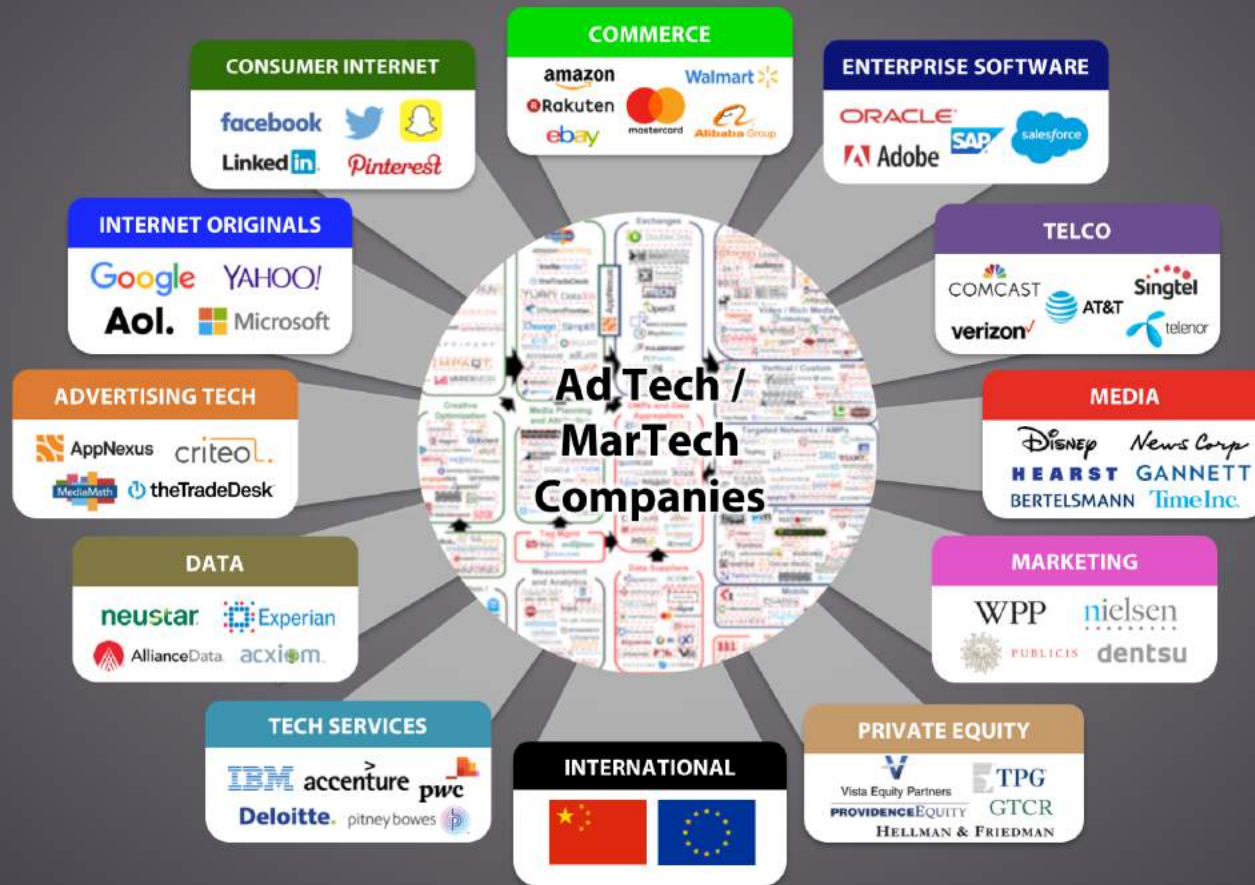


Source: eMarketer

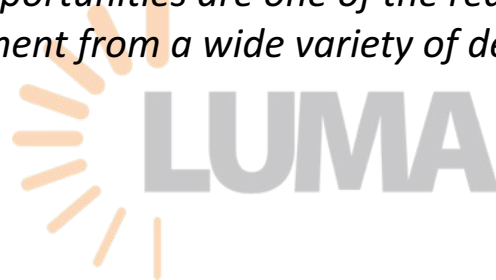
Combined, digital and TV is a \$155 billion market, where companies outside of the Duopoly control over two-thirds of the market.



Large Strategic Buyers Attracted to the Sector



No doubt those opportunities are one of the reasons why this sector has attracted acquisition investment from a wide variety of deep-pocketed strategics from a variety of different sectors.



Maturation of Ad Tech and MarTech

(\$ in millions)



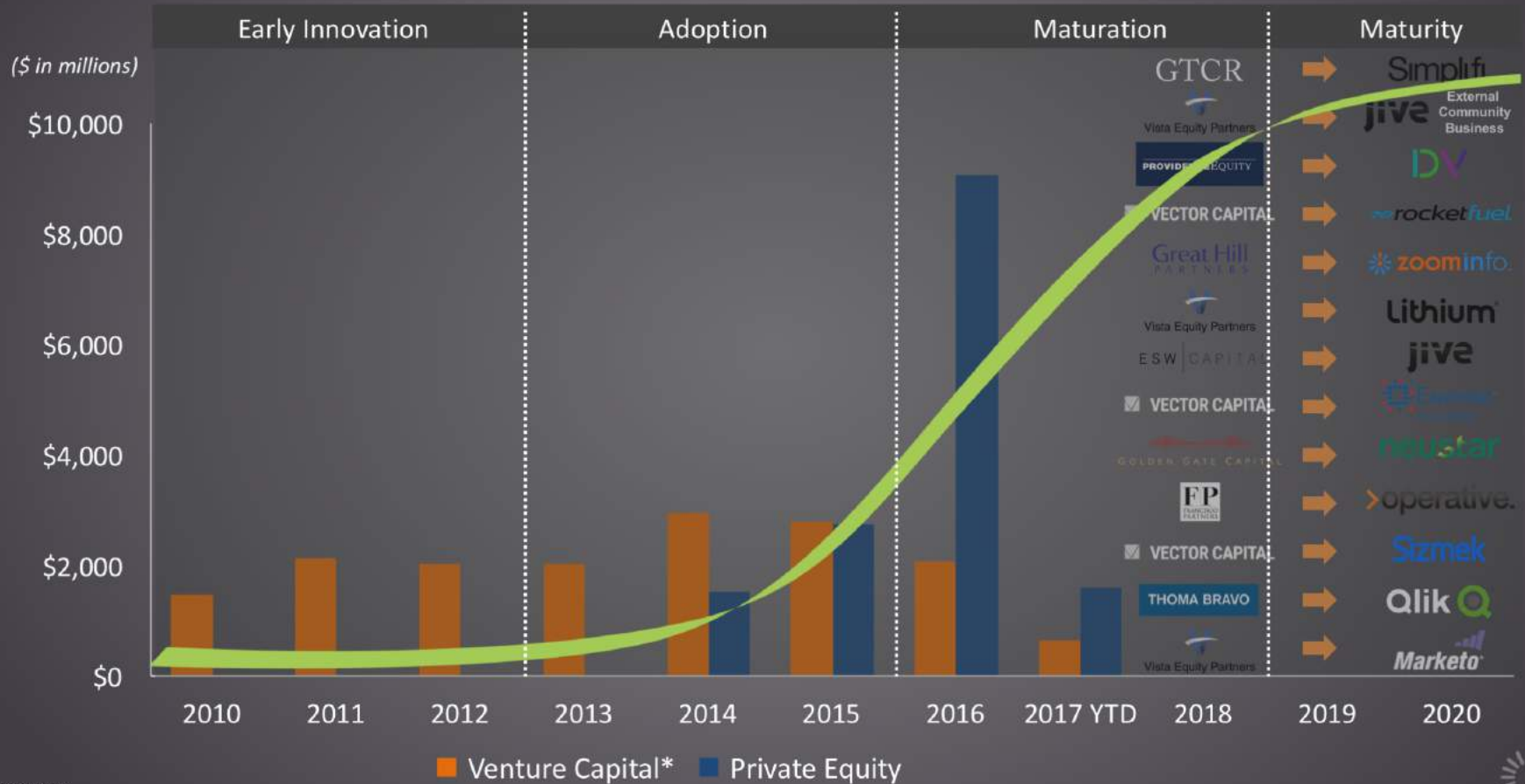
*Data as of 5/18/17.
Source: Pitchbook, LUMA



At the beginning of 2017, reports came out that proclaimed the sector was finished, spurred from the substantial decline in venture capital investments going into the sector. What these reports neglected to point out was the fact that while venture capital was going down, private equity was going up in a huge way with over \$12 billion invested in Ad Tech and MarTech in the last 24 months.



Maturation of Ad Tech and MarTech

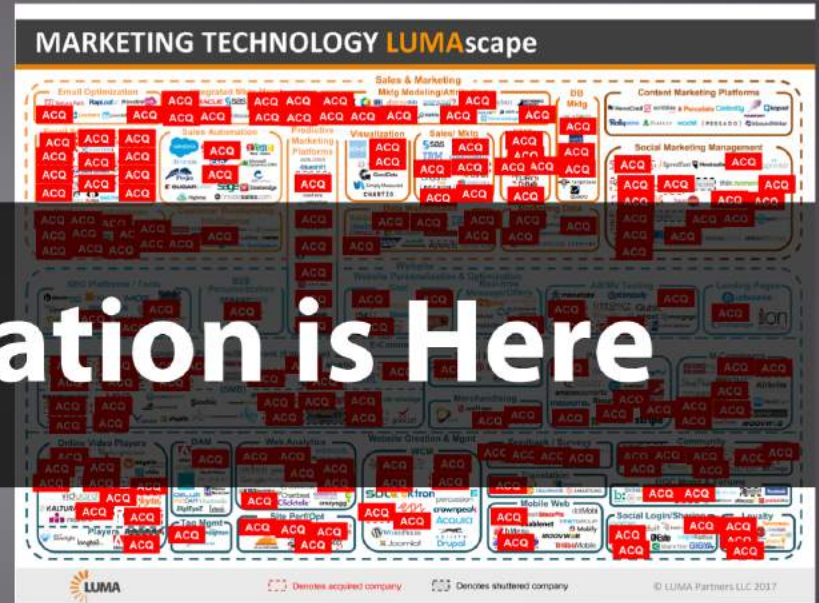
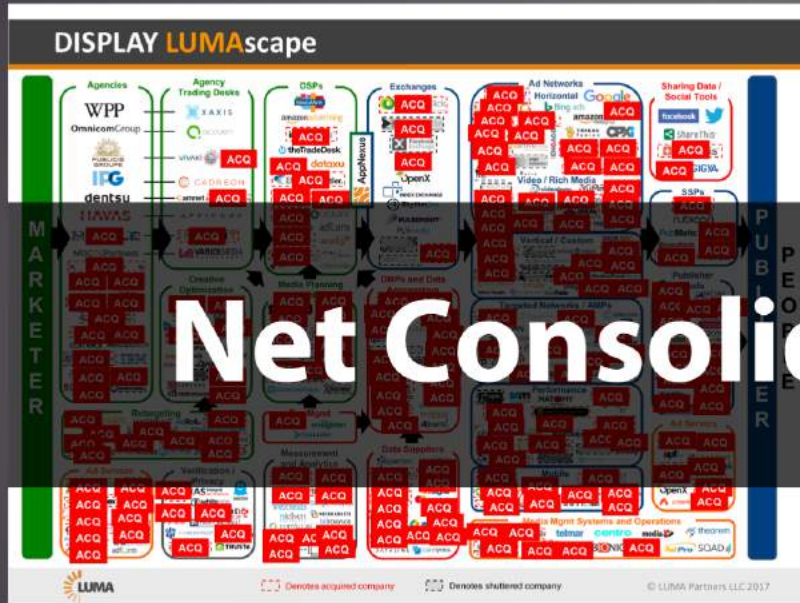


