

JANUARY 2023

Chess, Not Checkers

Agency Strategy in a Time of Accelerating Change



TERENCE KAWAJA



Did Marla and Ashwini Screw Up Asking Me to Speak?

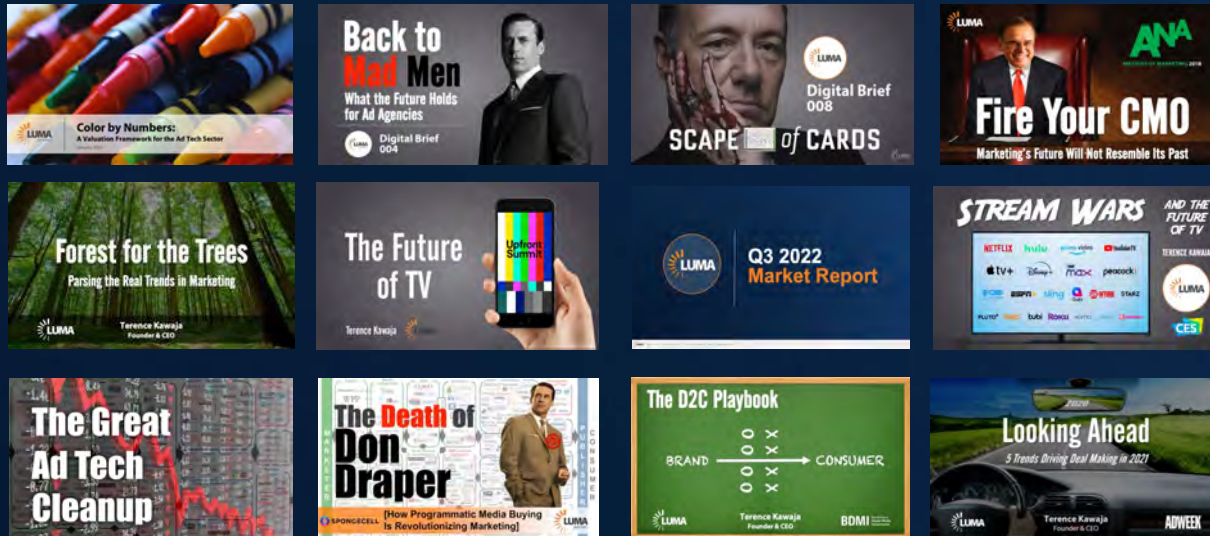


A's

Dangerous Choice For a Keynote Speaker?



- Experienced dealmaker
- Industry knowledgeable
- Compelling storyteller



Dangerous Choice For a Keynote Speaker?



- **No boss**
- **No filter**
- **No agency clients**

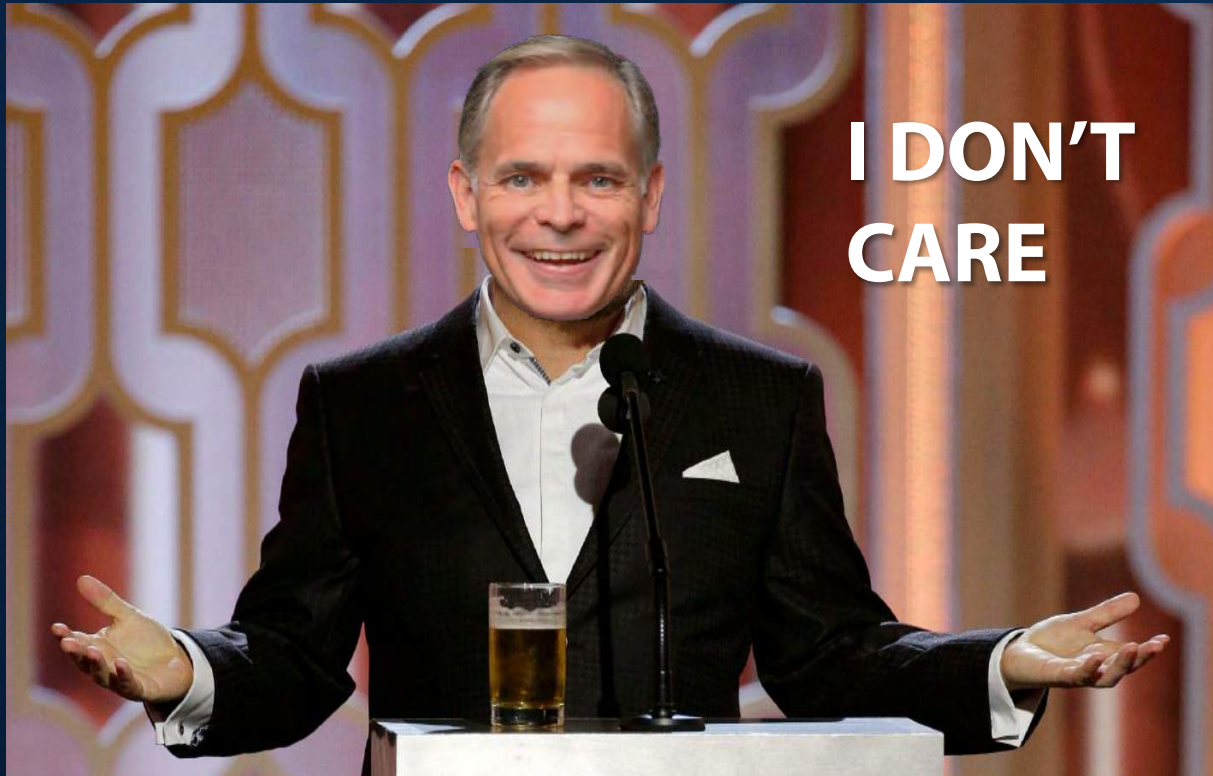
What Can Quentin Tarantino Teach Us About Agencies?

A TERENCE KAWAJA FILM

Sculpt Friction

Procurement's Extreme Methods to Tame Agencies

Dangerous Choice For a Keynote Speaker?



- **No boss**
- **No filter**
- **No agency clients**

A Look at the Major Digital Trends



**MARKET
ENVIRONMENT**



**DATA &
IDENTITY**



**COMMERCE
MEDIA**



CTV



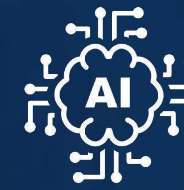
**PERFORMANT
ADVERTISING**



**POLITICAL
SPEND**



WEB3



**ARTIFICIAL
INTELLIGENCE**



MARKET ENVIRONMENT

Change is Accelerating

CHANGE

CHANGE

CHANGE

CHANGE

Change Drives Strategy Growth Decisions

BUILD

BUY



Contradictory Impacts to Deal Activity

MACRO UNCERTAINTIES

- INFLATION
- RECESSION
- WAR
- SUPPLY CHAIN
- PANDEMIC

STRUCTURAL TAILWINDS

- PE TRANSACTION FLYWHEEL
- 50 PUBLIC COMPANIES AT DISCOUNT

TECH SECTOR SELL-OFF

- CORRECTION OVERDUE
- BUYER vs. SELLER MISMATCH
- SEASONING MITIGATES

SECTORAL TAILWINDS

- SCALE
- GROWTH
- COMPLEXITY
- DYNAMICS

Big Turmoil in Big Tech



Google

amazon

Microsoft

Meta

TikTok



3 Themes:

1. Major Business Model Changes

- New businesses
- Pivots

2. Rising Competition

- Overlap in media, cloud, data
- AI as a game changer

3. Increasing Government Scrutiny

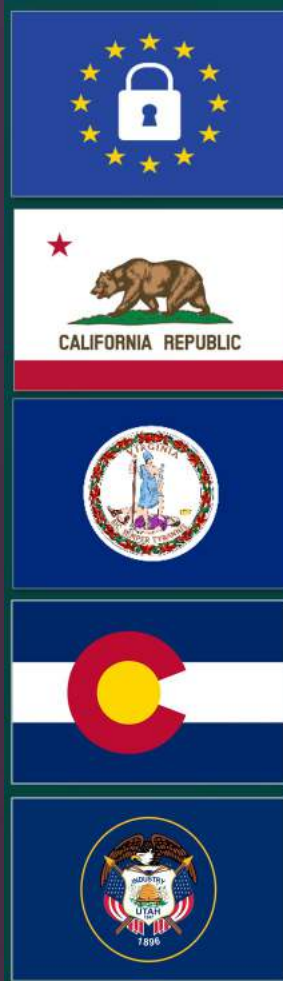
- Privacy
- Antitrust



DATA & IDENTITY

Identity Changes Create Challenges

Privacy Regulation



Data Restrictions



ETP



ITP




IDFA



GAID

Challenges

- 1:1 Targeting (Open Web)
- Facebook advertising (CAC )
- Measurement (MTA)

