DMS BY LUMA

STATE of DIGITAL 2024

05.14.24 | NYC

LUMA is pleased to present our 2024 State of Digital report.

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AGENDA

- PREAMBLE
- OPEN WEB
- COMMERCE MEDIA
- CTV
- CREATOR ECONOMY
- CREATIVE TECH

We are going to dive into the hot topics and key trends in Digital Media, but first let's start with a preamble on some overarching observations

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PREAMBLE

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The Macro Landscape Continues to Be a Roller Coaster

It feels like in the last year the macro environment has been a roller coaster ride. We came out of the pandemic with all this stimulus that drove up inflation and caused the Fed to hike interest rates, and that raised the threat of a potential recession. Adding to that, we had two wars. It seems every possible macro variable went berserk. Meanwhile, the stock market has been gyrating in the background to all this news, it really does feel like a rollercoaster ride.

Which Led Companies to Focus Internally

As a result, it led companies to focus internally. Companies decided to focus on their own house rather than look externally for growth.

2023's "Year of Efficiency" Worked

	2022 Stock Performance	Average EBITDA Margin 2H 2022	Average EBITDA Margin 2H 2023	Average EBITDA Margin Change
Tech Giants	(49%)	35.1%	41.1%	+6.1%
MarTech	(51%)	6.2%	13.7%	+7.5%
Ad Tech	(53%)	23.3%	29.6%	+6.4%

Source: Company Filings, FactSet. LUMA Analysis. **Note:** 2H EBITDA margin is the average of Q3 and Q4 EBITDA margins.

Stock prices getting cut in half in 2022 was a wake-up call for companies to focus internally. If you just look at average EBITDA margins, whether its big tech or independent Ad Tech and MarTech companies, everyone improved significantly across the board in the back half of 2023 versus the back half of 2022. In other words, everyone got the memo and focused internally on efficiency with impressive results.

How Did they Achieve These Results?

Job Cuts

amazon	> 16,000
Google	> 10,000
Meta	> 20,000
Microsoft	> 15,000

Focus on Core Business

AI Products

Performance Max

Meta AI
Advantage+

LUMA **Source:** Company Filings. Job Cut estimates from Jan 2022 – Mar 2024.

How did they achieve these results? We know from the headlines that companies did job cuts, they focused on core business strategies, eliminating non-core programs, and they rolled out AI products. In fact, when everyone else was talking about AI, big tech was going to market with AI products and achieving massive results with them.

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Source: Company Filings. Job Cut estimates from Jan 2022 – Mar 2024.

Scott Galloway analogy of this as "corporate Ozempic" seems fitting: a combination of shedding weight with job cuts, as well as leveraging your resources to supercharge efficiency with AI.

AI Has Been the Catalyst for Record Results

	Last 12 Months	
	Stock Performance	Change in Market Cap ($Bn)
Meta	+ 104%	+ $610
amazon	+ 70%	+ $821
Google	+ 51%	+ $664
Microsoft	+ 33%	+ $760

Especially for Big Tech

Last 12 Months Stock Performance

Ad Tech & MarTech
+21%

LUMA **Source:** Company Filings. LUMA Analysis. FactSet as of 05/10/2024.

The results of which have been incredible. In the last 12 months, the largest tech companies are up massively in terms of market capitalization – over half a trillion each for Meta, Amazon, Alphabet, and Microsoft. While the broader ecosystem has also had strong results, big tech has benefitted from an AI advantage and captured most of the gains.

AI is Innovative, Competitive and Expensive

Company	Select AI Products	CapEx Spend (2023 – 2025)
Google	ANTHROP\C, Bard, Gemini, runway	$134 BILLION
Microsoft	Microsoft 365 Copilot, OpenAI	$154 BILLION
Meta	LLaMA by Meta	$106 BILLION
amazon	ANTHROP\C	**$394 BILLION**

LUMA Source: Company Filings, Yahoo Finance.

While AI has brought incredible innovation to the tech landscape, it is also fraught with competition and increasingly expensive to gain an edge, for a capability that had high costs to begin with. AI doesn't come cheap: Google, Microsoft, and Meta alone are expected to spend close to $400 billion on CapEx from 2023-2025. The majority of this is expected to be for infrastructure and development for AI initiatives.

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Meta	LLaMA by Meta	$106 BILLION
amazon	ANTHROP\C	
		$394 BILLION