*Data as of 5/18/17.
Source: Pitchbook, LUMA

Private equity is much later stage focused, and we believe is evidence that we are seeing the beginning phases of the maturation in this industry. This is incredibly natural and happens in every industry. Ad Tech is logically going through a maturation phase where we will see a rationalization and consolidation of companies.



The Much Needed Consolidation Is Happening



Net Consolidation is Here

2013 → 2017
69 New Companies
109 Acquired

2013 → 2017
76 New Companies
121 Acquired



One of the challenges is that the Ad Tech and MarTech ecosystems are massively fragmented; 5,000 companies across 18 LUMAscopes. We did a four-year lookback and for the first time we noted that there are more acquisitions than there are new companies appearing on the LUMAscopes. Net consolidation is here!



Market Dynamics Favor a Select Few Players



- **Numerator larger:** the total addressable market is growing rapidly as dollars shift to digital and programmatic and TV spend becomes addressable
- **Denominator smaller:** the number of sustainable, scaled companies with omni-channel capabilities is shrinking as the sector matures, rationalizes and consolidates

The result will be substantial wealth creation for a few companies



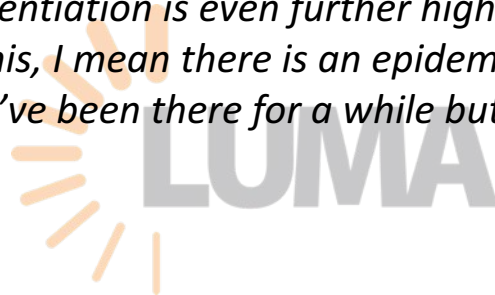
To think about the market opportunity, let's look at fractional math. We just talked about a further migration towards digital and this big opportunity called TV, which represents the numerator getting larger. At the same time, with the maturation phase and the consolidation of players, the denominator is getting smaller. So what happens when the numerator gets bigger and denominator gets smaller? Massive wealth creation for a few companies.



provided we don't blow it



The need for differentiation is even further highlighted by these changes, provided we don't blow it. By this, I mean there is an epidemic of challenges to the advertising supply chain. They've been there for a while but now they're garnering consequences.



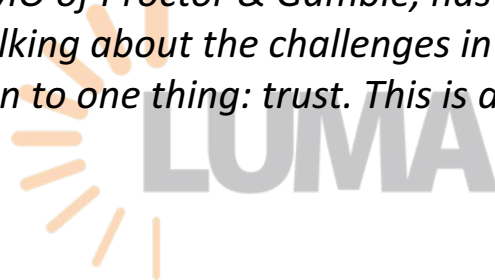
Digital Advertising Supply Chain Challenges

1. Transparency
2. Measurement
3. Late
4. Privacy
5. Viewability
6. Fraud
7. Adverse Context
8. Ad Blocking
9. Digital Duopoly
10. Fragmentation

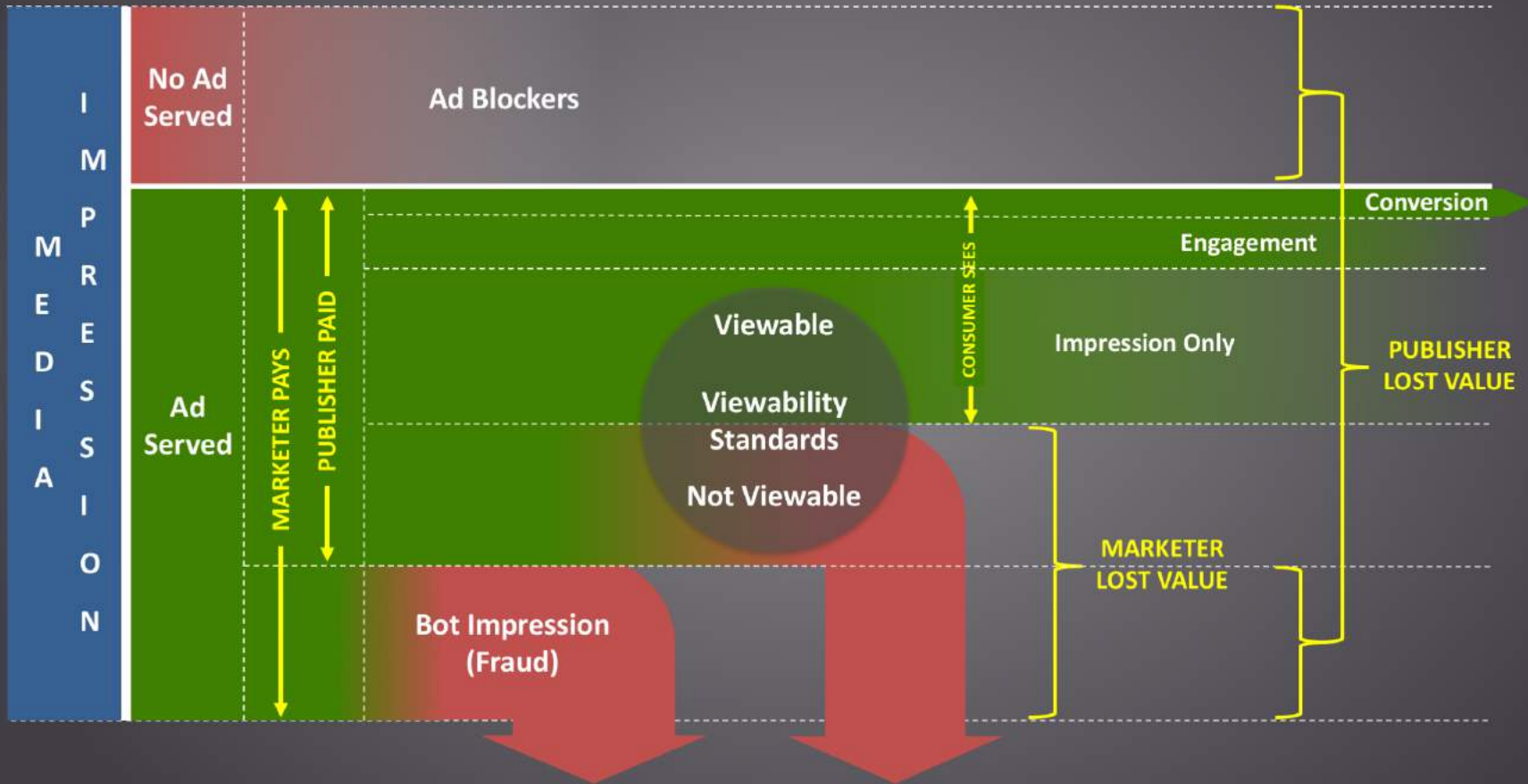
TRUST



Mark Pritchard, CMO of Procter & Gamble, has been on a rampage. He's been on a tour for the last year talking about the challenges in the digital advertising ecosystem and it all really boils down to one thing: trust. This is a real issue and it has economic consequences.



Lifecycle of a Media Impression



This chart illustrates the economic impact of some of these issues. The blue bar represents all media impressions. Ads are served to most of it and blocked for others. You lose some of the ads served to fraud, others because they are not viewable depending on the standard and so on. This has economic consequences because the marketer loses everything that's paid for but not seen by a human whereas publishers lose what is blocked and lost to fraud.



Advertising's Issues Have Real Consequences

THE WALL STREET JOURNAL.

P&G Cuts More Than \$100 Million in 'Largely Ineffective' Digital Ads

Consumer product giant steers clear of 'bot' traffic and objectionable content

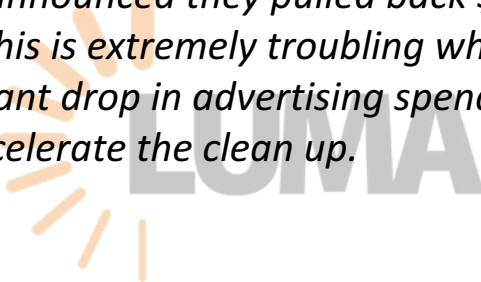
July 27, 2017 5:31 p.m. ET

"We didn't see a reduction in [P&G's] growth rate. The spending we cut was largely ineffective."

Jon Moeller, CFO, P&G

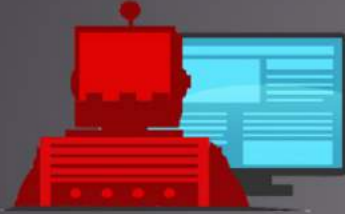


Proctor & Gamble announced they pulled back \$100 million and reported that it had no effect on growth. This is extremely troubling when you have the largest advertiser in the world say a significant drop in advertising spend didn't matter and should serve as a call-to-action to accelerate the clean up.