Identity Changes Also Create Opportunities

Work-Arounds for Audience-Based Media Buying

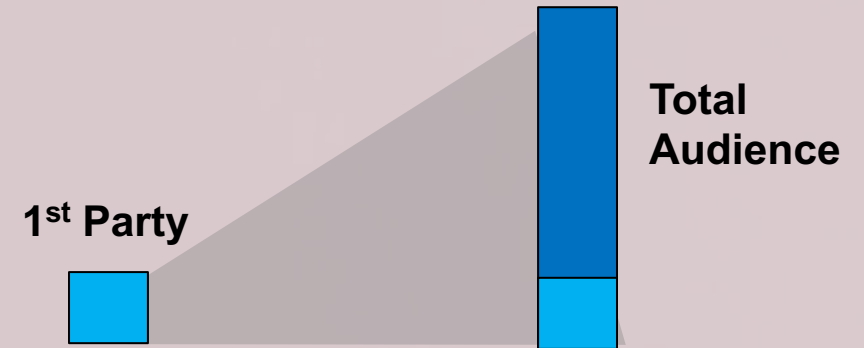
- Data & Identity solutions
 - CDPs
 - Open internet IDs
 - 1P Identity graphs
 - Data clean rooms

Alternatives to Audience-Based Media Buying

- Cohorts
- Contextual
- Creative

Limitations

- Addressability / Reach Extension

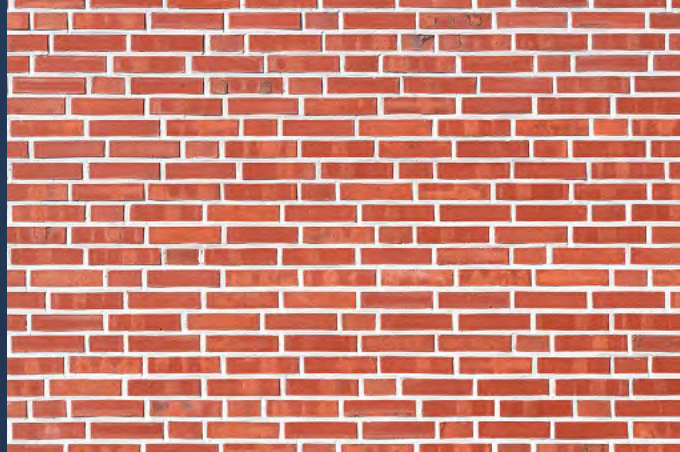


Limitations

- “Privacy Sandbox” is still being defined
- Creative tech is harder to charge without tack on to media

Digital Media From Bifurcation to Trifurcation

Walled Gardens



Open Web



CTV

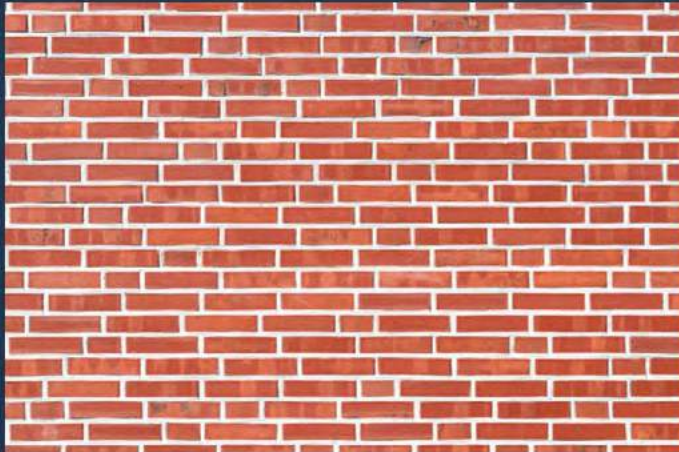
COMMERCE MEDIA

AUDIO

GAMING

Digital Media From Bifurcation to Trifurcation

Walled Gardens



Hedged Gardens



Open Web



CTV

COMMERCE MEDIA

AUDIO

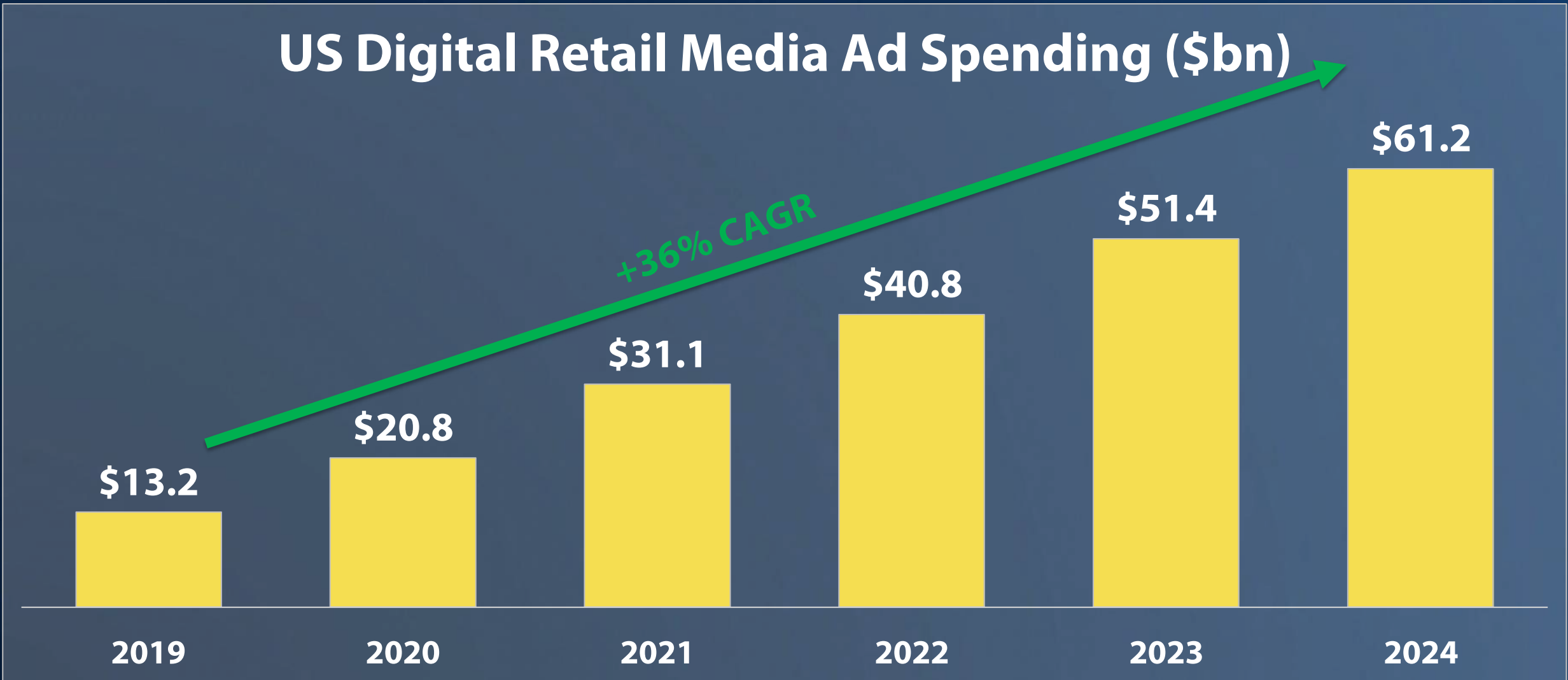
GAMING



COMMERCE MEDIA

Retail Media Has Exploded Onto the Scene

US Digital Retail Media Ad Spending (\$bn)



With Amazon As Its Poster Child

amazon

\$36BN

- **Closed loop data**
- **Media efficacy and efficiency**
- **Rapid growth**



REUTERS®

Amazon trots out YouTube-sized advertising business

By Danielle Kaye

BARRON'S

TECHNOLOGY

Amazon Earnings Included a Shocker: It Has a Bigger Advertising Business than YouTube