Combined Market Cap
Ad Tech & MarTech

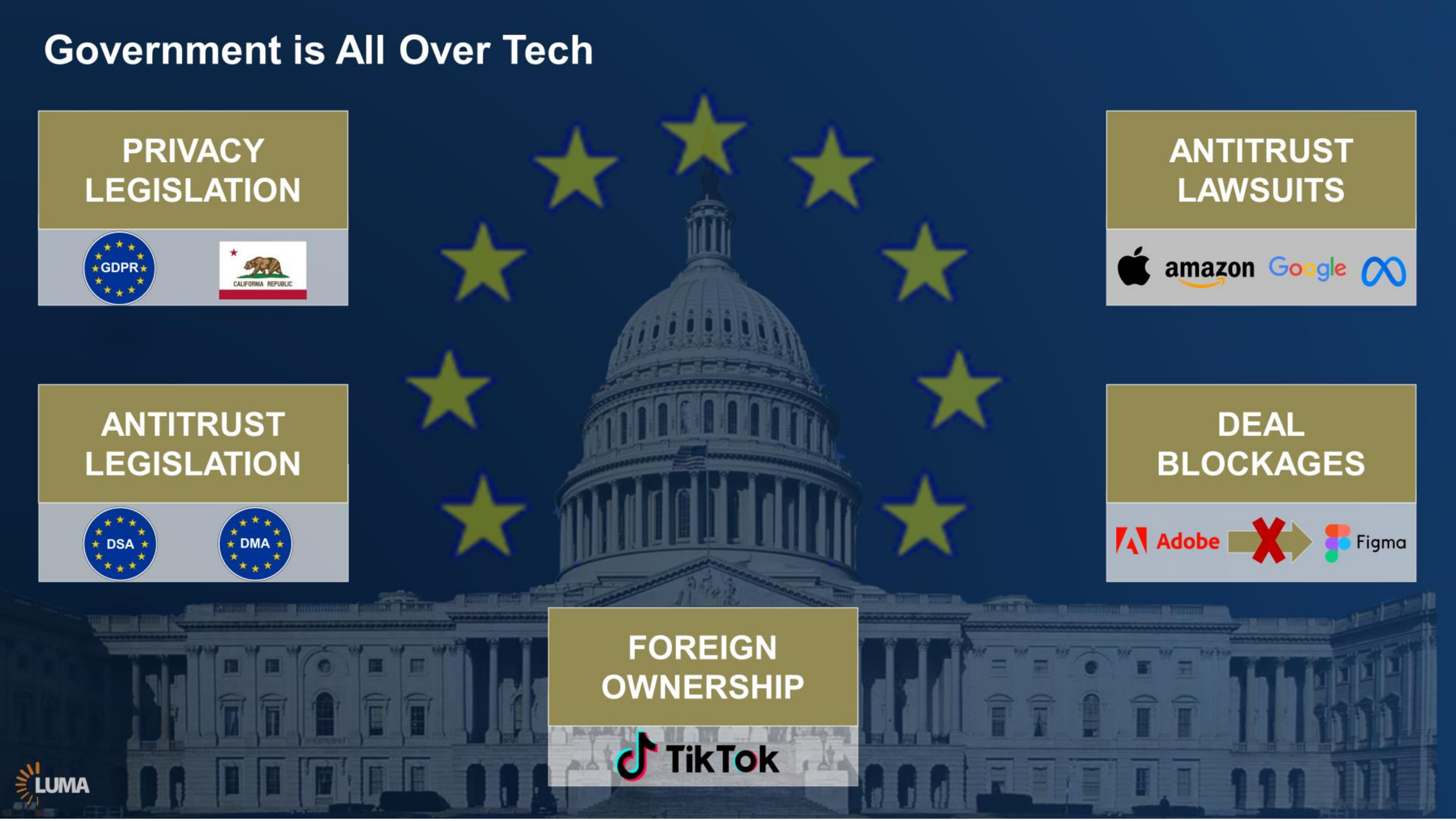
$287 BILLION

LUMA Source: Company Filings, Yahoo Finance.

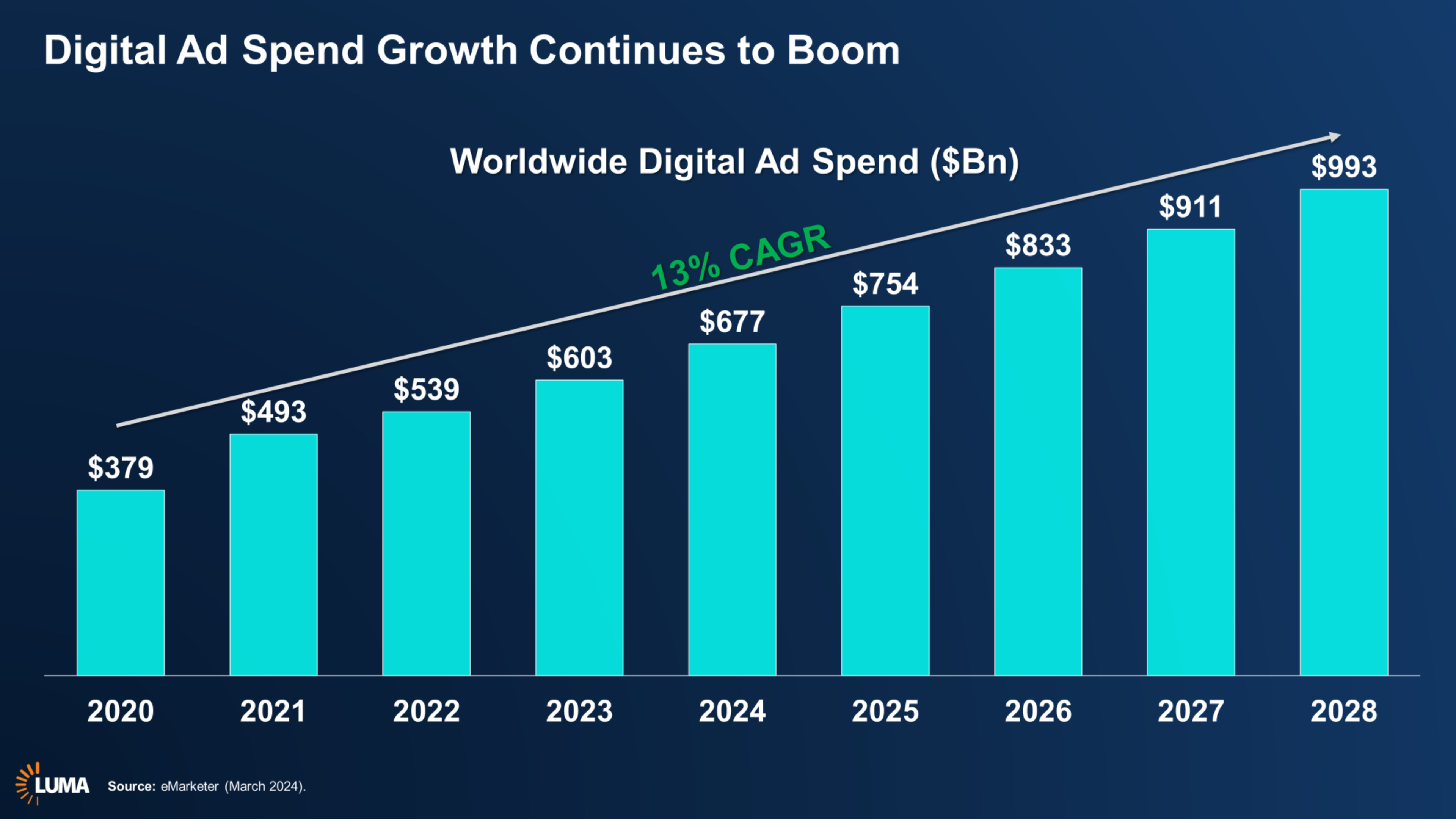
This amount greatly exceeds the entire market cap of all independent Ad Tech and MarTech companies.

AI, Like the Railroads, Will Be a Utility

AI is a game for very, very large players. And whether its open or closed, AI, like railroads, is going to be a utility. All companies are going to be able to utilize these very, very powerful tools. That said, if there is one thing that utilities have in common, its regulation.



The increase in big government, whether it's on Capitol Hill or in Europe has loomed large. We've had privacy legislation ramp up both domestically and in Europe for some time, but now we are seeing rather stringent antitrust legislation in Europe that's questioning the very premise of the internet business model. We're seeing antitrust lawsuits here in the US, as almost every major tech giant has been on the receiving end of a government action. Additionally, we are seeing technology deals blocked - the repercussions of this go beyond the specific deal and puts a pall on M&A activity in general. Finally, we recently also saw foreign ownership actions with Congress' forced divestiture of TikTok from Chinese shareholders.



But it makes sense Government is focusing on digital - this is BIG business. If you look at digital ad spend globally, it’s expected to exceed $650 billion this year, growing 13% through 2028 and on track to surpass $1 trillion by the end of the decade. This is a huge and growing ecosystem.