Need to Limit Vulnerability to Exogenous Forces

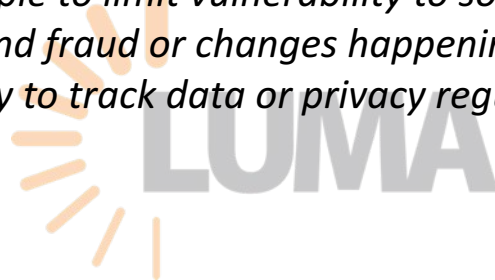
AD FRAUD



iOS 11



This behooves people to limit vulnerability to some these exogenous forces, whether it's the supply chain and fraud or changes happening in the browser environment that are limiting your ability to track data or privacy regulations.



GDPR as an Opportunity



How GDPR Drives SAP's Acquisition Strategy

Monday, November 6th, 2017 - 9:00 am

"Another area where we will differentiate is around GDPR, which is not just a European problem. It is a US brand problem as well if you deal with European customers."

Marcus Ruebsam, SVP, SAP

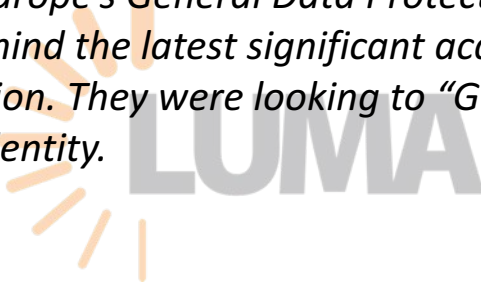


GIGYA

\$350M Acquisition



It's the last issue, Europe's General Data Protection Regulation (GDPR), that was in fact a deal rationale behind the latest significant acquisition in the sector when SAP bought Gigya for \$350 million. They were looking to "GDPR-proof" their business with Gigya, which focuses on identity.



MarTech Healing Ad Tech

Industry



Ads.txt



Viewability



Verified

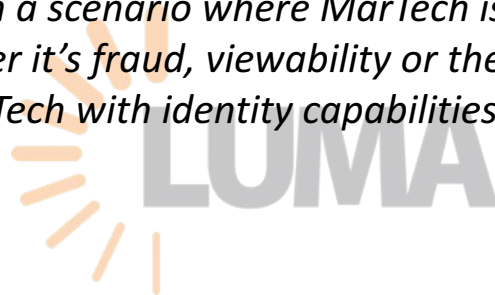
MarTech



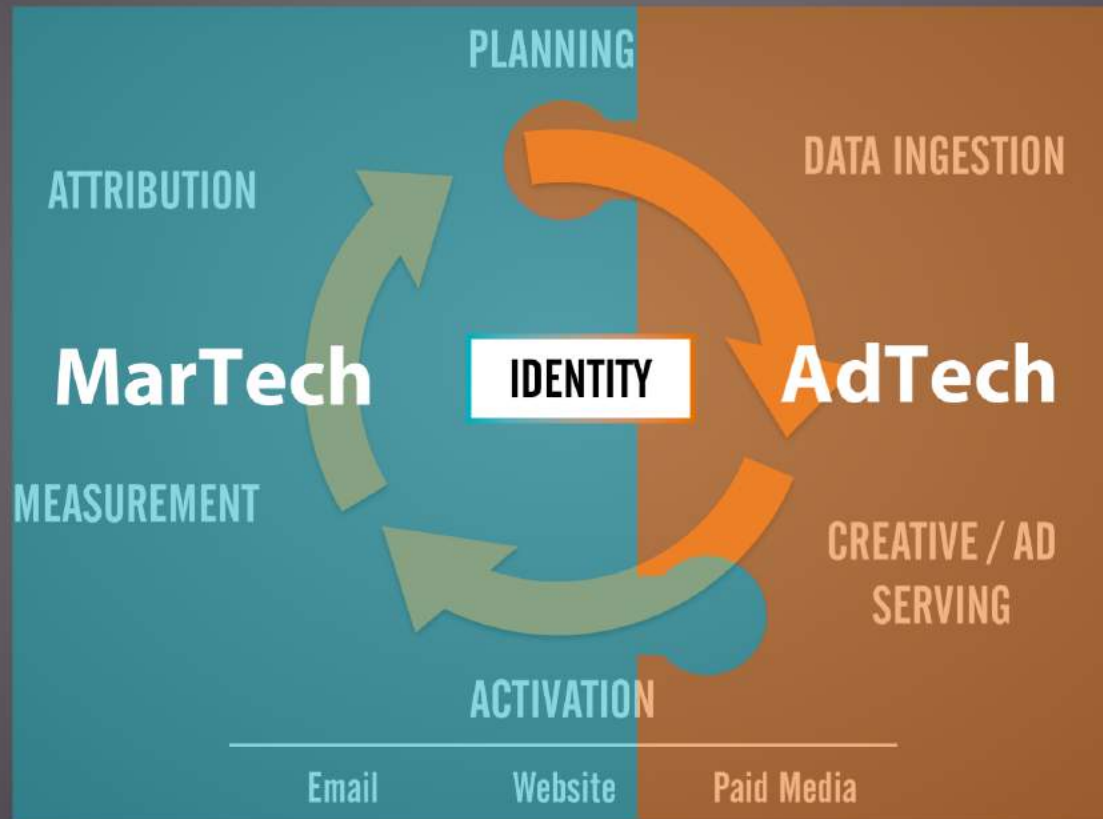
MOAT



It feels like we're in a scenario where MarTech is needed to heal Ad Tech. The problems of Ad Tech, whether it's fraud, viewability or the verification, are being solved by companies in MarTech with identity capabilities.



The CMO Needs Holistic Marketing Solutions



We believe that identity is the core of marketing. This used to be a stack where you would start your planning, execute campaigns, measure them and then plan again the next year. Today, it's a real-time circle where identity is at the core and works to join the capabilities and data from Ad Tech and MarTech solutions in real time.



3. MarTech Industry Trends



Every Marketer's Goal:

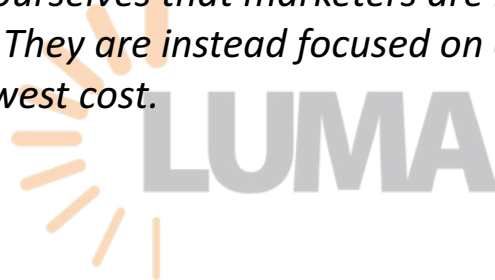
DRIVE MORE REVENUES!

(at lowest cost)

revenue



We like to remind ourselves that marketers are not looking for technology for technology's sake. They are instead focused on one overarching goal: to drive more revenues at the lowest cost.



Optimize the Customer Experience



The Right Message



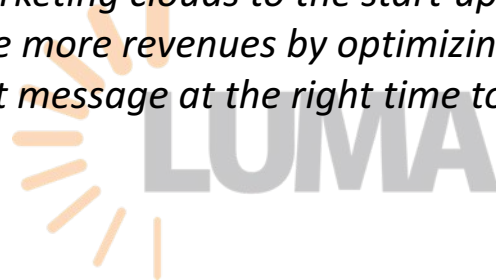
The Right Time



The Right Person



From the large marketing clouds to the start-ups, technology vendors aim to assist enterprises to drive more revenues by optimizing the customer experience through delivering the right message at the right time to the right person.



Drive More Revenue

Ad Tech



Viewable



Fraud-free



Verified



MarTech



Data



Identity



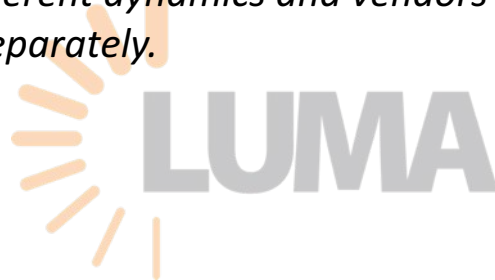
Orchestration



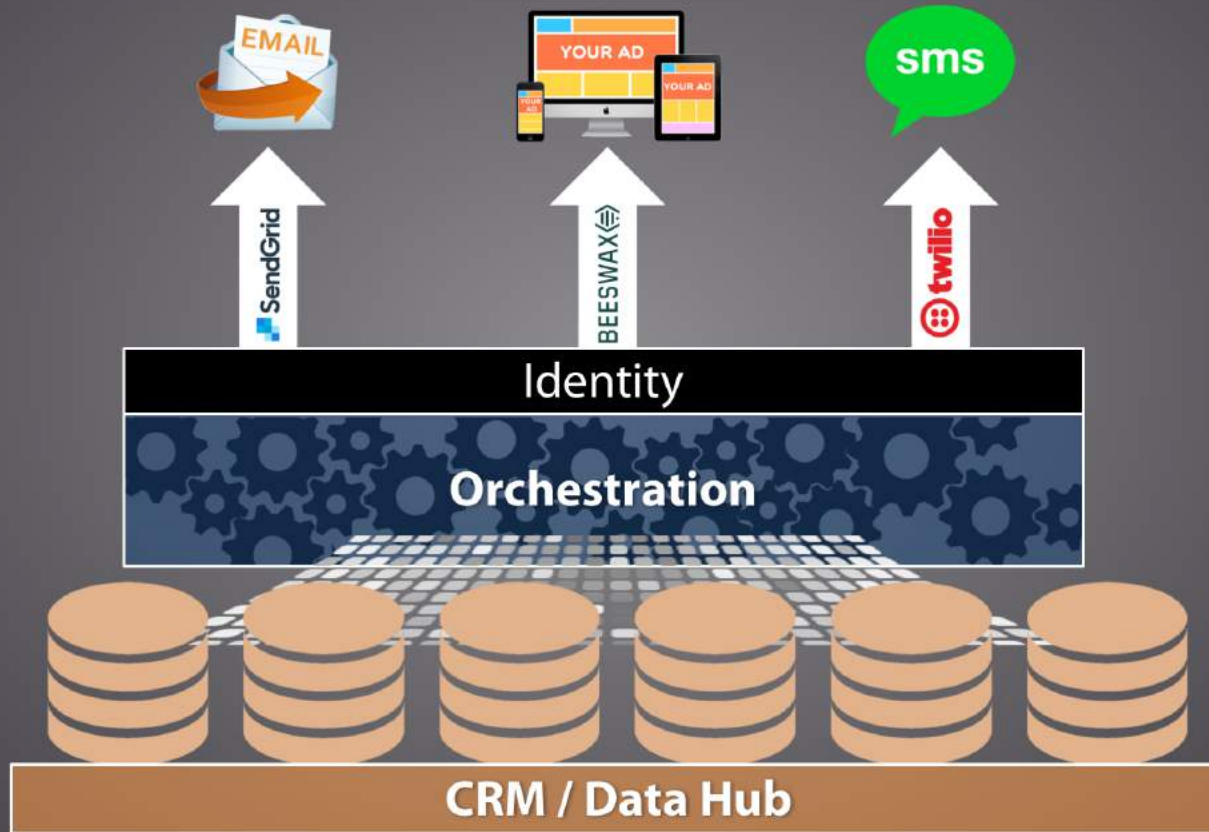
In Ad Tech, obviously the right message is not getting through if it is not viewable, or is “viewed” by a bot. We are seeing MarTech solutions from companies such as Moat, IAS, WhiteOps and DoubleVerify provide solutions to address these issues. In MarTech, we feel there are three high-level capabilities necessary: data, identity and orchestration. Data and orchestration enable the right message at the right time, and identity solutions enable the message to be delivered to the right person across devices.