By Jack Denton Feb. 4, 2022 11:28 am ET

Everyone's An Ad Network

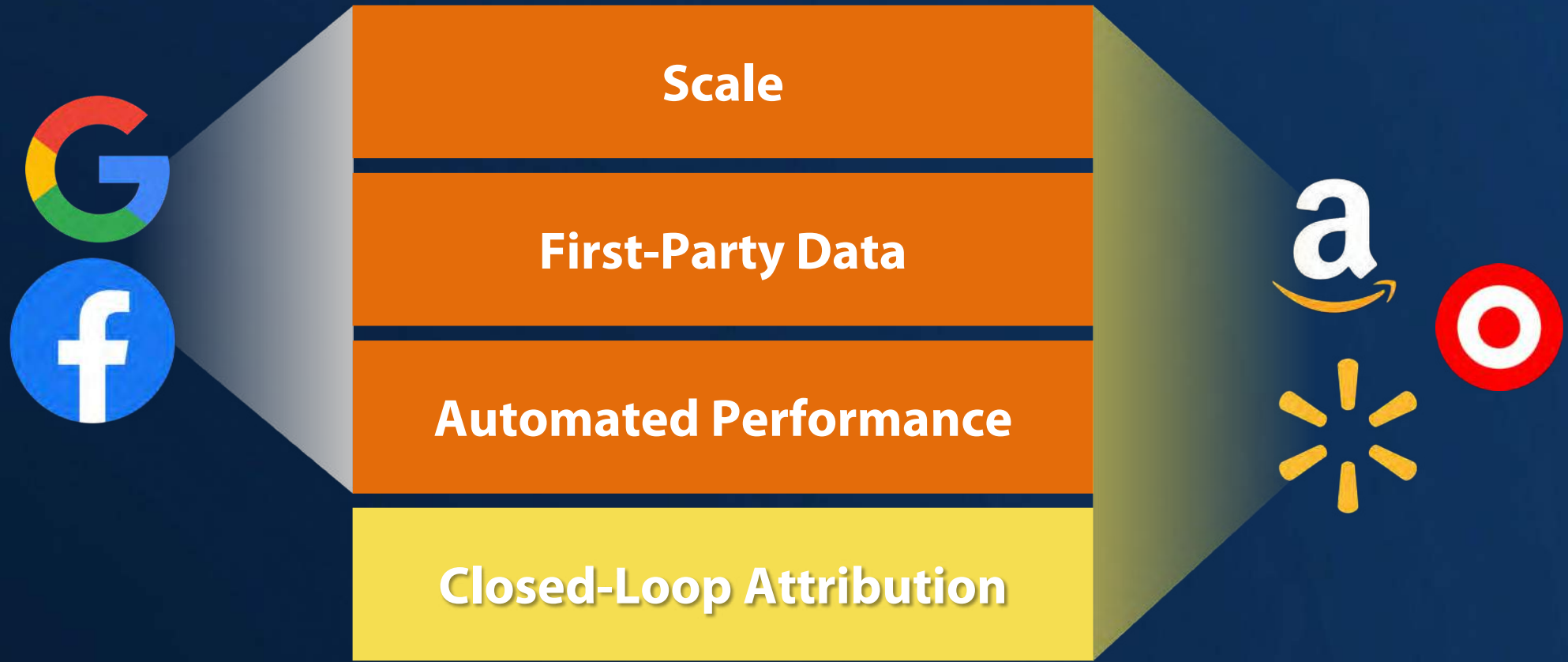
Digital Commerce Marketplaces	amazon	ebay	Etsy			
Mass Merchandise Retail	macy's	Walmart	target			
Category-Focused Retail	Albertsons	BEST BUY	CVS	THE HOME DEPOT	Kroger	Walgreens
Commerce Intermediaries / Hospitality & Delivery	DOORDASH	Expedia	instacart	Marriott	Uber	
Consumer / Entertainment Platforms	Apple	NETFLIX	ROBLOX	ROKU	XBOX	zynga
Finance / Payment Platforms	Bolt	Klarna	mastercard	shopify		

Everyone's An Ad Network – Why?

Digital Commerce Marketplaces	A	Improves Customer Experience?
Mass Merchandise Retail	B	Leverages Existing Assets?
Category-Focused Retail	C	Improves Conversion?
Commerce Intermediaries / Hospitality & Delivery	D	<u>Way</u> Higher Margins?
Consumer / Entertainment Platforms	E	ALL OF THE ABOVE
Finance / Payment Platforms		



Commerce Media Echoes Strengths of Search & Social



MILLIONS
of Advertisers

+

Spending to
efficient
frontier



CTV

CTV Ad Spend Expectations Continue to Grow

US CTV Ad Spend (October 2020 Forecast)



CTV Ad Spend Expectations Continue to Grow

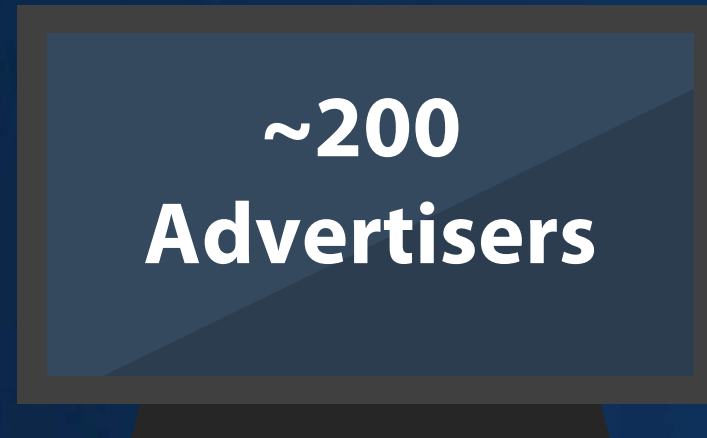
US CTV Ad Spend (March 2022 Forecast)