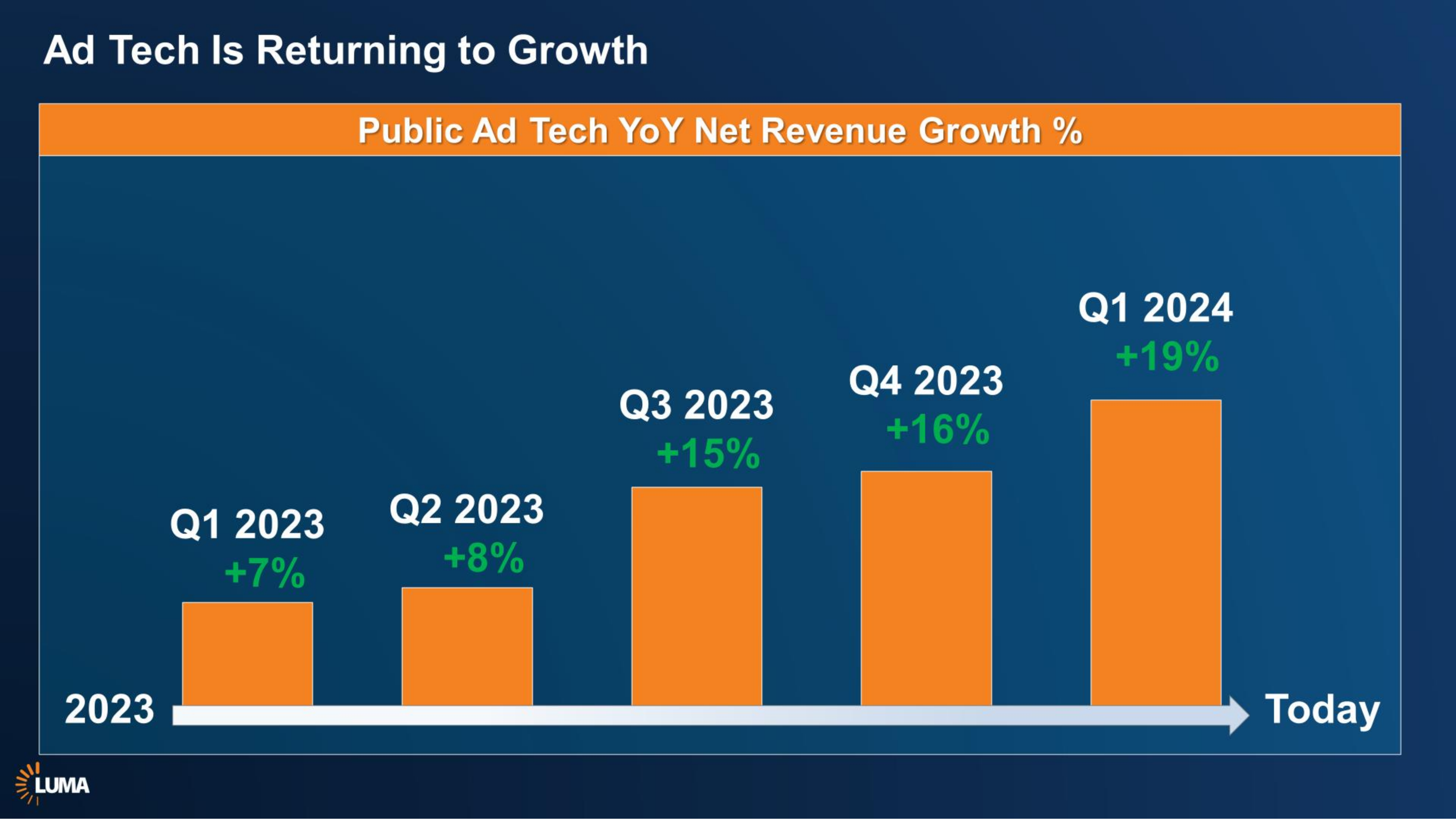
This has not only attracted government attention, but many other new entrants as well. Last year we introduced the notion of "Ad Tech is Eating the World" that referenced the increasing ubiquity of ad supported businesses from a variety of sectors, all requiring ad tech. Companies with large pools of consumer data from industries such as commerce and retail, finance, travel and even entertainment companies that previously had said they were completely against advertising, are now all moving in looking to monetize their data, audiences and attention with advertising. There's even defense contractors entering the space.

This is welcome news, as new entrants have always helped drive the digital ad ecosystem forward, creating new growth, innovation, and buyers.

Recent Tech IPOs are Advertising and Marketing Driven

It’s also evident in the public markets. As we know, the public markets have been challenging over the last two years. There have been few new entrants, especially on the technology side of the market. That said, most technology driven IPOs over the last 9 months have been in the advertising and marketing industries. There’s ibotta and Reddit this year, Instacart and Klaviyo last year, all getting out and doing relatively well in a very challenging and volatile market.

In talking about volatility and the current “roller coaster” feeling, there is no better example then the Ad Tech markets, which are not for the faint of heart. If you look at single day price variations of 20% up or down, we have had 87 instances in the last four years. And the roller coaster has been accelerating as 50% of these occurrences have happened just since 2023.