B2C MARKETING

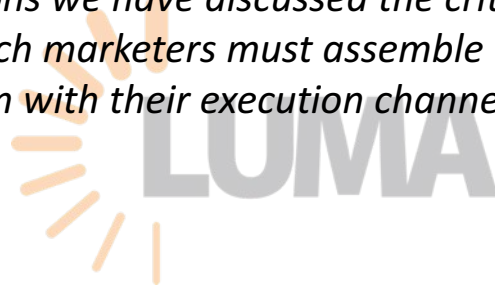
Since there are different dynamics and vendors in B2B vs. B2C Marketing, we are going to address them separately.



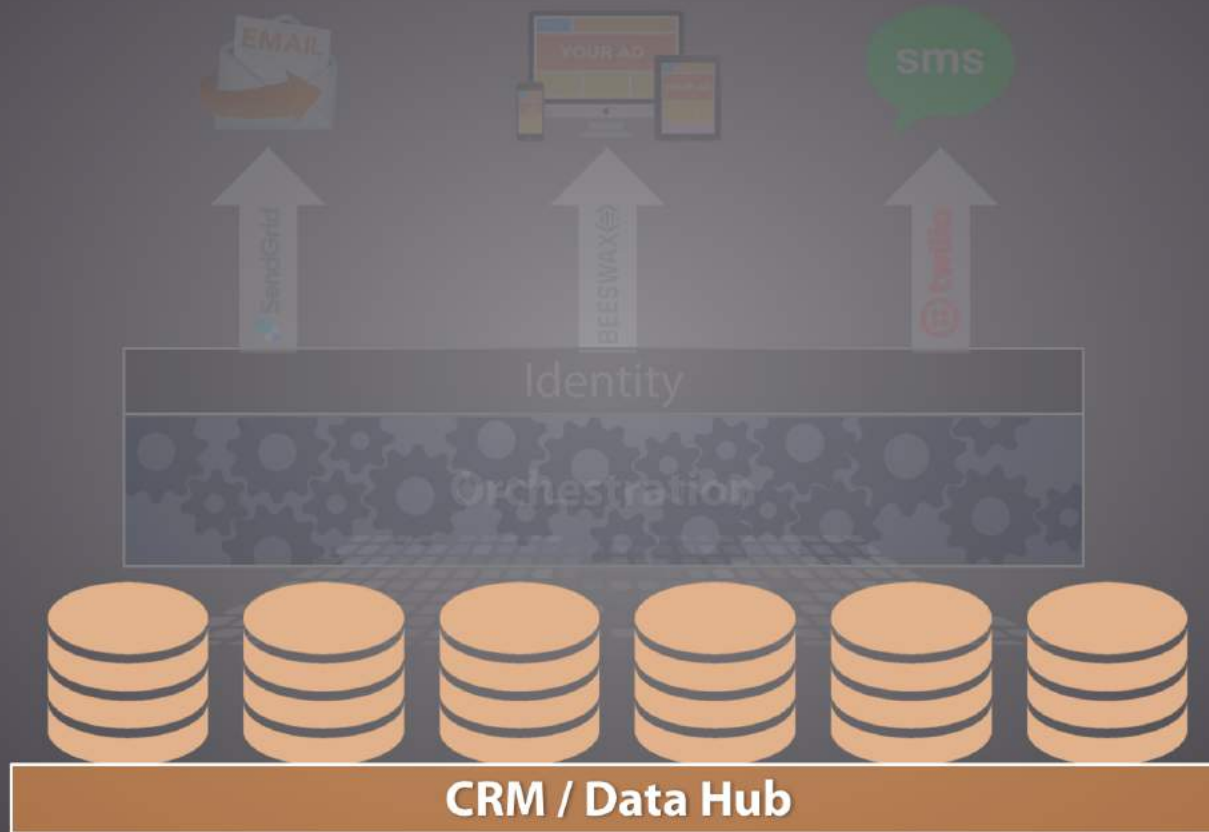
Marketing Orchestration: Data + Identity + A.I.



In past presentations we have discussed the critical three capabilities: data, identity and orchestration, which marketers must assemble to coordinate their marketing activities, and integrate them with their execution channels.



Marketing Orchestration: Data + Identity + A.I.



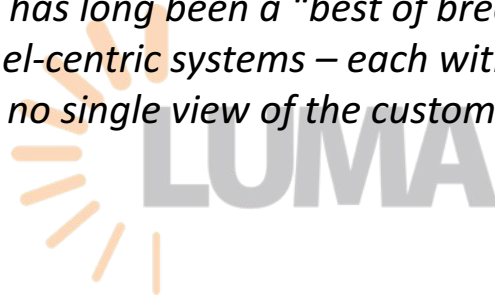
The foundation should be a common data layer.



Marketing: Channel-Centric with Data Silos

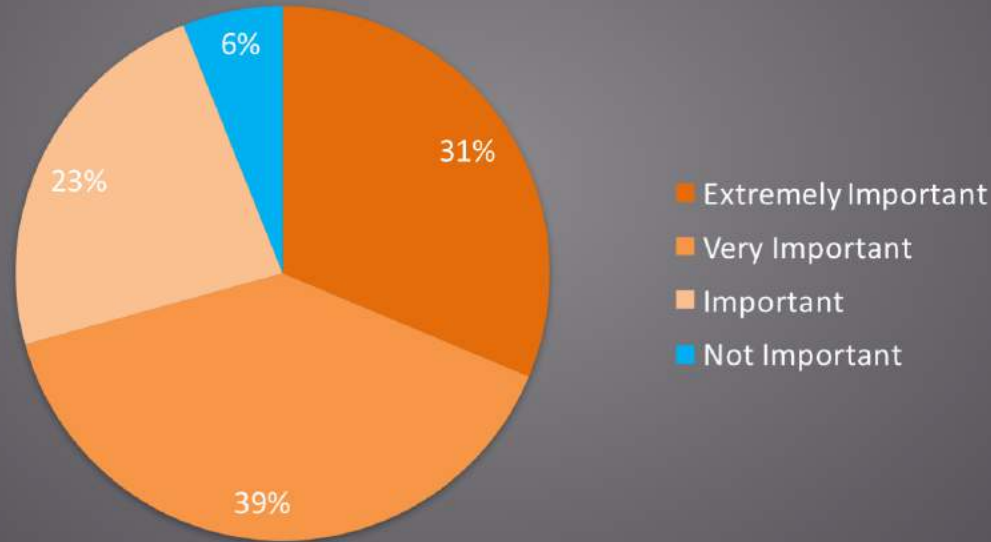


However, MarTech has long been a “best of breed” environment. Therefore, marketers utilize many channel-centric systems – each with their own data store. The issue with this is that there is no single view of the customer, since data assets are distributed and not coordinated.



Key Market Need: Single View of the Customer

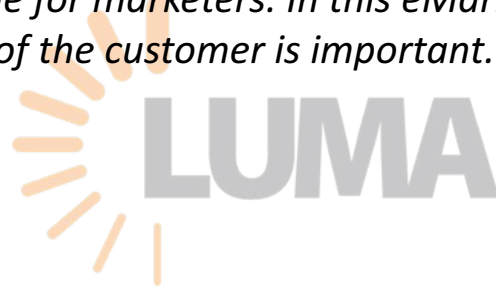
Marketer Survey: Importance of a Single Customer View



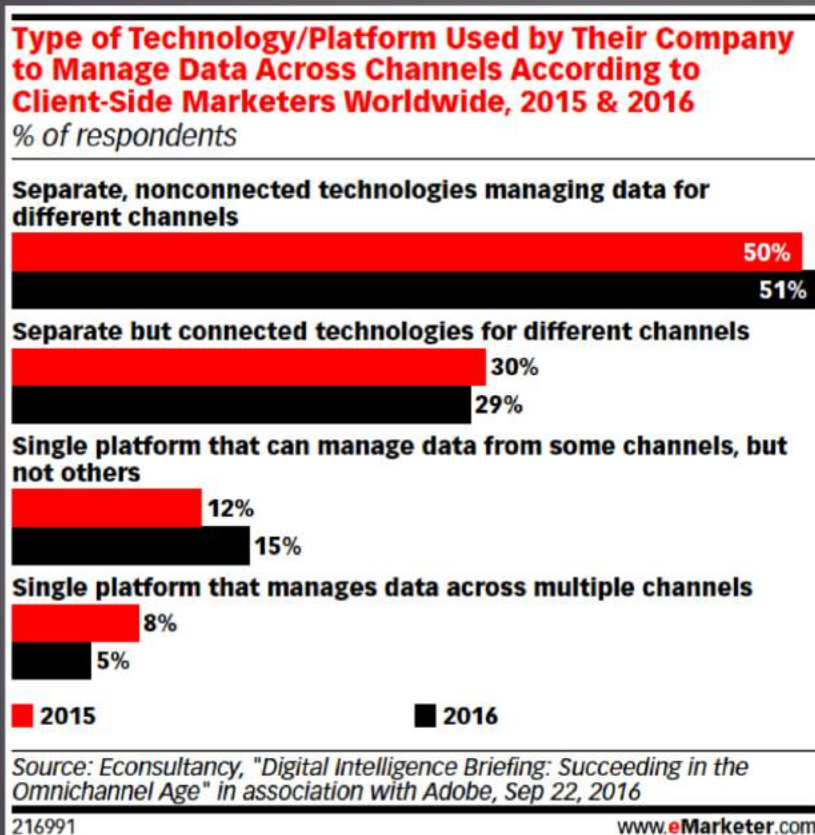
Source: "Marketing Technology 2017 – It's More than Just the Stack," eMarketer, 3/2/17



This is a major issue for marketers. In this eMarketer survey, there is broad agreement that a single view of the customer is important.