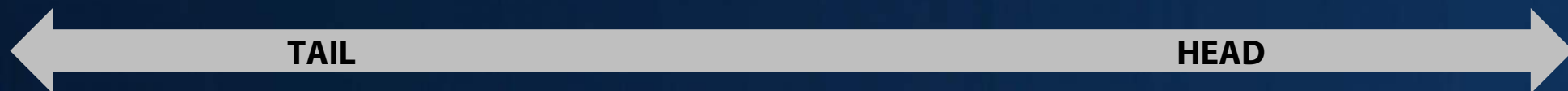
Convergence Democratizes TV Ad Spend



**10 Million
Advertisers**



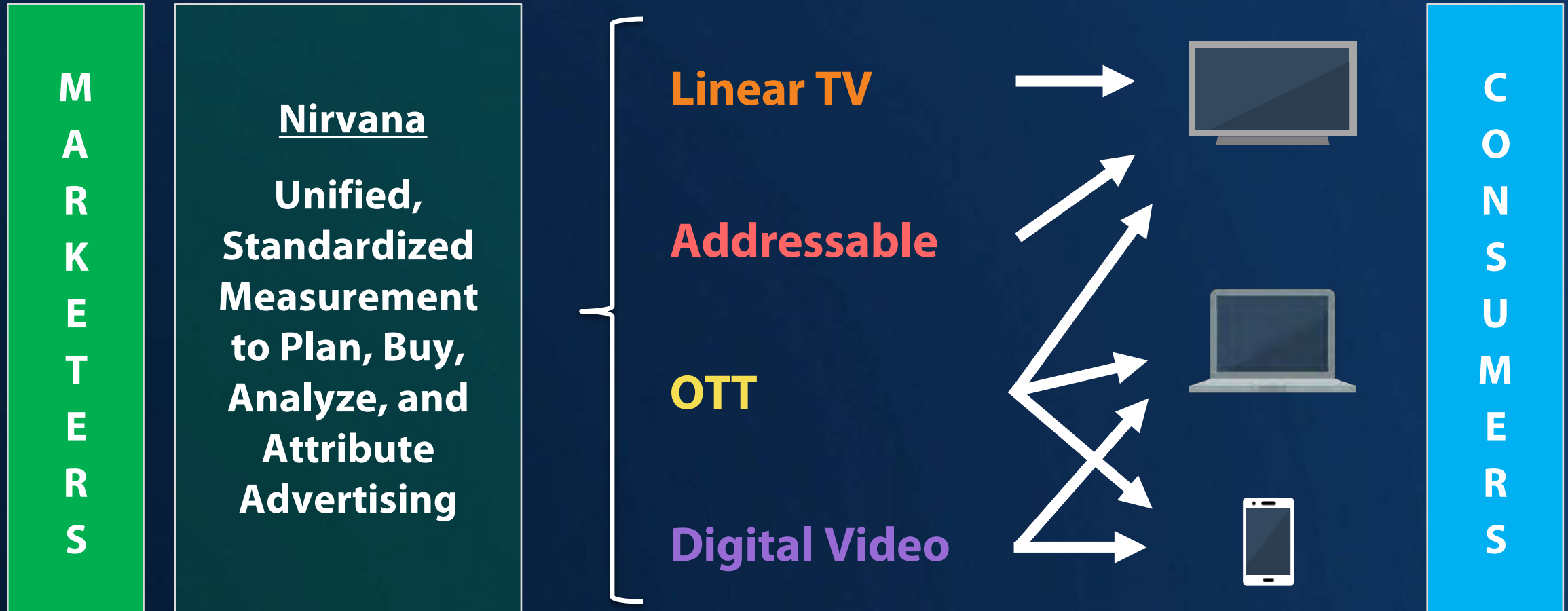
**~200
Advertisers**



TAIL

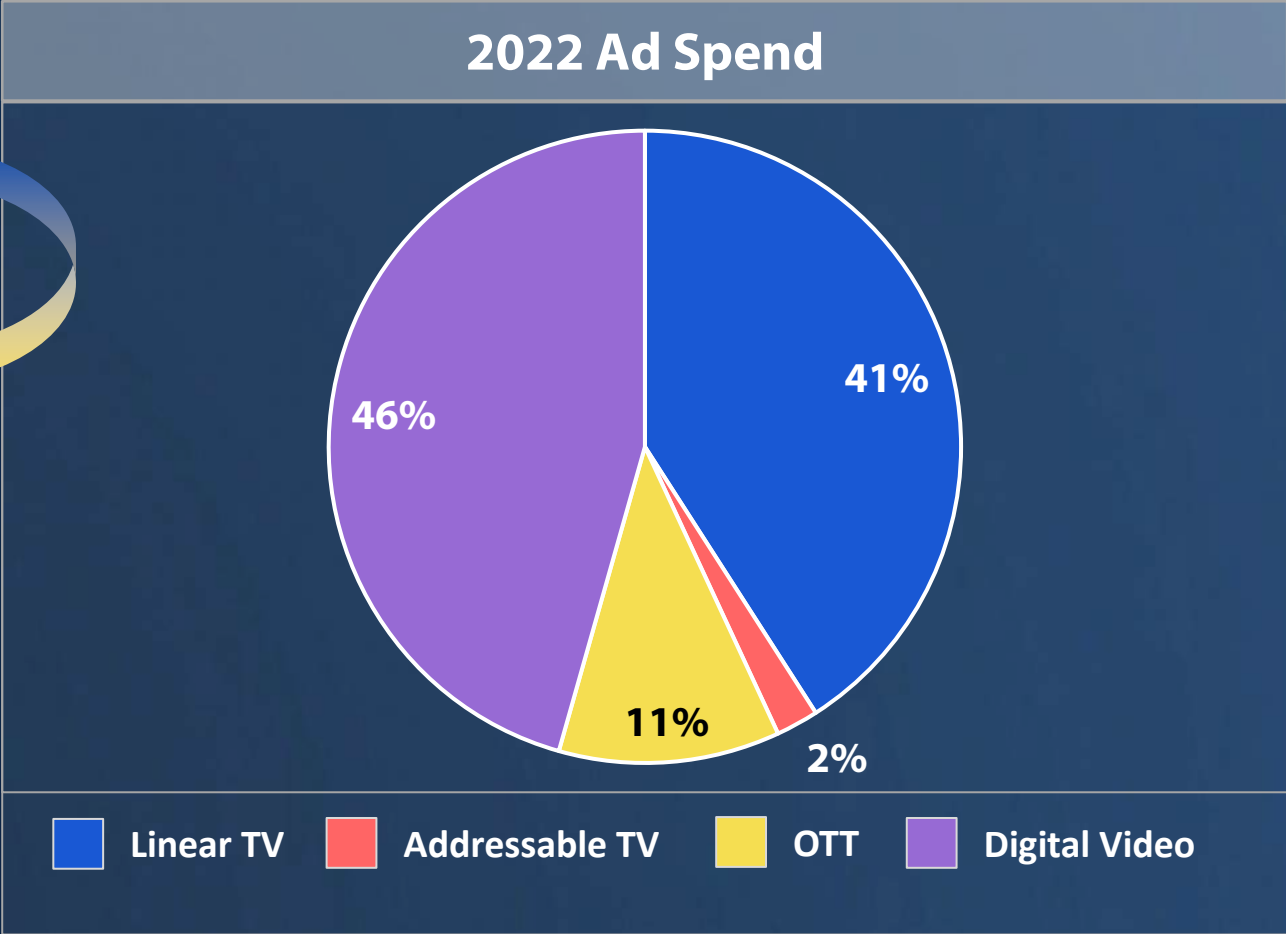
HEAD

Convergent TV Presents Much Complexity



CTV Really References “Convergent TV”

	2021 Ad Spend	Growth	2022 Ad Spend
Linear TV	\$65.7	4%	\$68.4
Addressable	\$2.9	27%	\$3.6
OTT	\$14.2	33%	\$18.9
Digital Video	\$60.3	26%	\$76.2
Total	\$143.0	17%	\$167.1



And Sports Rights Will Inflect Linear Down



Competitive TV Measurement is in Vogue



Proliferation of Challenger Currencies

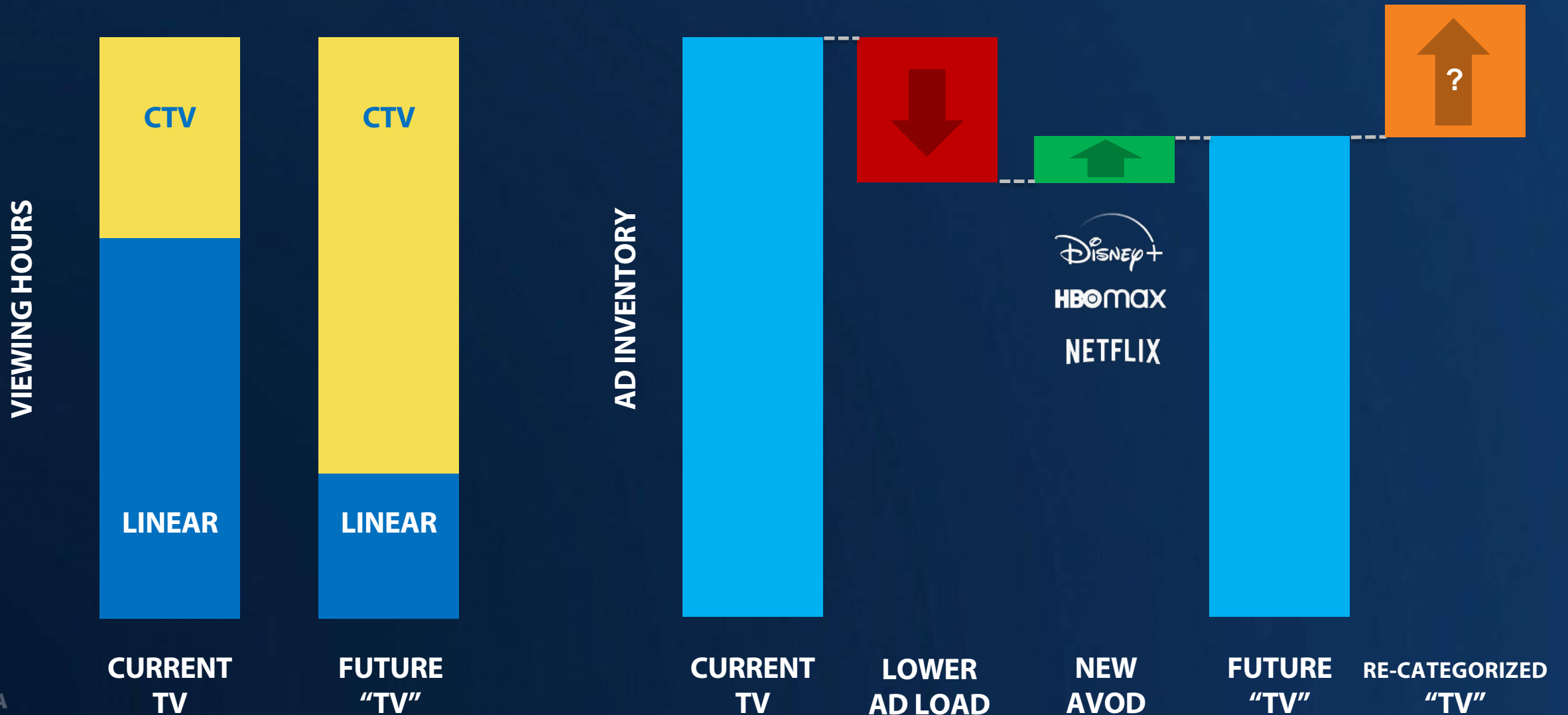


TV Currency Deals












Bridging TV's Demand / Supply Imbalance

CTV, like TV and unlike digital, is a supply-constrained media channel and the market will balance itself with more "TV" supply



“TV” Inventory Recategorization

<i>Category</i>	<i>Sub Channel</i>	<i>Example</i>	<i>Expansion</i>
TV	Linear TV		
	CTV - AVOD		
	CTV - FAST		
“TV”	Digital Video		
	Mobile		
	Audio		
	DOOH		
	Console Gaming		