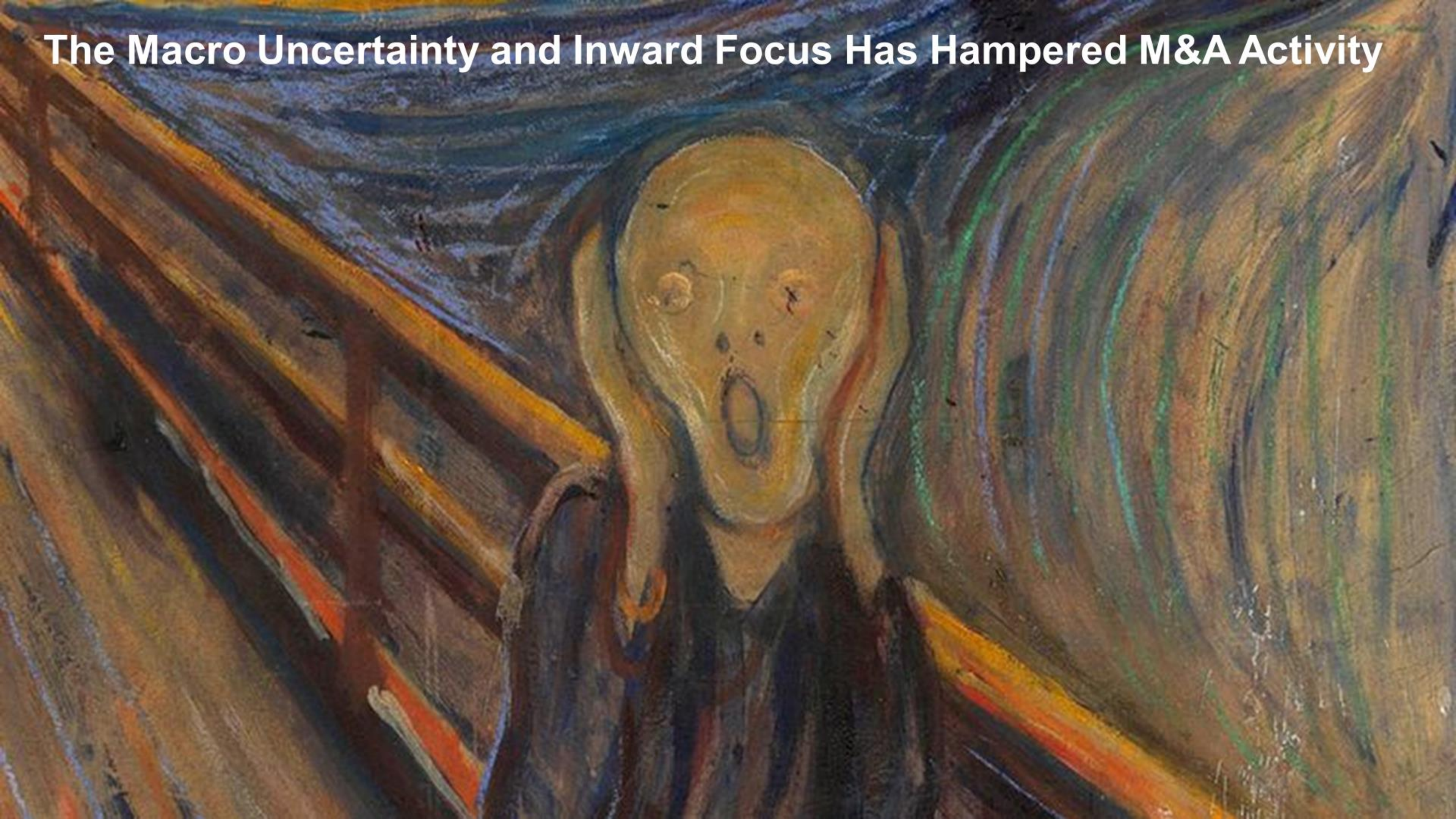


Despite a backdrop of uncertainty and volatility, we are now seeing some growth starting to come back. The ecosystem focused inwards on the bottom line in 2022 and early 2023, but by late 2023 were able to start to driving more organic growth. This has continued into 2024 with the reported Ad Tech companies averaging nearly 20% YoY revenue growth for the first quarter of 2024.

For a Detailed Analysis of Markets and Deal Activity…

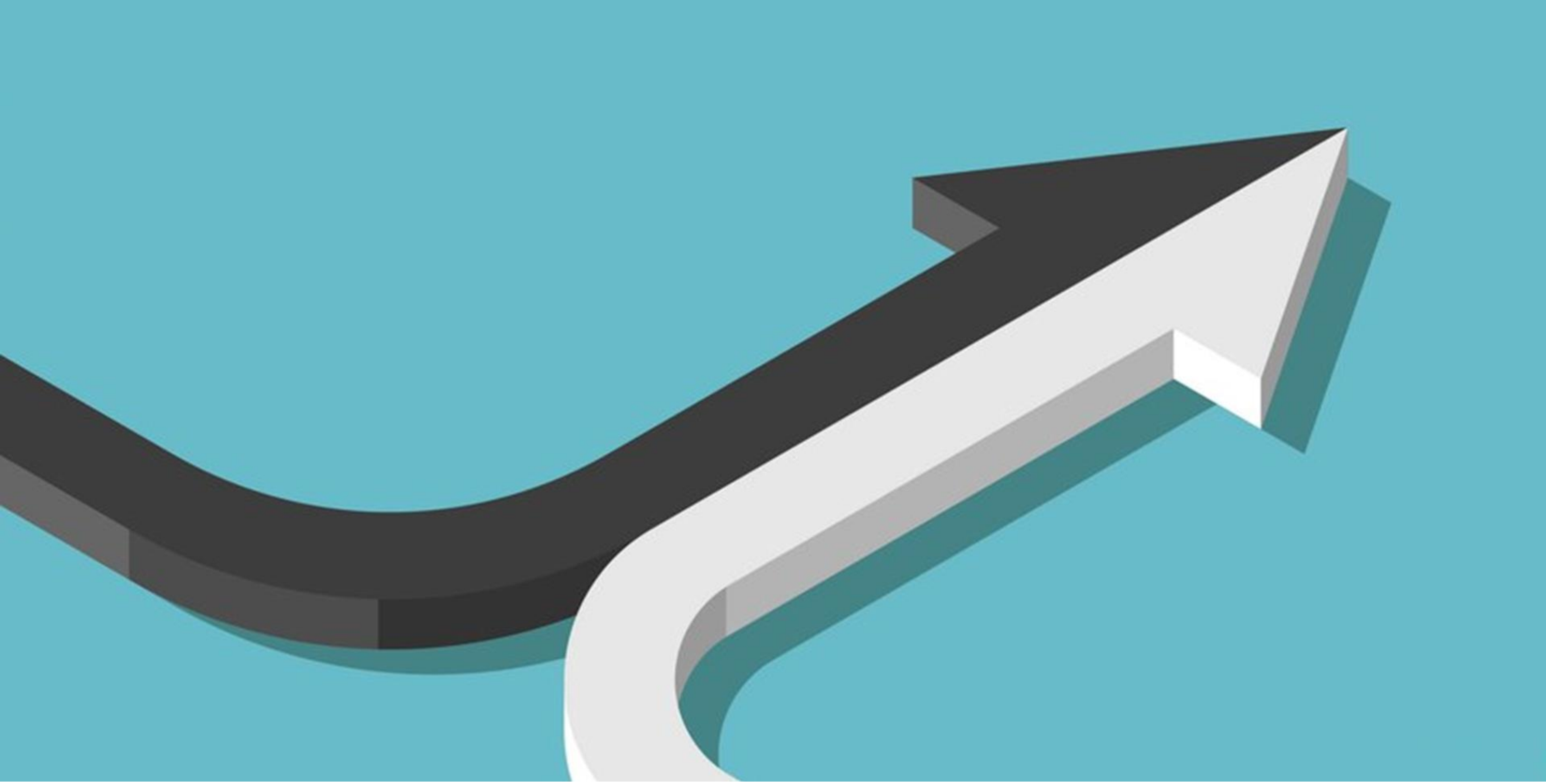
We're not going to go into too much detail on the market today. That said, we have our full market report with in-depth market insights that just came out the other week. The report is available for download HERE.

The Macro Uncertainty and Inward Focus Has Hampered M&A Activity



Not only is this roller coaster ride effecting the stocks of public companies in the space, along with the revenues and business models of all involved, it's also affecting another cohort that's really, really, really suffering - investment bankers. As it turns out, all this macro uncertainty and inward focus are hampering M&A activity. Last year was almost a decade long low in M&A. This is actually a selfie Terry took in the middle of last year when I saw the volumes drop. But seriously, usually you can predict the amount of deal activity as a delta between buyer and seller expectations. Last year there was no buyer expectations because buyers weren't even talking about M&A. Despite the macro uncertainties and tremendous fear of a recession that never came, we now have reinvigorated ad spend and growth in the marketplace.