Key Market Need: Single View of the Customer

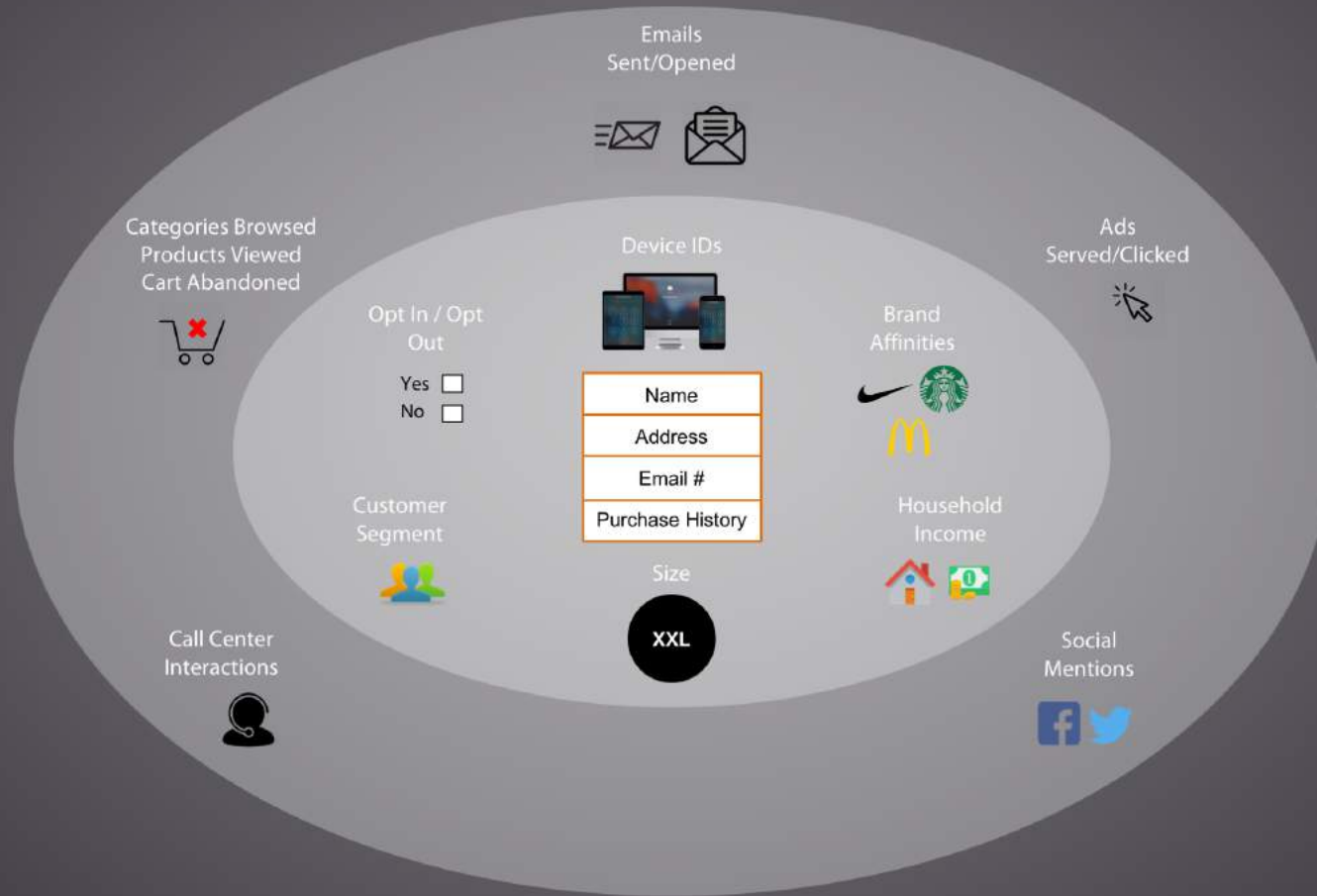


Only 5% of respondents have a single platform to manage data across channels

However, only 5% of respondents claim to have a single platform that manages data across multiple channels.



What is the Customer Record?

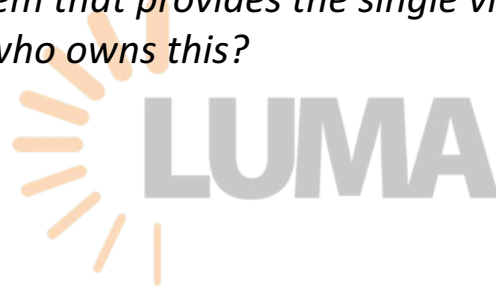


So that raises a question: If marketers need a single view of their customers, what makes up the customer record? It is information, such as name, address and purchase history. It should also include additional information (consistent over time) such as sizes, segments, brand affinities and income. In order to provide relevant communications at each point in time, the customer record should also include more dynamic data, such as interactions with emails, ads, social mentions and current (or recent) website browsing.

WHO OWNS THE CUSTOMER RECORD?

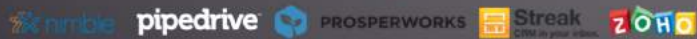
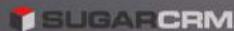


If there is one system that provides the single view of the customer / manages the customer record, who owns this?



The Customer Record

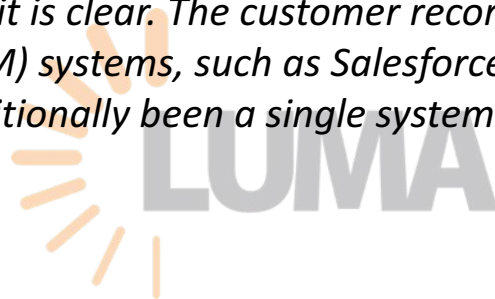
B2B



B2C

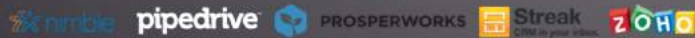


In B2B marketing, it is clear. The customer record is managed by customer relationship management (CRM) systems, such as Salesforce, Microsoft Dynamics, Netsuite, etc. But there has not traditionally been a single system for this in B2C marketing.



The Customer Record

B2B



B2C

Customer Data Platform

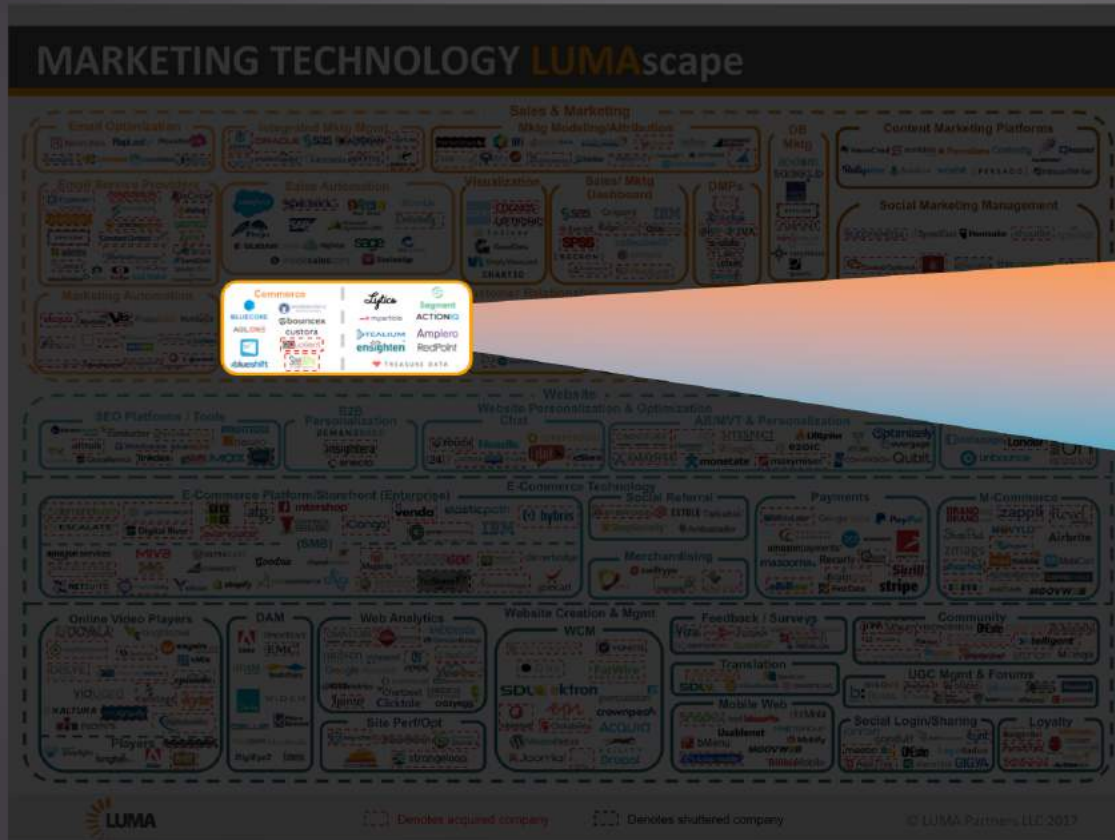
+

Artificial Intelligence /
Machine Learning



But we feel that the logical B2C system for managing the customer record is emerging, which is the “customer data platform” (CDP) category. These systems pull data from all the data silos, normalize it, and then apply intelligence to the data (typically using machine learning / AI technologies) to determine the appropriate next action across channels.

Introducing the CDP Category on the MarTech LS



The “CDP” category has emerged in the past year to being a recognized category. We therefore have revised the Marketing Technology LUMAscape to reflect this.