The Shift to Streaming Requires Media Companies to Swap Engines in Flight

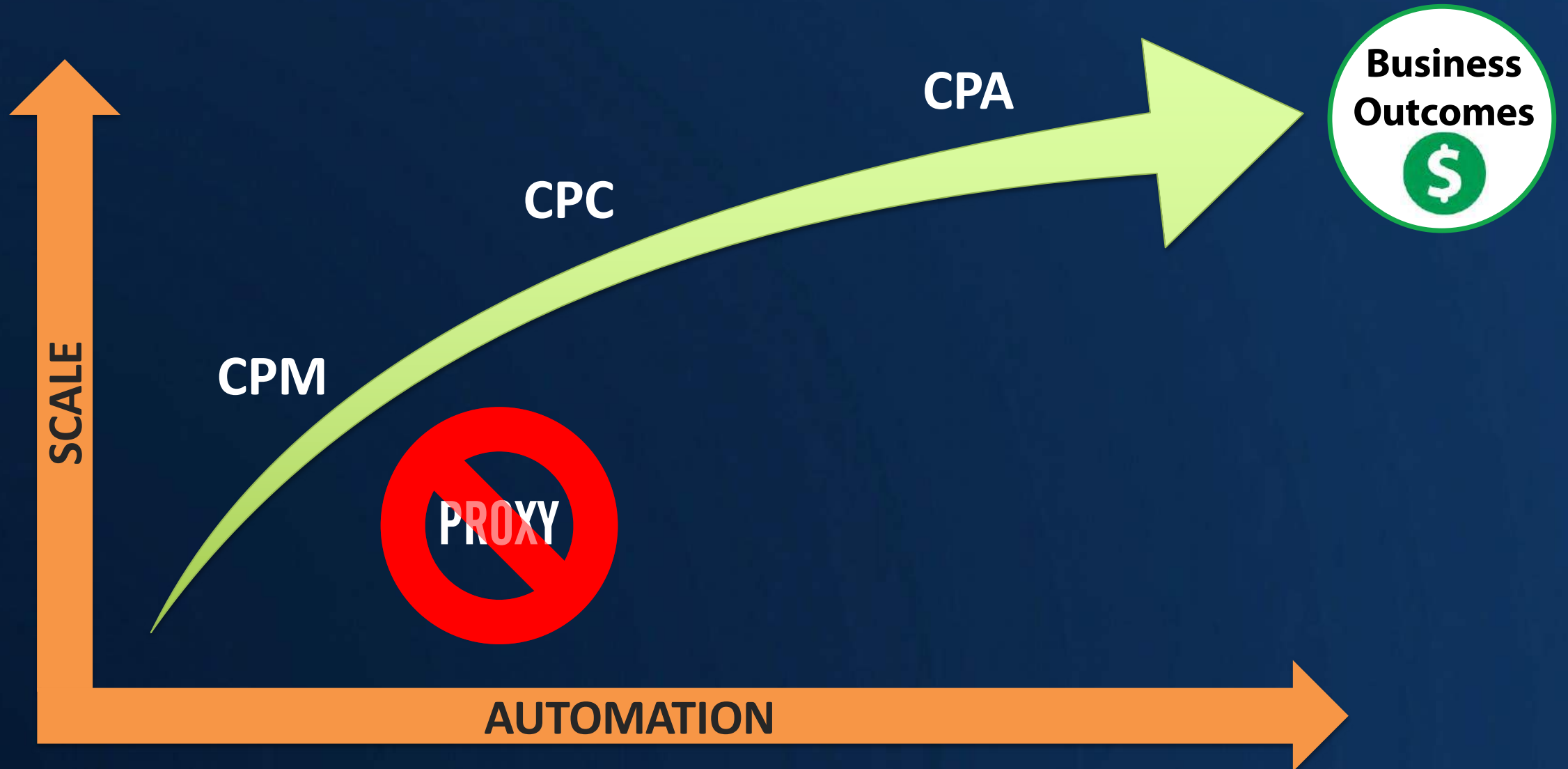


...Which Explains the Market Turbulence



PERFORMANT ADVERTISING

Migration to Performance is Inevitable



Eventually All Marketers Will Catch On

Gaming



Apps



D2C



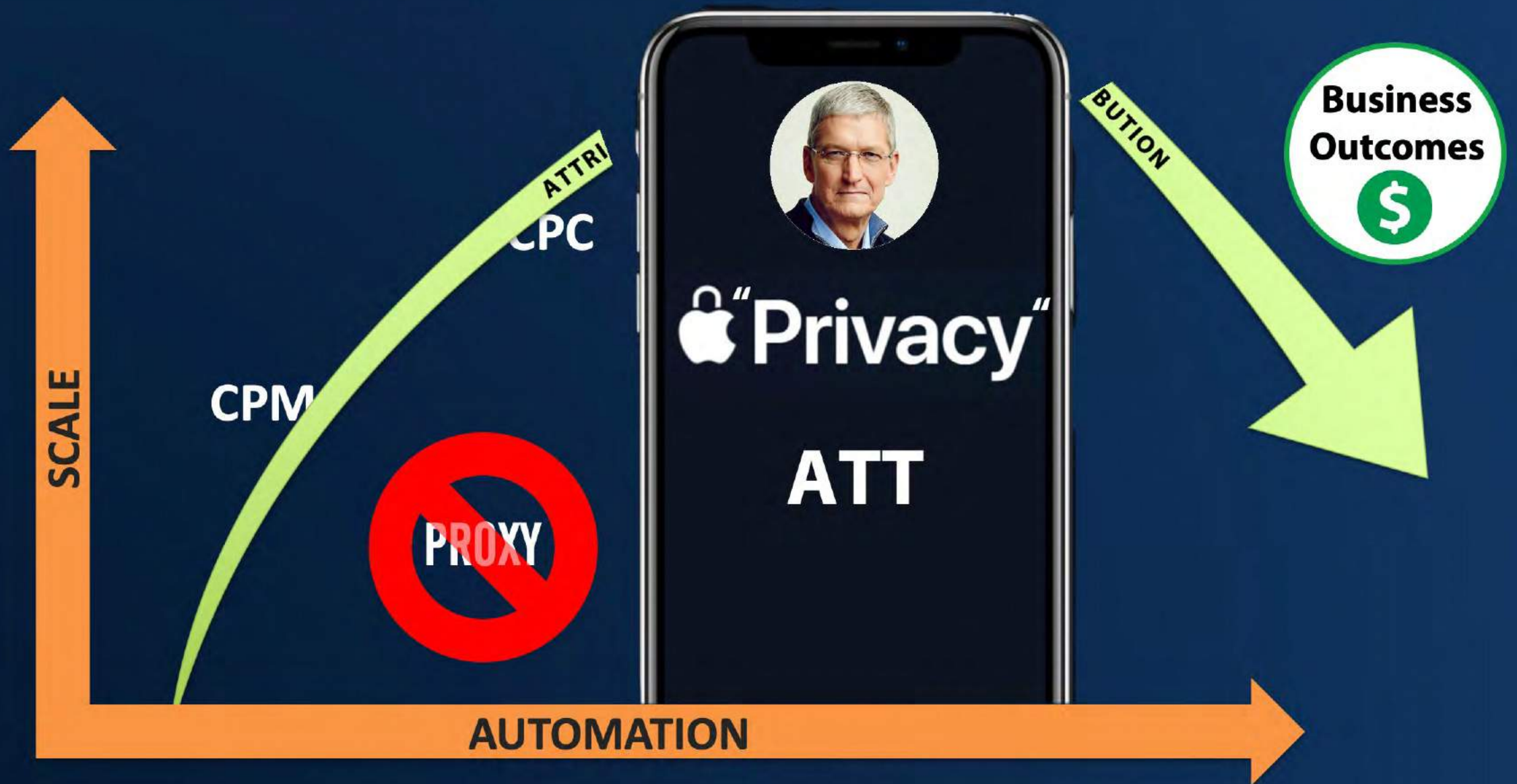
All Marketers



Attribution is Essential to Performance



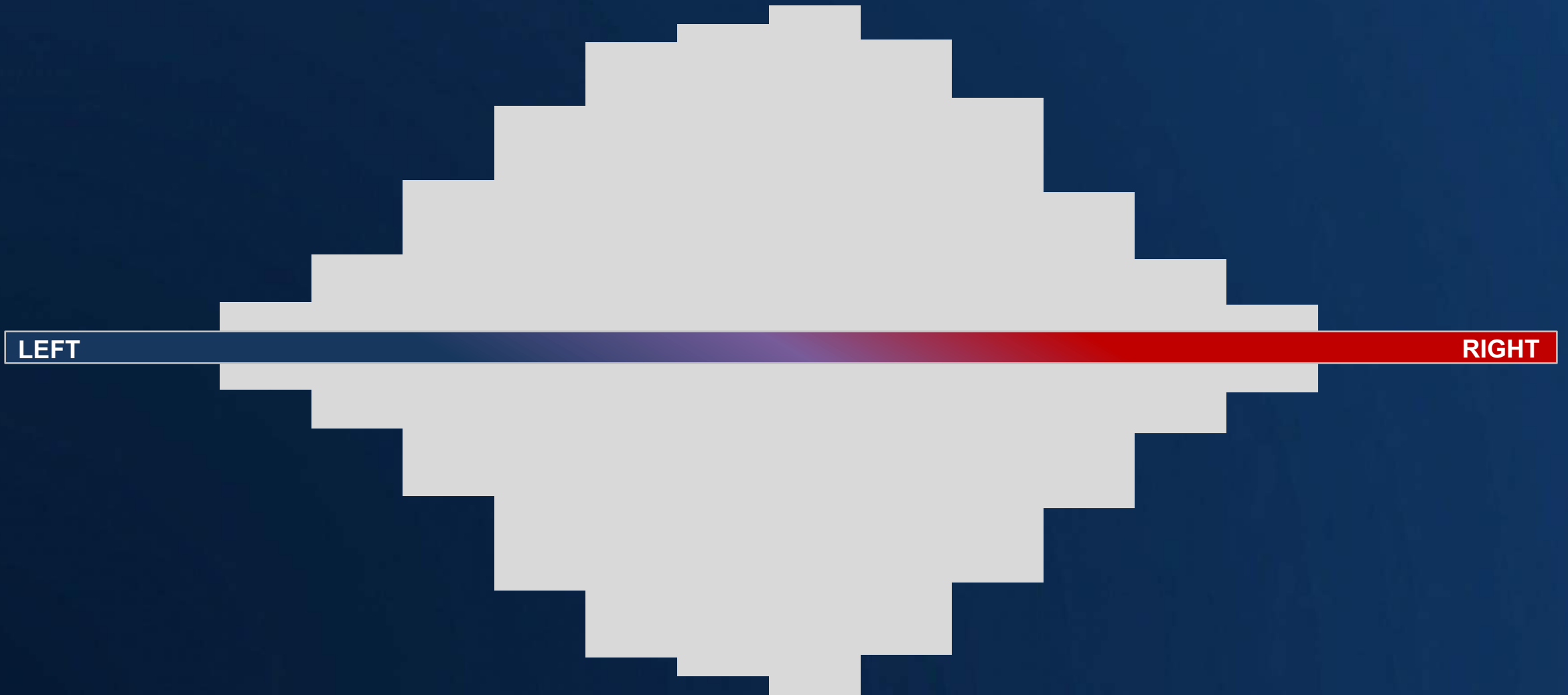
Attribution is Essential to Performance



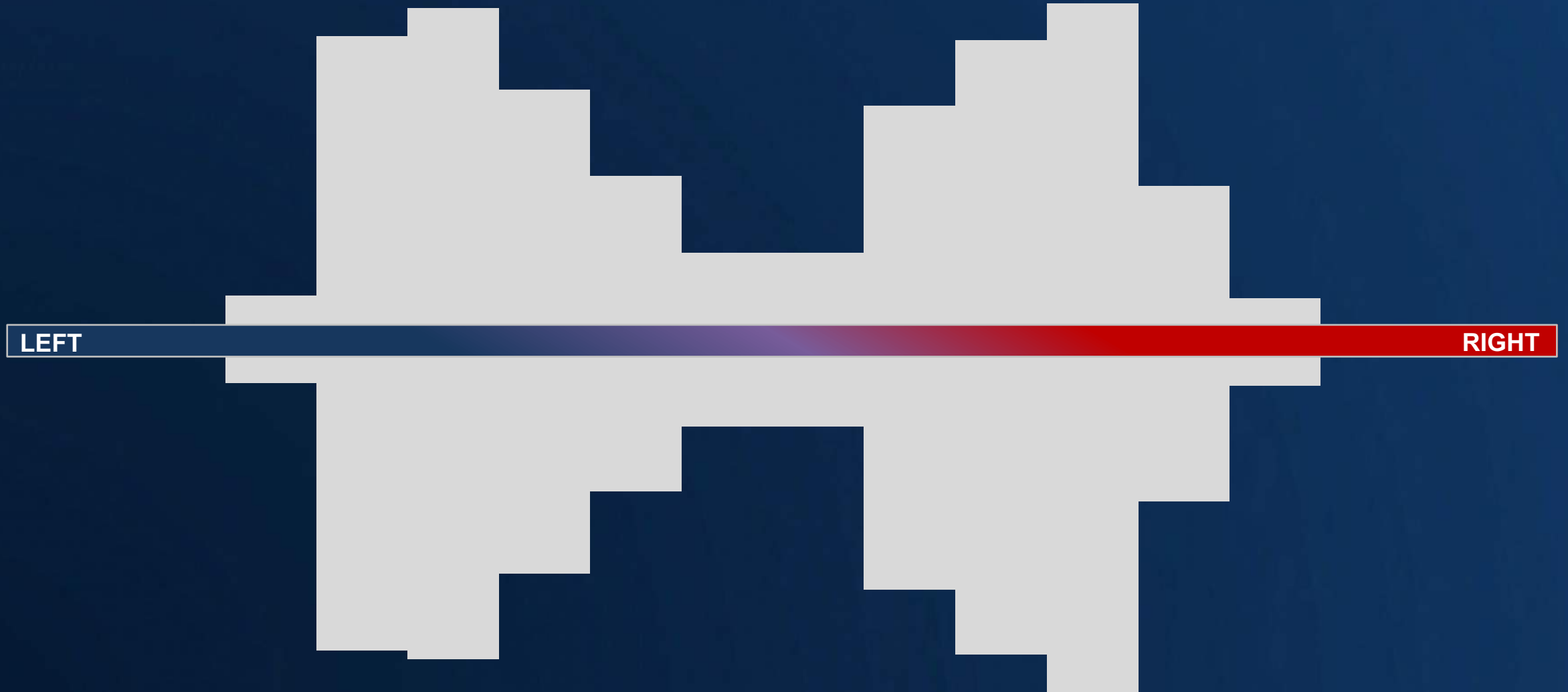


POLITICAL AD SPEND

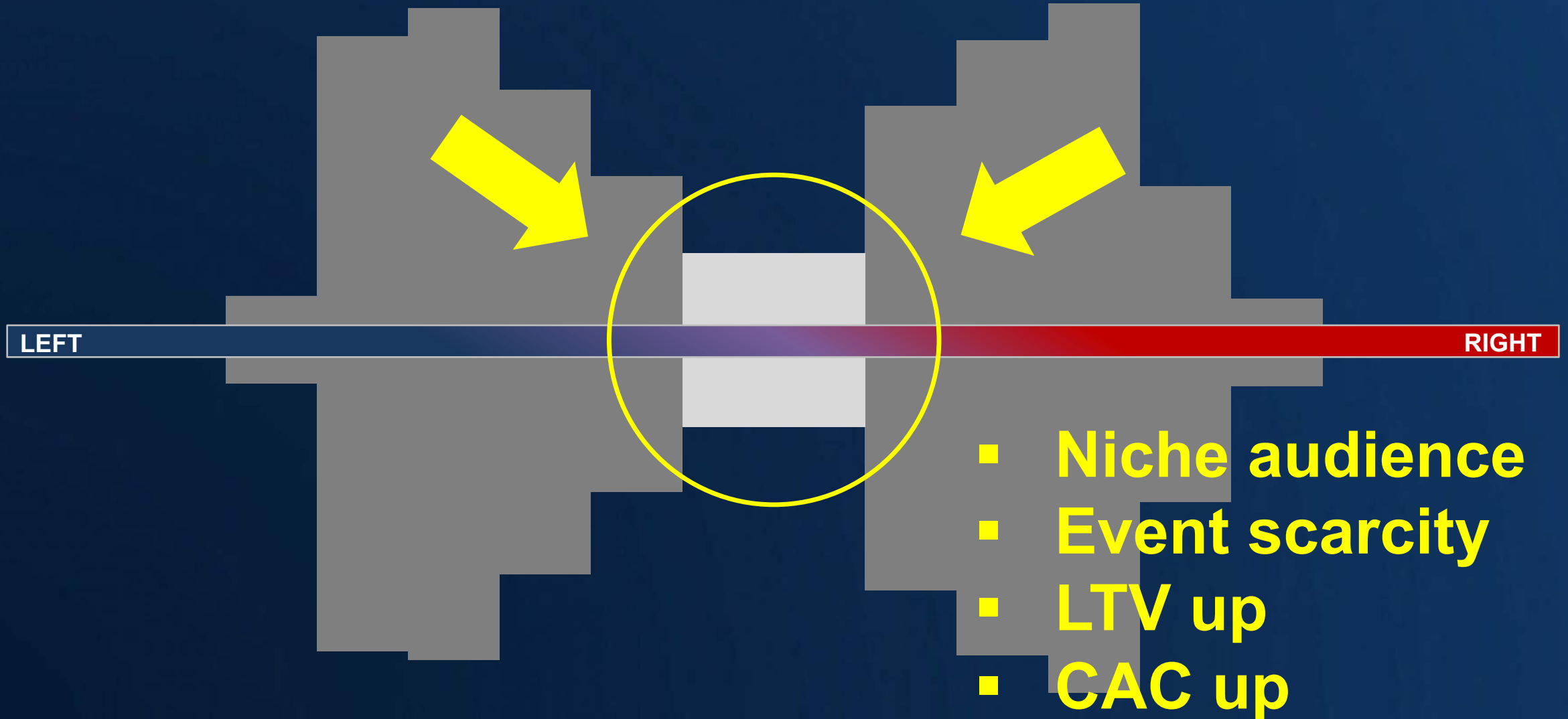
Political Campaigns Are Perfect For CTV