M&A Will Be Necessary to Reinvigorate Growth



What do you do about that? Well, you can't cut your way to growth and sustained innovation. While the big tech players are using their balance sheets to fund AI developments, we believe M&A is going to be necessary component of strategy for others to reinvigorate growth going forward.

The Industry's 3-Year Plan

2023: SURVIVE

2024: REVIVE

2025: THRIVE

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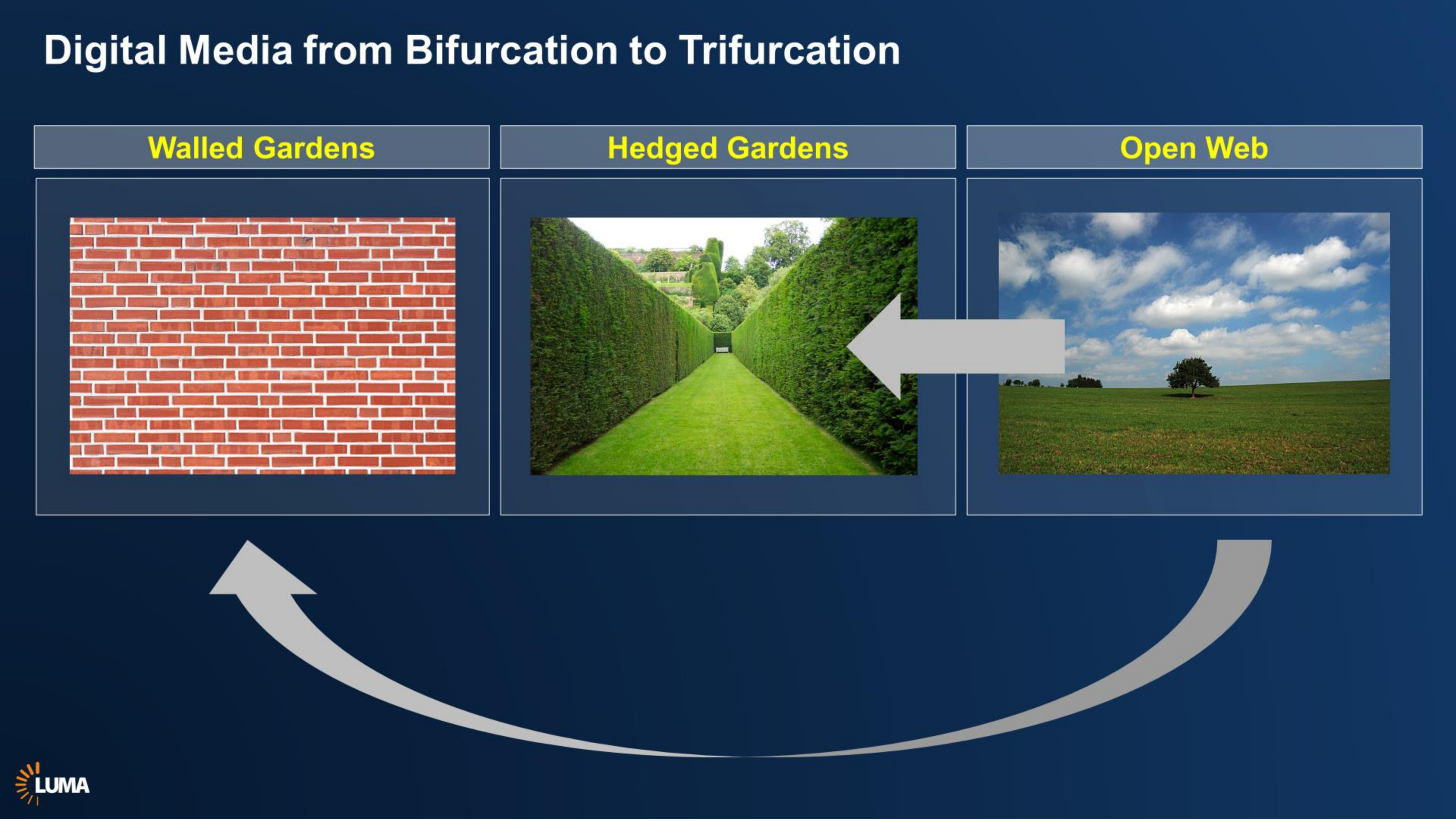
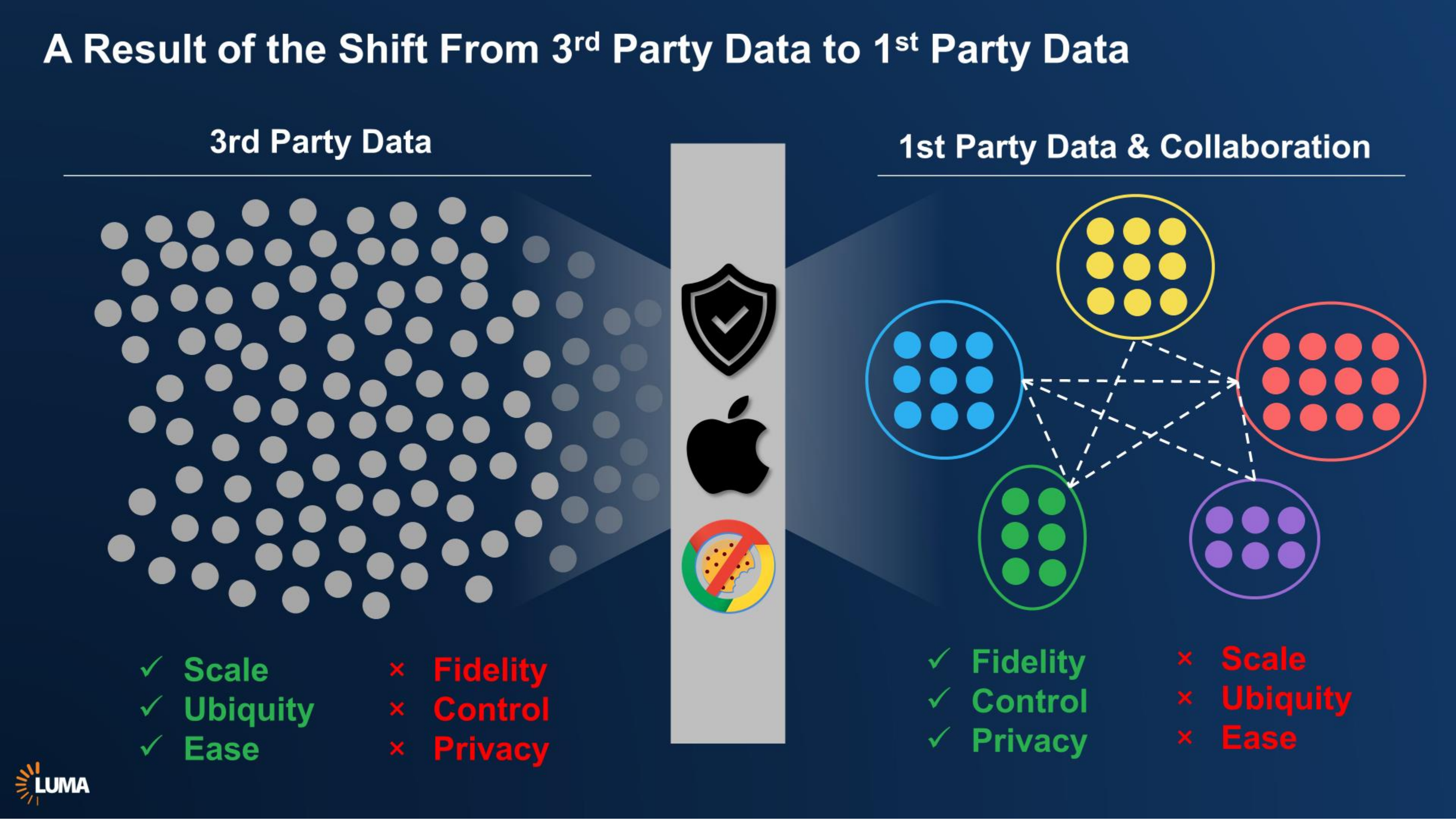
In fact, we would recommend a three-year industry plan: 2023 was all about surviving, 2024 is about reviving, and in 2025 – we thrive.