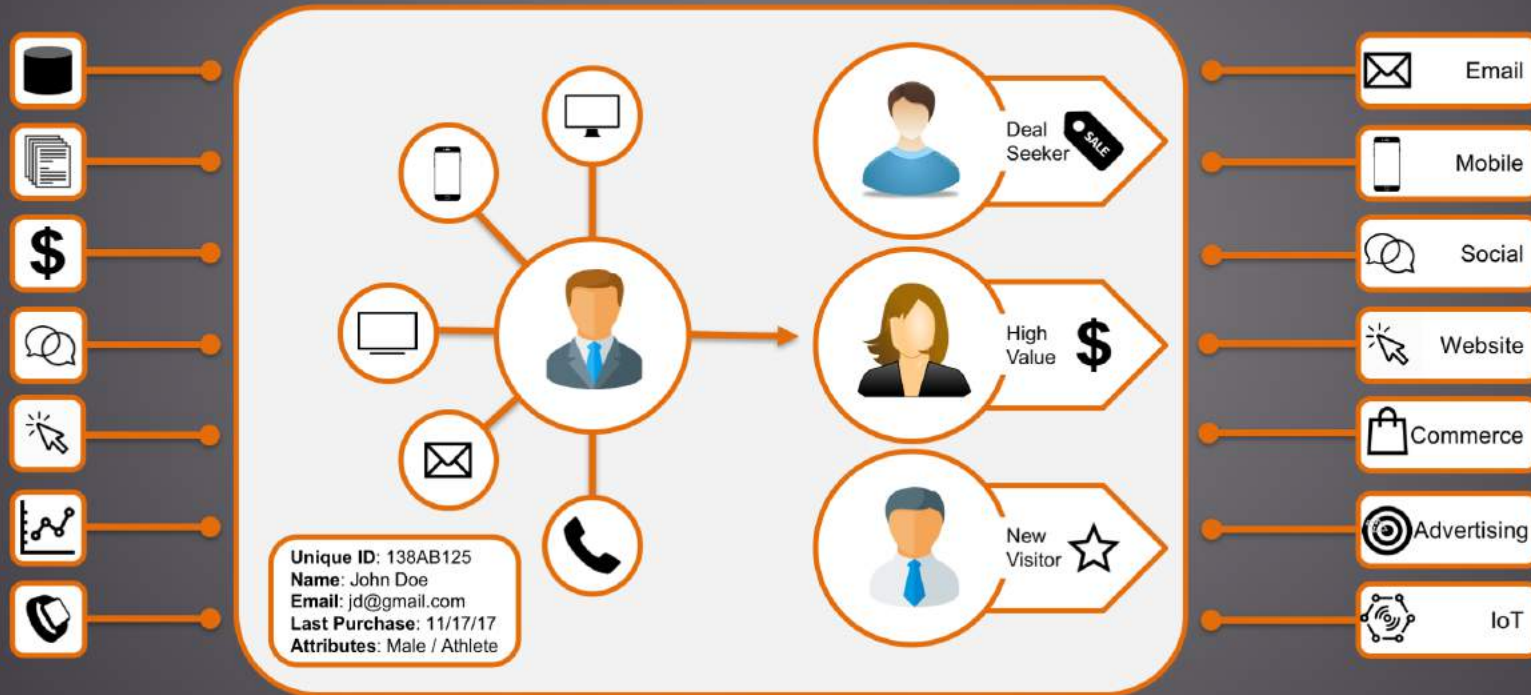
The Customer Data Platform

Collects & Models

Unifies

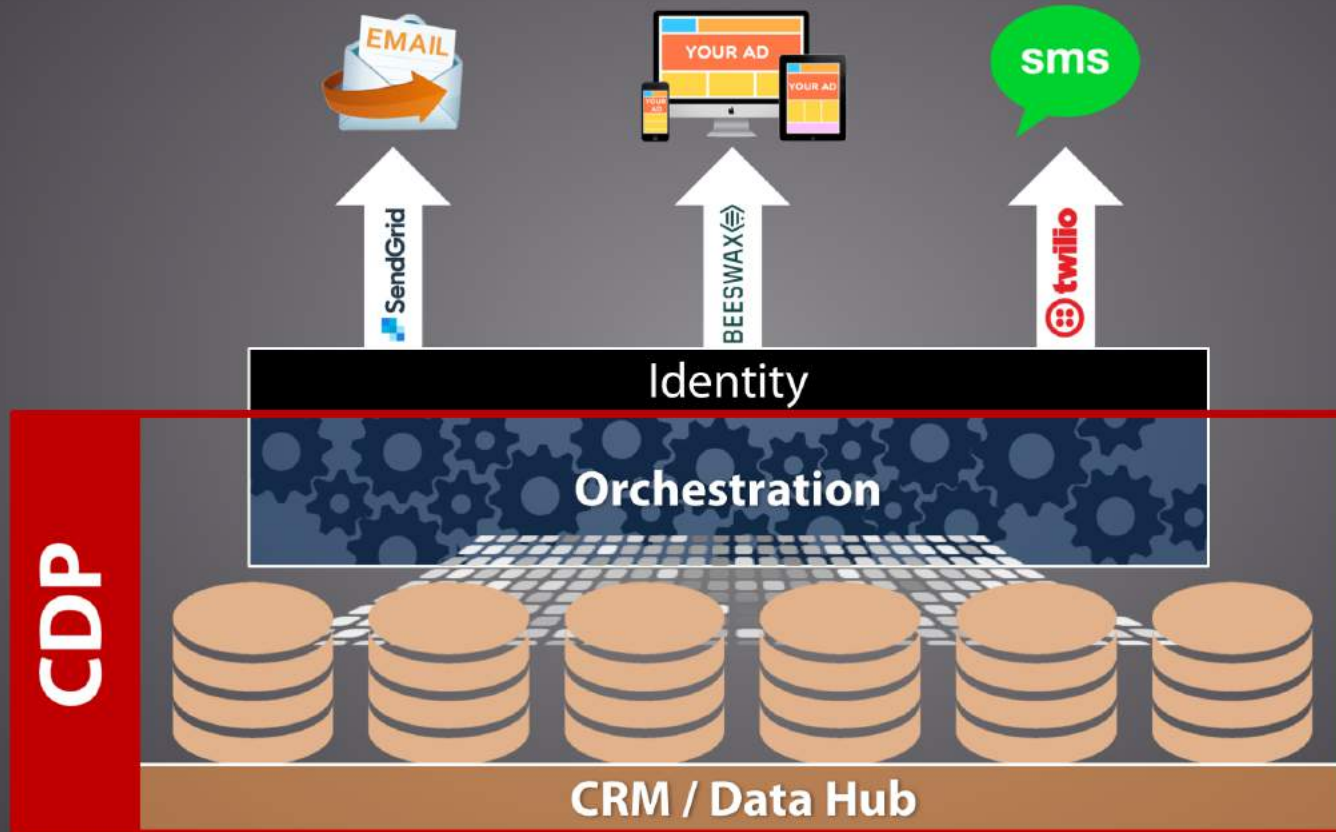
Segments

Syndicates

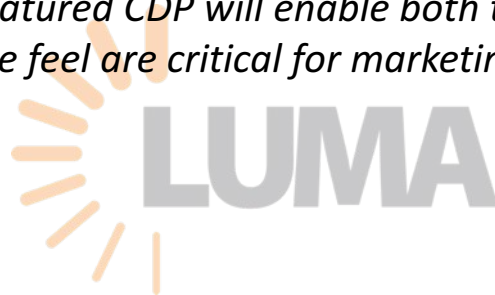


In general, the CDP has three main functions. First, it collects, normalizes and unifies data from a variety of systems such as email platforms, websites, mobile apps, call center logs, eCommerce systems, etc. Second, it applies intelligence to this data to segment the users and determine the next best action, such as a product recommendation or offer. Finally, it syndicates the next action back to the execution platforms to enable the interaction with the consumer across touchpoints.

Marketing Orchestration: Data + Identity + A.I.



Therefore, a full-featured CDP will enable both the “data” layer and “orchestration” capabilities that we feel are critical for marketing.

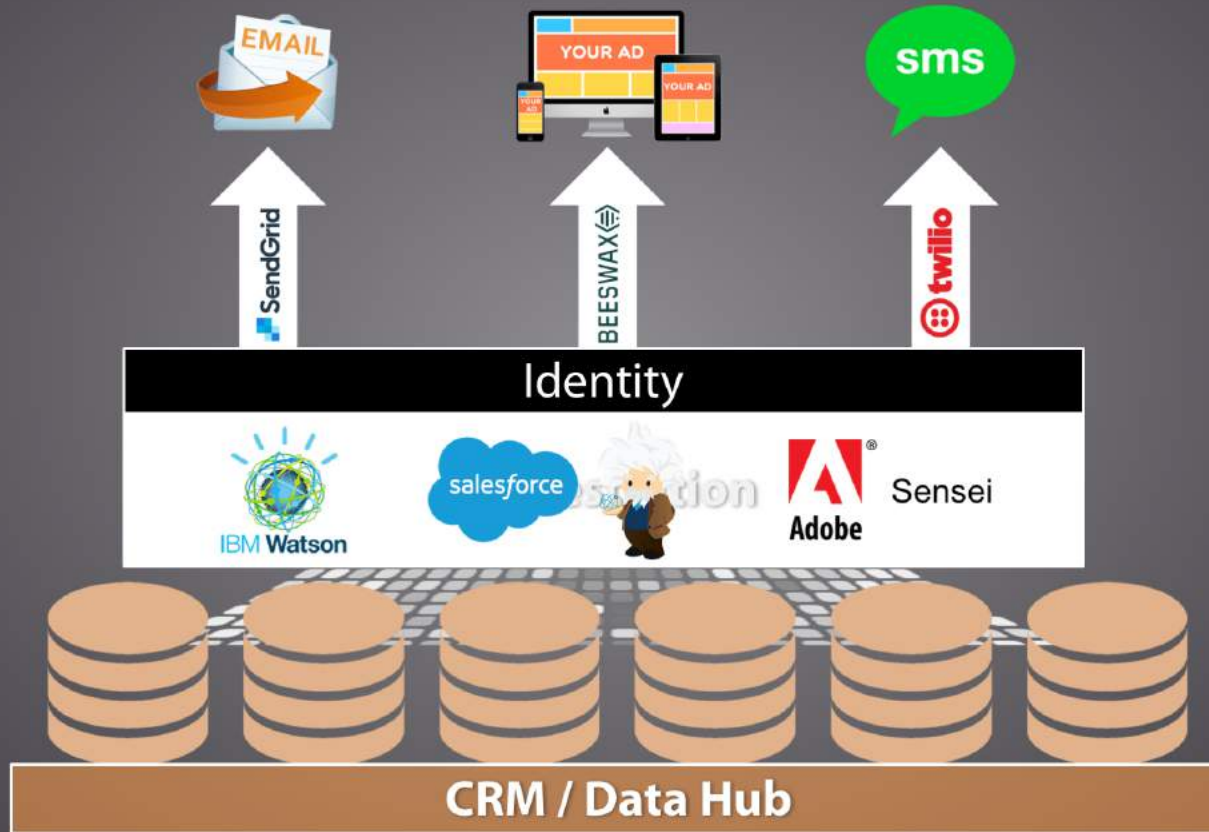


CDP Customer Base



We view the CDP category as having two main segments: commerce-focused and the other applied across verticals. Those on the right include companies that were founded as a CDP (such as Lytics), while others are focused on data collection/movement, such as former tag management players (Tealium) as well as mParticle and Segment. Although not a perfect segmentation, most of the companies on the left are DR focused, while those on the right are more brand-oriented.