Political Campaigns Are Perfect For CTV



Political Campaigns Are Perfect For CTV



2022 Georgia Senate Runoff: Fun With Math



Georgia Registered Voters

7.9 million

% Independent

9%

Georgia Independent Voters

704,000

2022 Senate Runoff Ad Spend

\$238 million

Ad Spend per Independent Voter

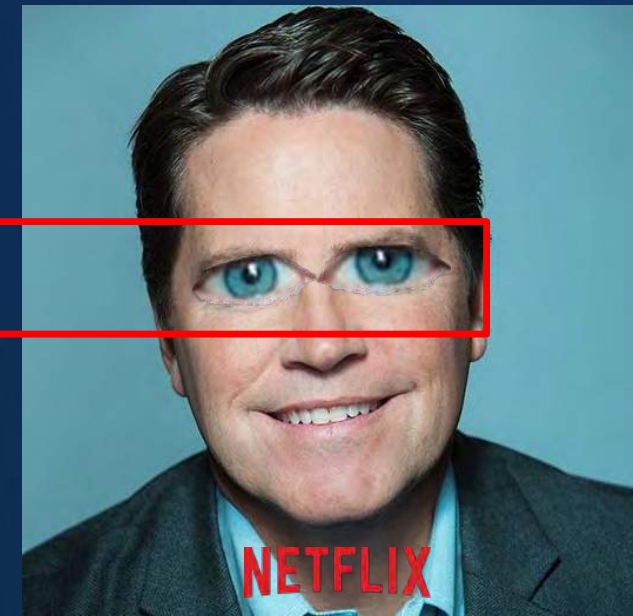
\$376

CPM

\$376,000

% Higher than Netflix (\$75 CPM):

500,000%





WEB3

A Realistic Web3 Glossary

Web3

A made up name VCs use to distract from the scams and massive losses in crypto. It fancifully promises decentralization but looks more like recentralization under new ownership (so more like Web2.1).