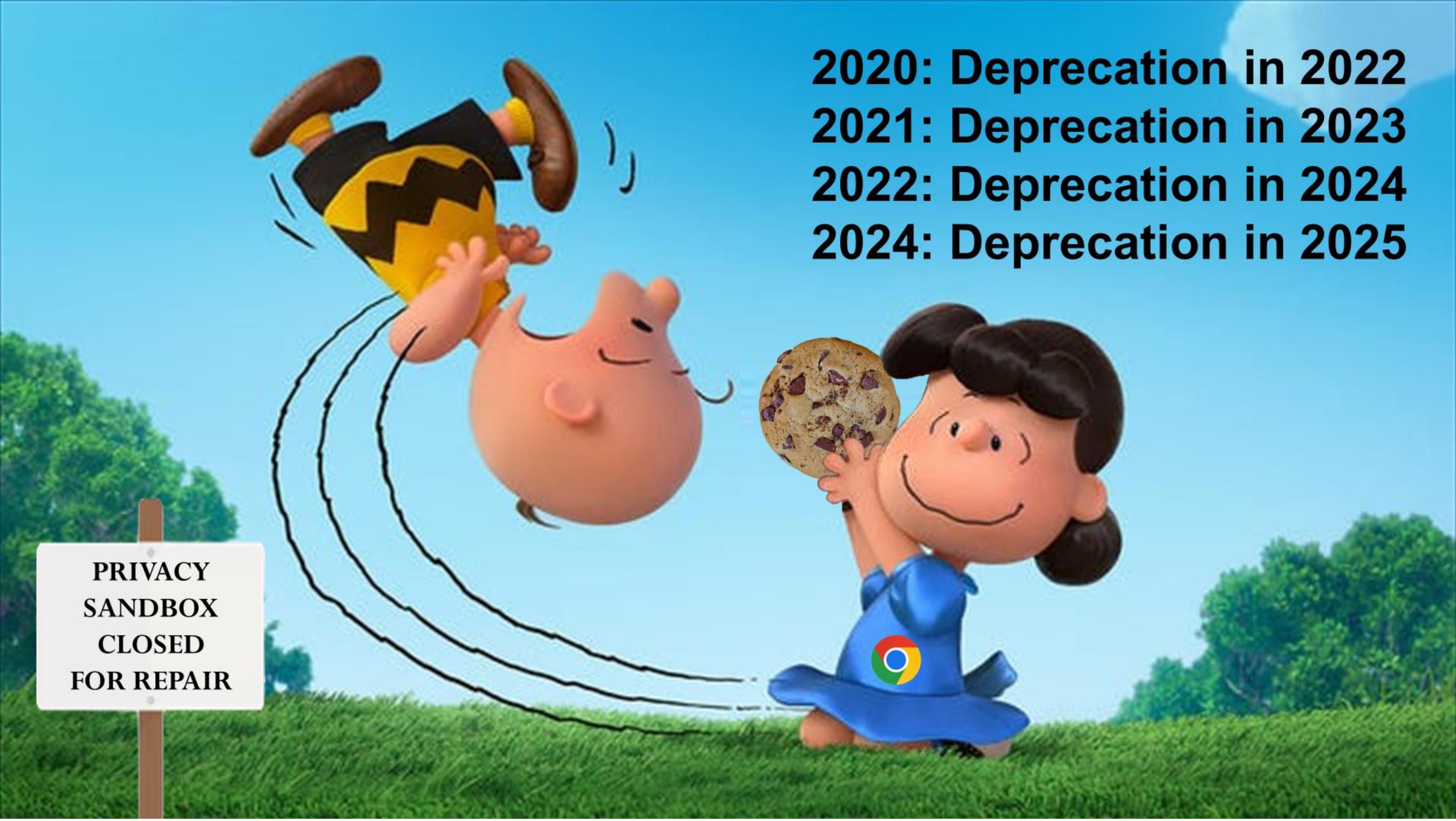
OPEN WEB



Three years ago we came out with this idea of hedged gardens. We used to think of the world as either walled gardens or open web. What we've really seen with CTV, commerce media, gaming and audio, is the rise of what we call hedged gardens. There is no question that ad spend is shifting from open web into walled gardens to be perceived as more closed loop and more privacy safe. That said, we're also seeing a shift and usurp of the open web into hedged gardens. And this make sense, with curated environments, first party data etc.,



This is the result of the shift from third party data where we had scale, ubiquity, and ease, but lacked fidelity, control, and privacy, to a first party data world where those have now flipped.