Marketing Orchestration: Data + Identity + A.I.



A final comment on the “orchestration” layer. The large marketing clouds currently do not have a system that can be classified as a CDP. However, IBM, Salesforce and Adobe are all touting their A.I. capabilities with Watson, Einstein and Sensei. While nascent, these technologies will likely serve as the orchestration capability in the future for these vendors.

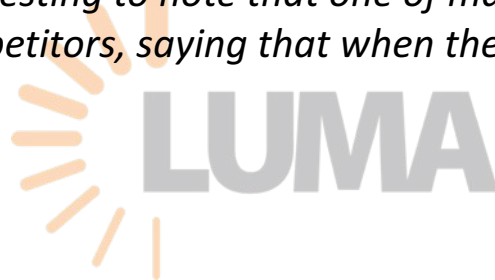
Marketing Orchestration: Data + Identity + A.I.

When companies claim they're in A.I., 'most of the time it's just nonsense'.

Mark Hurd, CEO, Oracle
November 14, 2017



However, it is interesting to note that one of main marketing clouds – Oracle – recently panned their competitors, saying that when they claim they are in A.I. “most of the time it’s just nonsense.”



B2B MARKETING



Moving to commentary on B2B marketing...





Key Trends:

1. Account Based Marketing
 - Right Message at Right Time to Right Accounts
2. Predictive Analytics
 - Identify Prospects
 - Intelligent Lead Scoring
3. Convergence of MarTech & Sales Tech

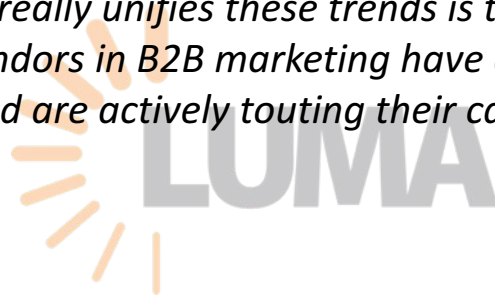


At the last Digital Marketing Summit, we summarized the state of B2B marketing with this slide, where we saw there being three main key trends: 1) the adoption of account based marketing to enable the right message at the right time to the right accounts, 2) the use of predictive analytics to help sales teams identify and engage with the accounts with the highest likelihood to purchase, and 3) the convergence of marketing technologies and sales technologies. We still view these as the key trends in 2017.

ABM on the SalesTech LUMAScape



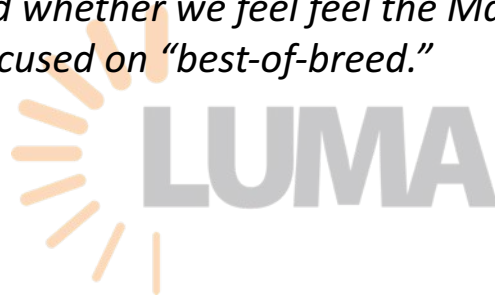
The one area that really unifies these trends is the adoption of account-based marketing. The vendors in B2B marketing have all embraced the term and methodologies, and are actively touting their capabilities.



MARKETING CLOUDS VS BEST-OF-BREED



We are often asked whether we feel the Marketing Clouds will “win,” or if the market will stay focused on “best-of-breed.”



Marketing Clouds Created through M&A



ORACLE

2009

2010

2011

2012

2013

2014

2015

2016

2017

atg

eloqua
vitruve

responsys
COMPENDIUM

datalogix
bluewin

maxymiser

Add This
NETSUITE
crosswise

MOAT

Launches Oracle ID Graph

Adobe

OMNITURE

Day

Demdex
auditude

EfficientFrontier

neolane

Livefyre
livefyre

Launches Core Services

Launches Cross-Device Data Coop Beta

Launches Experience Cloud

salesforce

BUDDY MEDIA

ExactTarget

krux
demandware

Launches Predictive Decisions

IBM

LEVEL METRICS

unica

tealeaf

SILVERPOP

Launches Digital Marketing Network

Launches Universal Behavior Exchange

LUMA

To start with the marketing clouds, they obviously were created by stitching together multiple acquisitions.



The Marketing Cloud Problem



CRUNCH NETWORK

Why Marketing Clouds Make No Sense

Posted Apr 14, 2015 by [Jeff Dachis \(@jeffdachis\)](#)



Why integrated social suites are failing marketers

Senior Writer, CIO | JUL 2, 2015 5:36 AM PT



Digital marketers face a suite challenge

Senior Writer, CIO | MAY 12, 2015 11:05 AM PT

acceleration 

THE MYTH OF THE MARKETING CLOUD

BUSINESS INSIDER

These two things are holding Salesforce back from becoming one of the biggest companies in tech

© Apr. 13, 2015, 2:54 PM

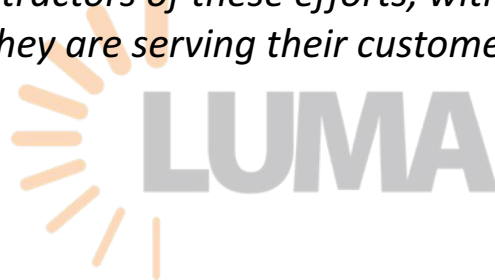
CMS WIRE

Oracle Exec Notes: Integrating Tech is Never Easy

By Dom Nicastro | May 1, 2014



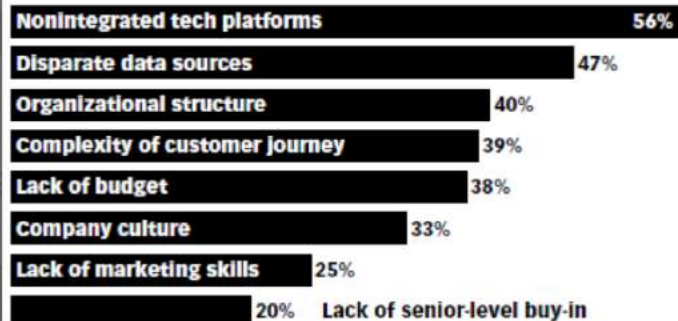
There are many detractors of these efforts, with questions of whether marketing clouds should exist, or if they are serving their customers well with logical, integrated suites.



The Marketing Cloud Problem

Leading Obstacles to Consistently Integrating Marketing Activities According to Digital Marketers/Ecommerce Professionals Worldwide, July 2015

% of respondents



Note: n=749

Source: Econsultancy, "Quarterly Digital Intelligence Briefing: The Multichannel Reality" in association with Adobe, Sep 3, 2015

196389

www.eMarketer.com



"Nonintegrated tech platforms" is the leading obstacle to integrating marketing activities, per eMarketer.



The Case for Best-of-Breed

"**Marketing tech** is actually a unique segment within all of enterprise software... this market **really favors best-of-breed**. In all other software segments, there's actually a structural advantage to buying an integrated suite. You wouldn't go buy a general ledger system and an AP system from two different vendors... But **in marketing**, you want to buy the best social system, you want to buy the best AB testing. Why? **That incremental conversion lift matters. It drives dollars.**"