Crypto

A decentralized technology solution for speculation and illicit money transfer; **awaiting a legitimate use case**. Still waiting.

Blockchain

Real technology for distributed files best suited for static and high value commodities (money, contracts) and **not suited for low value, massive volume, real time transactions (digital advertising)** for which latency and cost make it a non-starter.

NFT

A jpeg with provenance.

Metaverse

A silly name Facebook (re)invented to distract investors with a massive bet-the-company pivot. It doesn't exist but expect proponents to take credit for advancements in VR and AR (which are real).

DAO

Timeshares 2.0. Same outcome.

A Realistic Web3 Glossary

Web3

Crypto

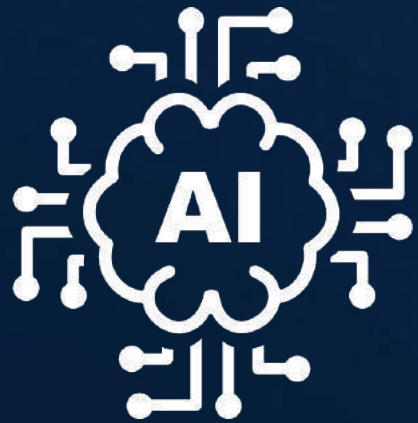
Blockchain

NFT

Metaverse

DAO

Zero The total return
of all marketing
investments
made in Web3.



ARTIFICIAL INTELLIGENCE

AI: Taking the Zeitgeist By Storm in 2023



- DALL·E
- Chat GPT

COMPLEXITY IS AN
OPPORTUNITY



What are biggest challenges facing advertising agencies in 2023?



It is difficult for me to predict with certainty what the biggest challenges facing advertising agencies in 2023 will be, as the future is always uncertain and subject to change. However, I can speculate on some potential challenges that advertising agencies may face in the future.

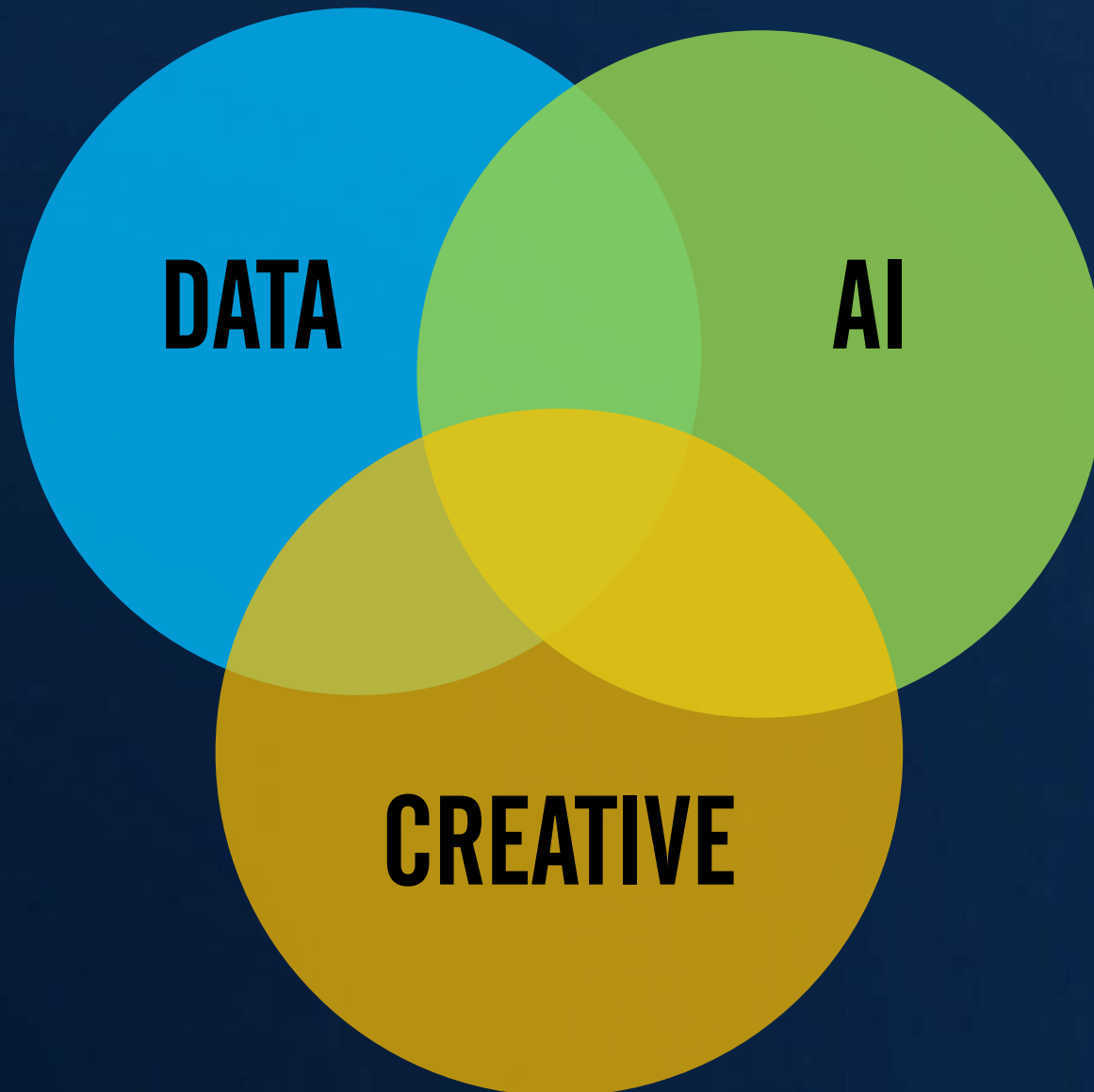


One potential challenge is the increasing use of ad-blockers and other technologies that allow consumers to block or avoid online advertising. This could make it more difficult for advertising agencies to reach their target audiences and effectively deliver their messages.

Another potential challenge is the increasing complexity of the advertising landscape, with a proliferation of channels and platforms through which to deliver ads, as well as the growing use of data and analytics in the planning and execution of campaigns. This could require advertising agencies to adapt and stay up-to-date with the latest trends and technologies in order to remain competitive.

Finally, there may also be challenges related to regulatory and compliance issues, as governments around the world continue to introduce new laws and regulations governing advertising and data privacy. Advertising agencies may need to ensure that their campaigns are compliant with these laws and regulations in order to avoid legal and reputational risks.

AI Technology is Coming to Creative



For agencies, AI is:

- a) a threat
- b) an opportunity
- c) YES



The Industry is Obsessed with Efficiency

A large, jagged iceberg floating in a dark blue sea. The top of the iceberg is visible above the water, while the much larger, submerged part is below. The word 'EFFICIENCY' is written in large, blue, outlined letters across the submerged part of the iceberg. Below it, the text '(Focus on Media, Data)' is written in black. In the bottom left corner, a small white boat is visible on the water.

EFFICIENCY

(Focus on Media, Data)

Whereas Creative is the Path to Efficacy

CHEAPER



EFFICIENCY
(Focus on Media, Data)



EFFICACY
(Focus on Creative)