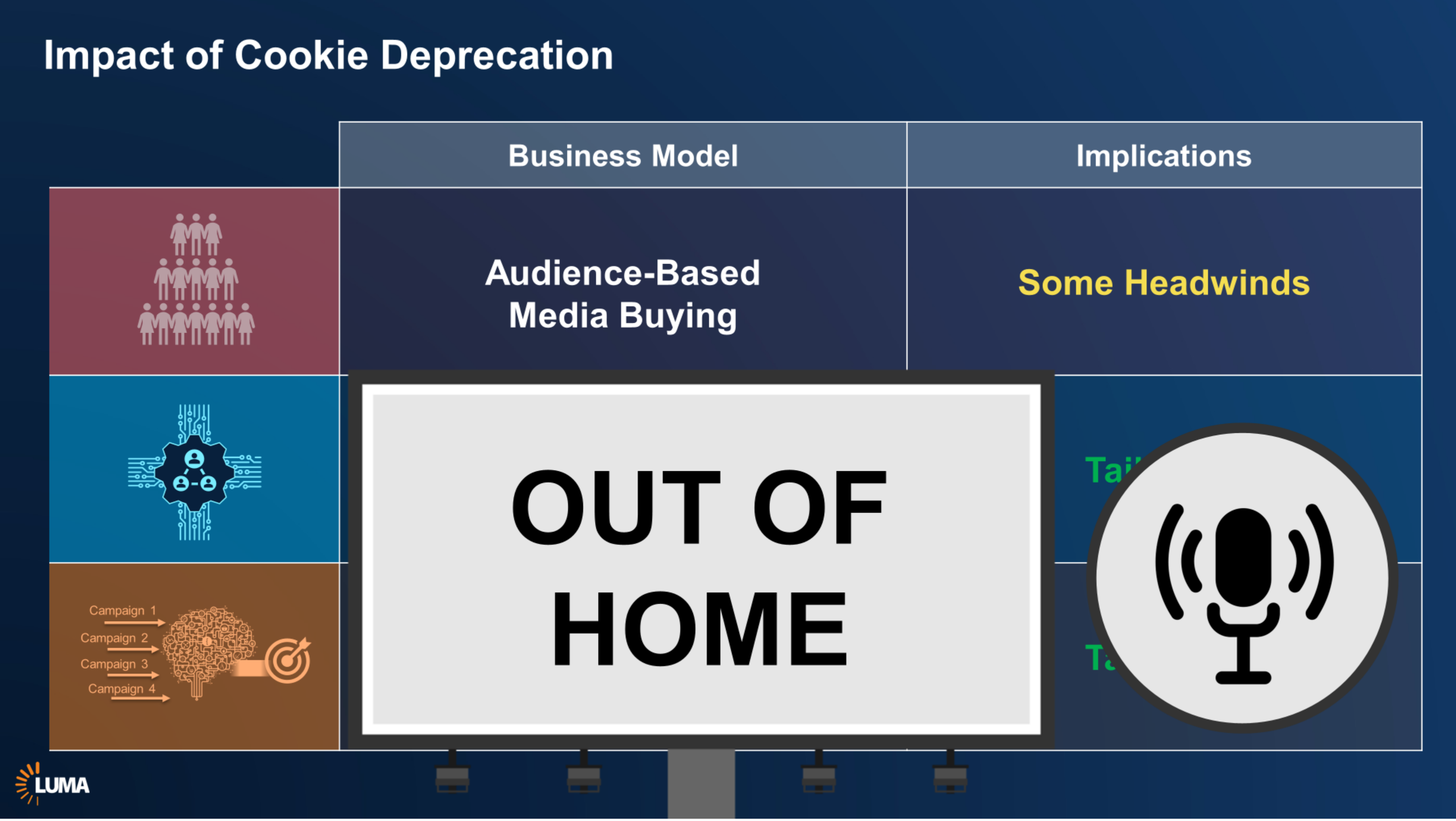


Yet the path to move beyond 3rd party data is a tortured one with Google further delaying the deprecation of cookies for the third time. While their motivations are to create more time for the UK regulator, CMA, to be satisfied with Google's replacement Privacy Sandbox, the ongoing uncertainty is not helpful.

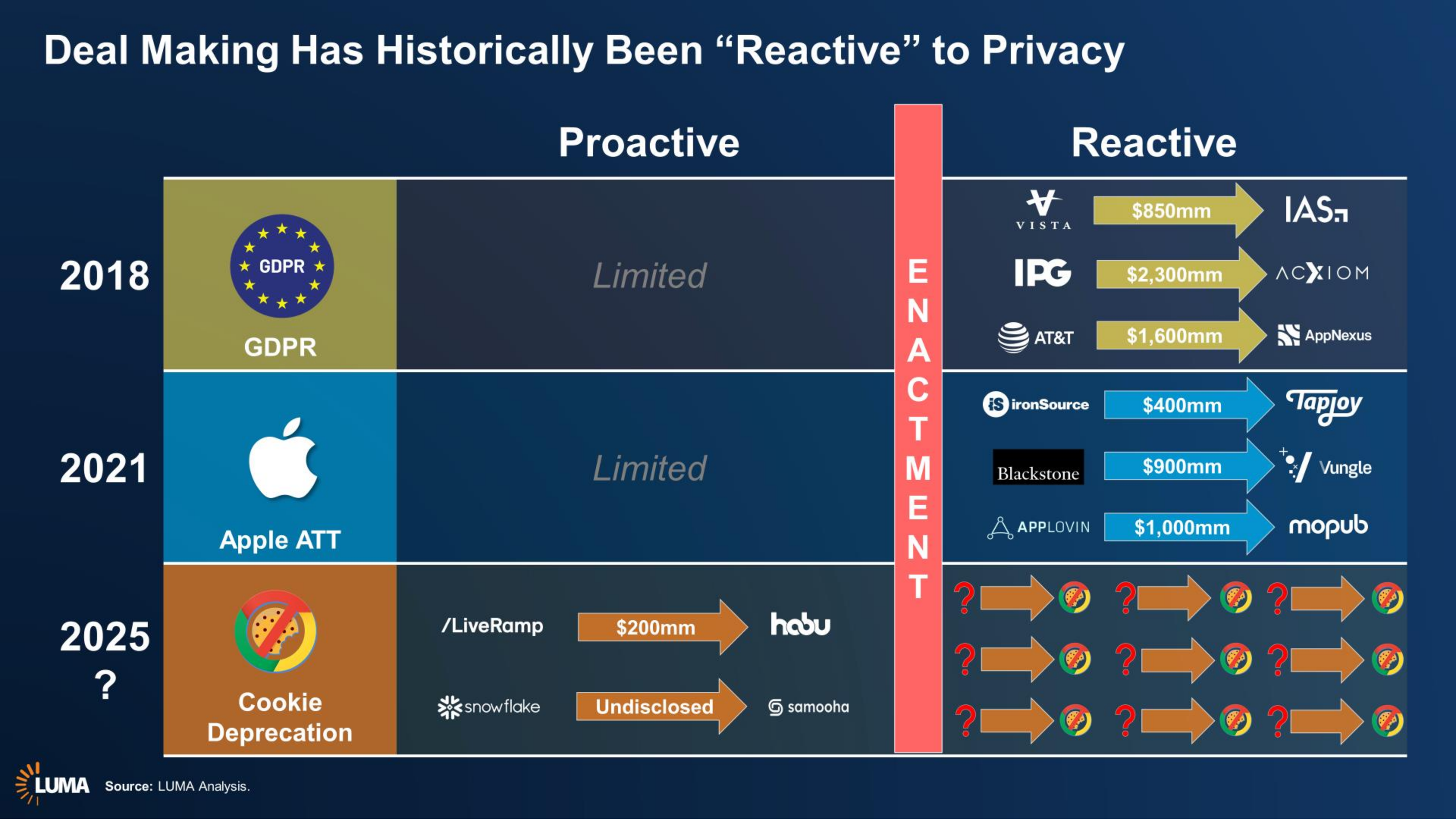
Impact of Cookie Deprecation

	Business Model	Implications
	**Audience-Based Media Buying**	**Some Headwinds**
	**Data Collaboration** **(Data Clean Room and Alternative ID)**	**Tailwinds**
	**Alternative Methods** **(Cookie-Less & Non-Audience)**	**Tailwinds**

There's no question that cookie deprecation creates headwinds for companies that are doing primarily audience-based media buying and measurement. It's good news for the next two categories: the data collaboration companies creating workarounds to continue audience-based media buying in a privacy safe manner, and in the alternative methods category where cookie-less and non-audience-based targeting capabilities are deployed.