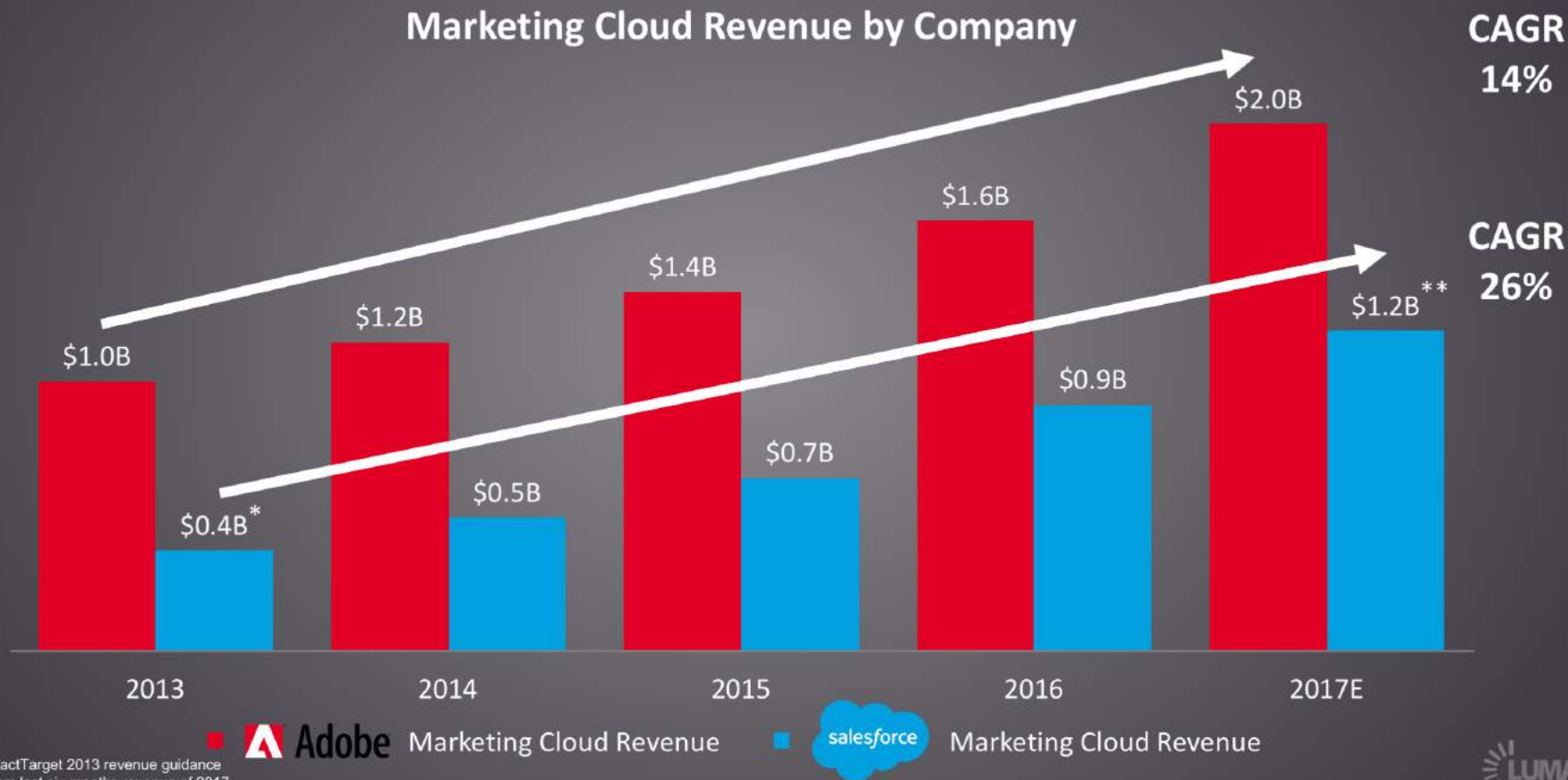
Neeraj Agrawal

BV.
Battery Ventures



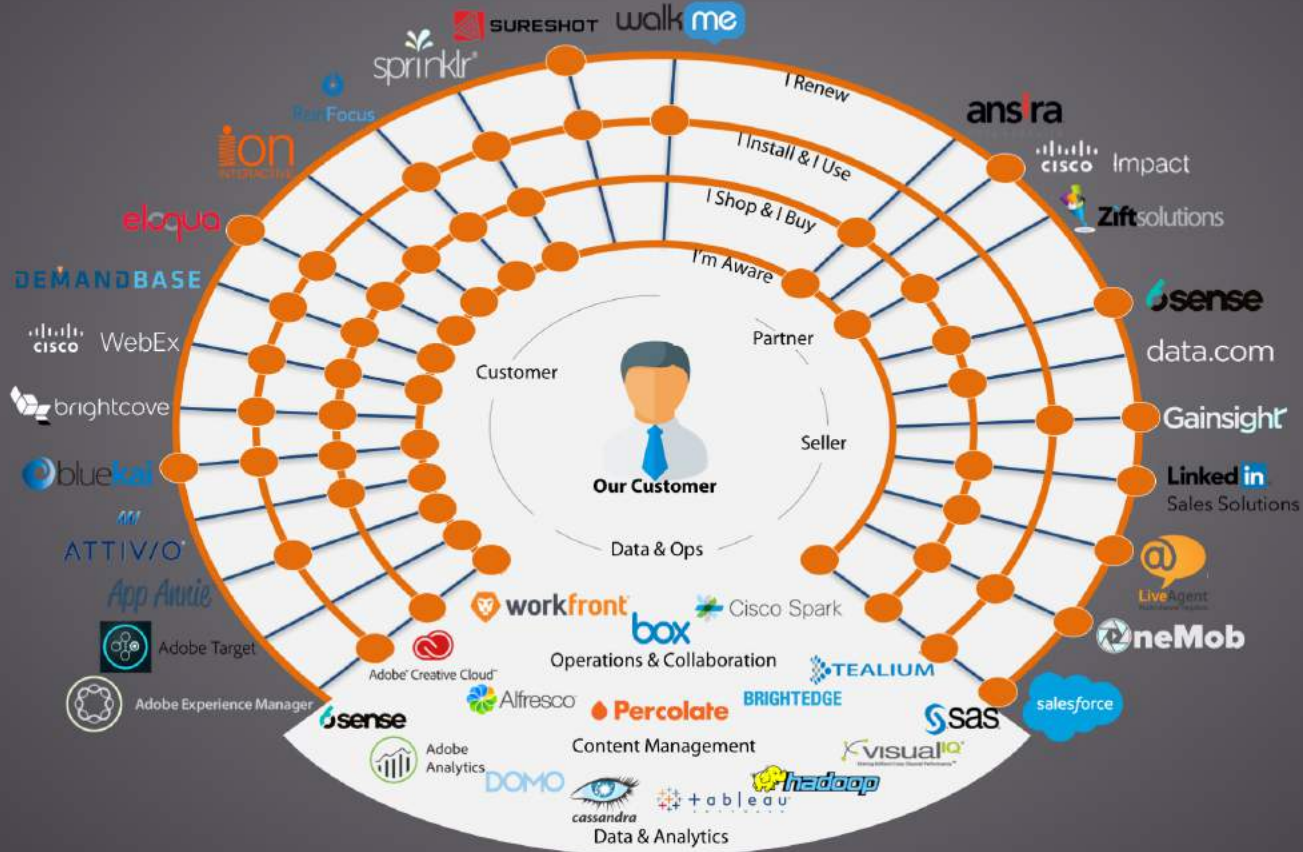
And it is not surprising that marketers still largely operate siloed, non-integrated, best-of-breed systems. Neeraj Agrawal from Battery Ventures (one of the most successful MarTech investors) believes that this is due to the inherent nature of marketers being focused on “incremental lift” from each system. Due to this mentality (driven from their marketing KPIs), he feels marketing tech uniquely will always favor best-of-breed.

The Case for the Marketing Cloud



However, there is a case for the marketing clouds. When I worked at enterprise software companies, we consistently heard from large enterprises that they prefer “one throat to choke” with vendors that can offer pre-integrated systems. And the marketing clouds are showing success, with Adobe on track to achieve \$2B in revenues, and Salesforce \$1.2B in revenues, from their marketing clouds in 2017.

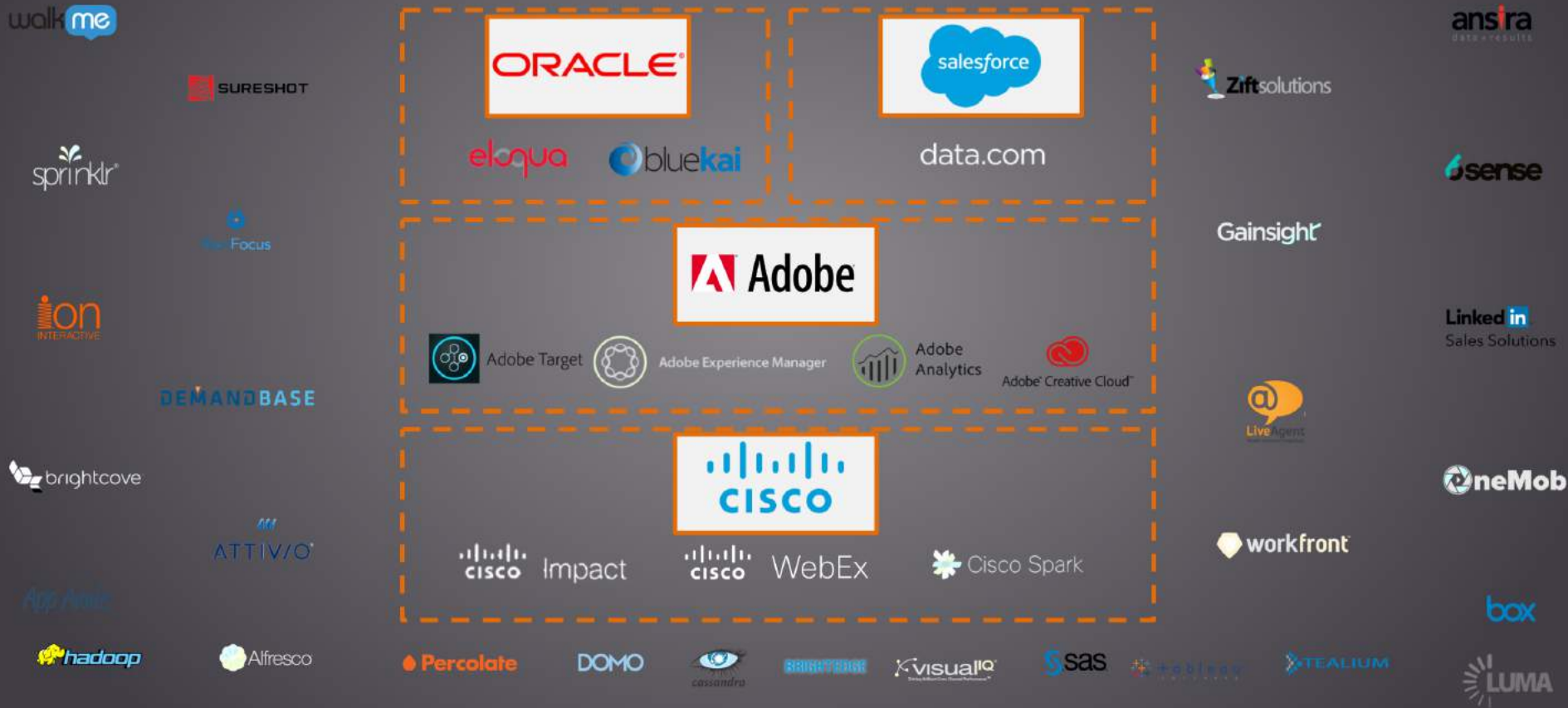
Cisco's "Digital Engagement" Tech Stack



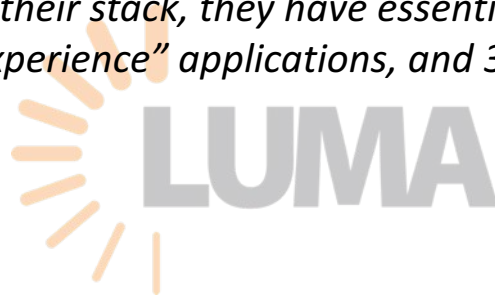
Earlier this year, Cisco published its "Digital Engagement" stack that shows all the vendors they use for their marketing and sales activities.



Cisco's "Digital Engagement" Tech Stack



If you break down their stack, they have essentially used: 1) their own technologies, 2) Adobe for their "experience" applications, and 3) best-of-breed for everything else.



Marketing Clouds or Best-of-Breed?

YES



So which wins? In the ultimate cop-out, we believe both. As long as the marketing clouds are able to combine complementary assets with integrations that benefit their customers (as Adobe has done in the Cisco example), then vendors will likely opt for these suites. However, best-of-breed vendors will always thrive in emerging areas that enterprise software vendors have not yet addressed, or if the marketing clouds do not provide valuable integrations and their products atrophy over time (and don't maintain their best-of-breed status as stand-alone products).



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