BETTER



**And now the
moment of truth**



**UNIVERSITY OF
ADVANCED LEARNING**

**2023
REPORT CARD**

FOR

A's

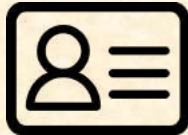
TERENCE KAWAJA
DEAN

The LUMA Report Card

Student Name: Alicia Agency



**MARKET
ENVIRONMENT**



**DATA &
IDENTITY**



**COMMERCE
MEDIA**



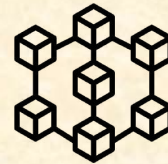
CTV



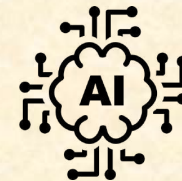
**PERFORMANT
ADVERTISING**



**POLITICAL
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WEB3



**ARTIFICIAL
INTELLIGENCE**



UNIVERSITY OF
ADVANCED LEARNING

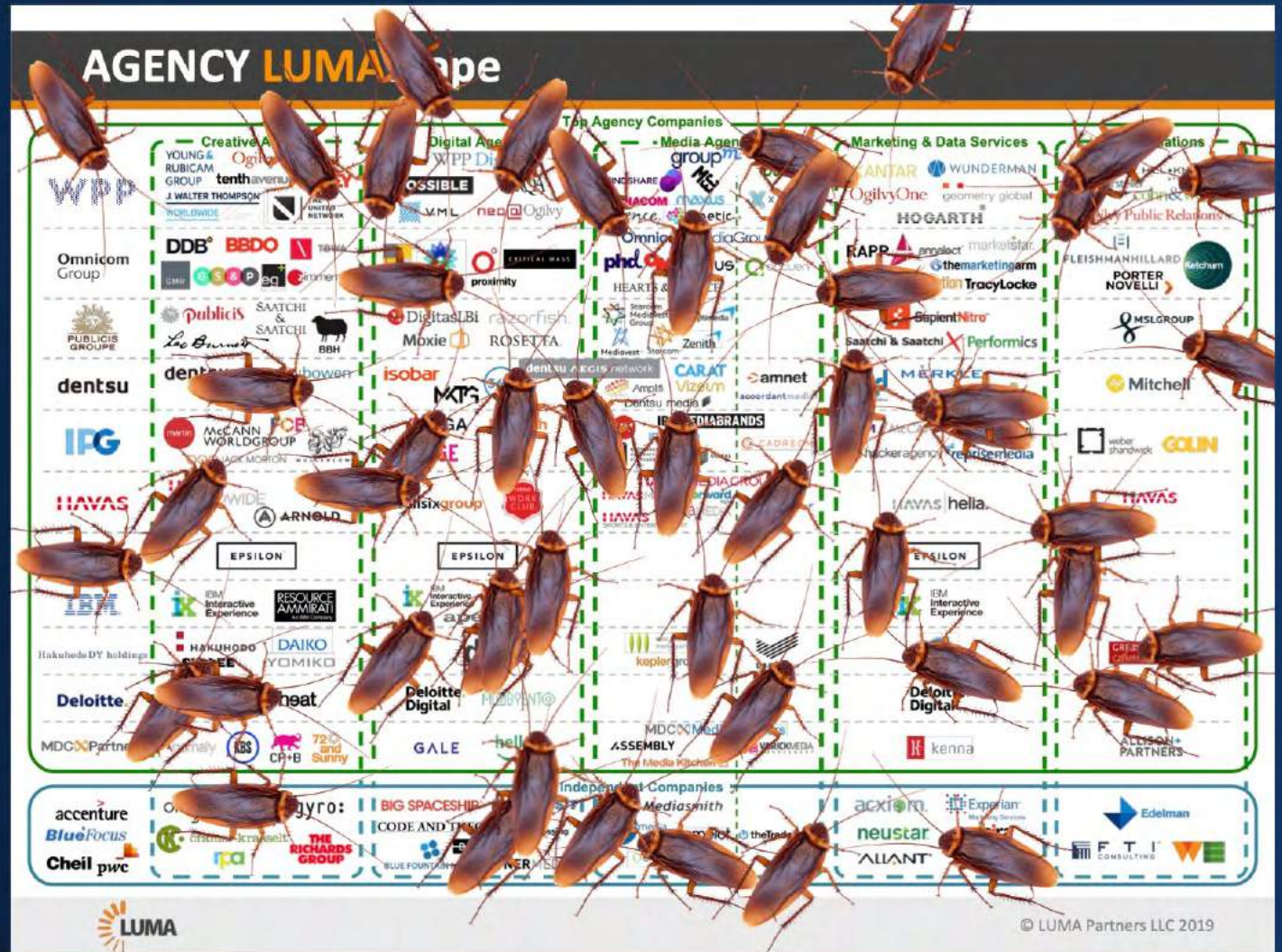
STUDENT FINAL GRADE:

pass



Rishad Was Right!

Agencies are like cockroaches



MAD MEN[®]

featuring a cameo by

TERENCE KAWAJA



How Does an Agency Become More Valuable?

1. Embrace complexity

COMPLEXITY IS AN
OPPORTUNITY

2. Solve the most pressing client opportunities

- Digital
- Commerce Media
- CTV



3. Enhance operating leverage with data / technology



ANALYTIC
PARTNERS

flywheel

MADISON
LOGIC.






MiQ

MarketShare

tatari

tinuiti

Valuations Reflect Operating Leverage of Business Models

Business Model	Select Companies	Operating Leverage	EV / LTM Revenue ⁽¹⁾
Software		HIGH	8.3x
Data		MEDIUM / HIGH	7.6x
Ad Tech		MEDIUM	
Services		MEDIUM / LOW	2.6x
FTE / Cost+		LOW	1.3x

Source: FactSet (market data as of 1/10/23). Note: TheTradeDesk is included in "Data" and "Ad Tech (Media)" cohorts; (1) Contemplates average EV / LTM Revenue multiple of the publicly-listed companies in each cohort.

What Game Are You Playing?



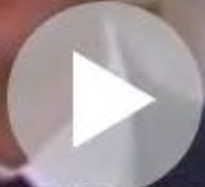
or



Not a Viable Strategy...



...Because Disruption is Inevitable



MEDIALINK

BRAND

AGENCY

What is love?

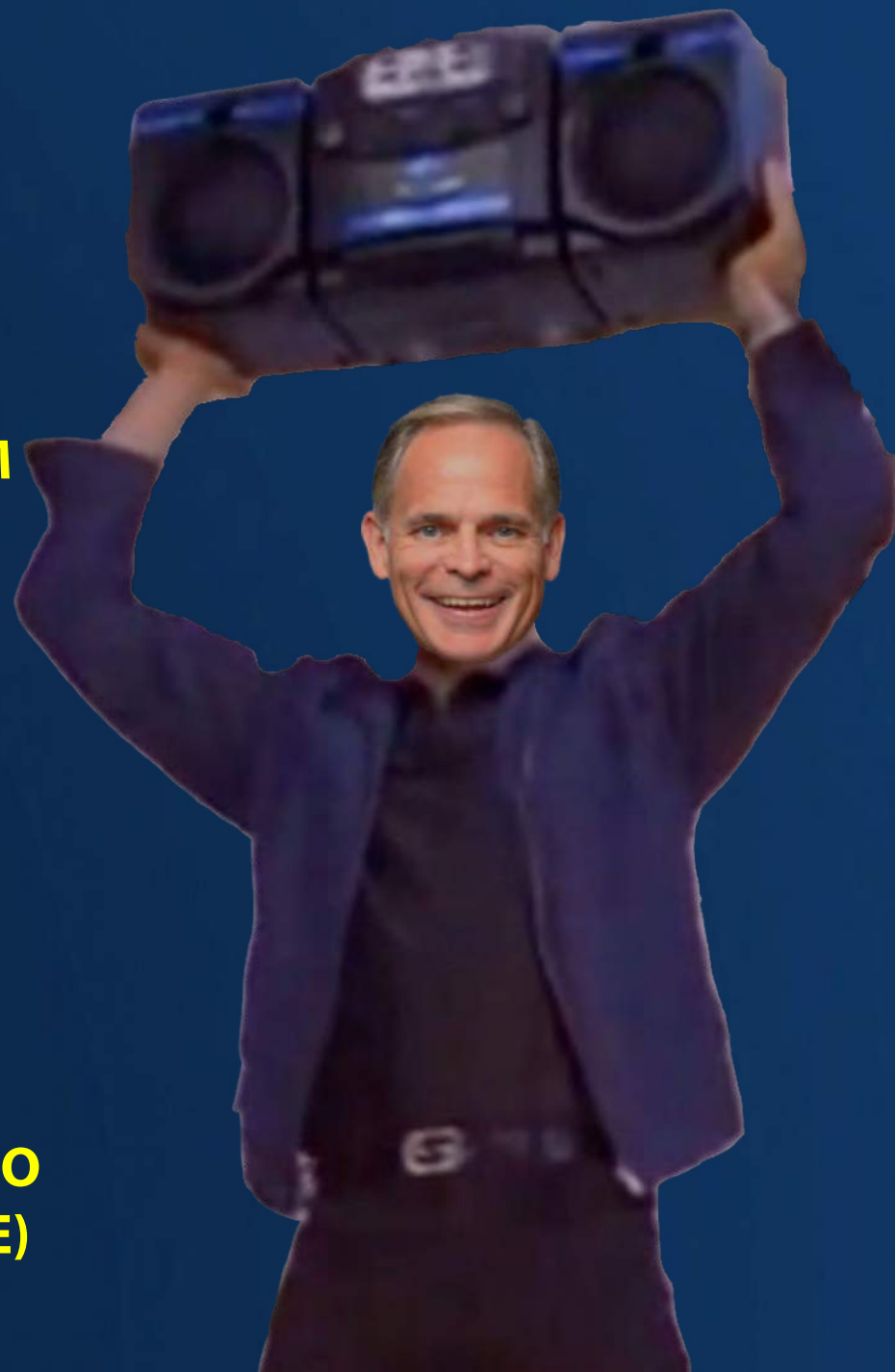
**A BUSINESS WITH SUBSTANTIAL OPERATING LEVERAGE
THAT HAS THE REQUISTE TECHNOLOGY FOUNDATION
TO REMAIN RELEVANT IS RAPIDLY CHANGING ECOSYSTEM**

Baby don't hurt me

**BY CONTINUING A PEOPLE-BASED FTE BUSINESS MODEL
OR COST PLUS SERVICES MODEL THAT DOESN'T SCALE**

Don't hurt me, no more

**IT'S TIME TO LEVERAGE M&A FOR INORGANIC GROWTH INTO
A BETTER BUSINESS MODEL (THAT ISN'T BULLY ARBITRAGE)**



Did Marla and Ashwini Screw Up Asking Me to Speak?





MEDIA

TECH

MARKETING



Strategic Advice for the Digital Age

New York | Palo Alto