This ought to also help digital out of home as well as audio as podcasting advertising continues to grow.



Based on pattern recognition, we are unlikely to see a lot of M&A activity focused on this shift until after the event or "enactment" takes place. If you think about GDPR, everyone knew it was coming, and yet no one made a move because they didn't have to. This industry is still going to be utilizing third party cookies up until the minute it can't. In terms of M&A activity, what we saw with GDPR was that most activity happened afterwards. We saw a similar trend with Apple's ATT imposition and expect the same with cookie deprecation. Sure, there have been a couple of deals done in advance mostly for defensive value, but we believe that the preponderance of activity will be reactive.

BOT TRAFFIC

MFA

BRAND SAFETY

SHENANIGANS

DOMAIN SPOOFING

ID BRIDGING

TRAFFIC ARBITRAGE

Look, there are a lot of issues that have popped up in this industry around nefarious or bad actors or wrongful practices that companies are pursuing. We put this all under the category of “shenanigans”. Yes, Ad Tech has had a level of shenanigans for a while, but it feels like it's high time that we cleaned up our act in this industry.

The good news is that we're talking about it. The IAB is doing a good job, the trade press is doing a good job, and individuals are speaking up, and it's worth calling out. Here are just some of the people who have been raising the specter of these challenges, whether it's killing news or bot traffic or spoofing or any of a variety of issues. We appreciate these voices speaking up and airing what is essentially dirty laundry, because it's the only way these issues will get addressed. Keep it up!

Ad Tech Has Yet to Grow Up

Needed industry rationalization:

1. Fewer Players
2. Higher Volumes
3. Lower Take Rates
4. Better Quality

If fact, we would go so far as to describe Ad Tech as a Peter Pan industry. It refuses to grow up. What we need is rationalization of an industry like every other industry over time, and especially one at the scale that we have here. Ultimately, we should have fewer players, doing higher volumes, at lower take rates, with better quality. The call to action is now – come on, grow up Ad Tech, it's high time!

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COMMERCE MEDIA

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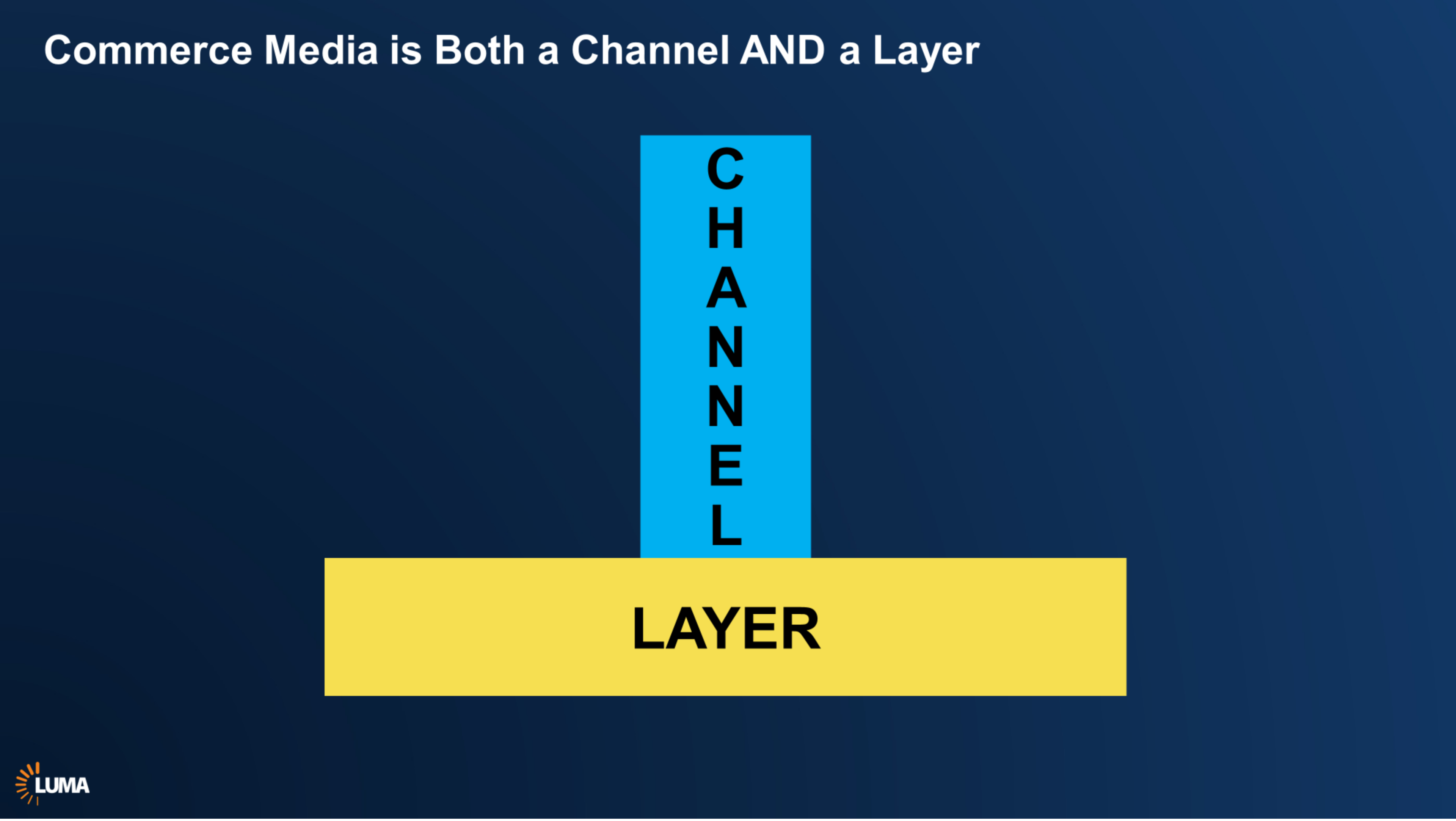
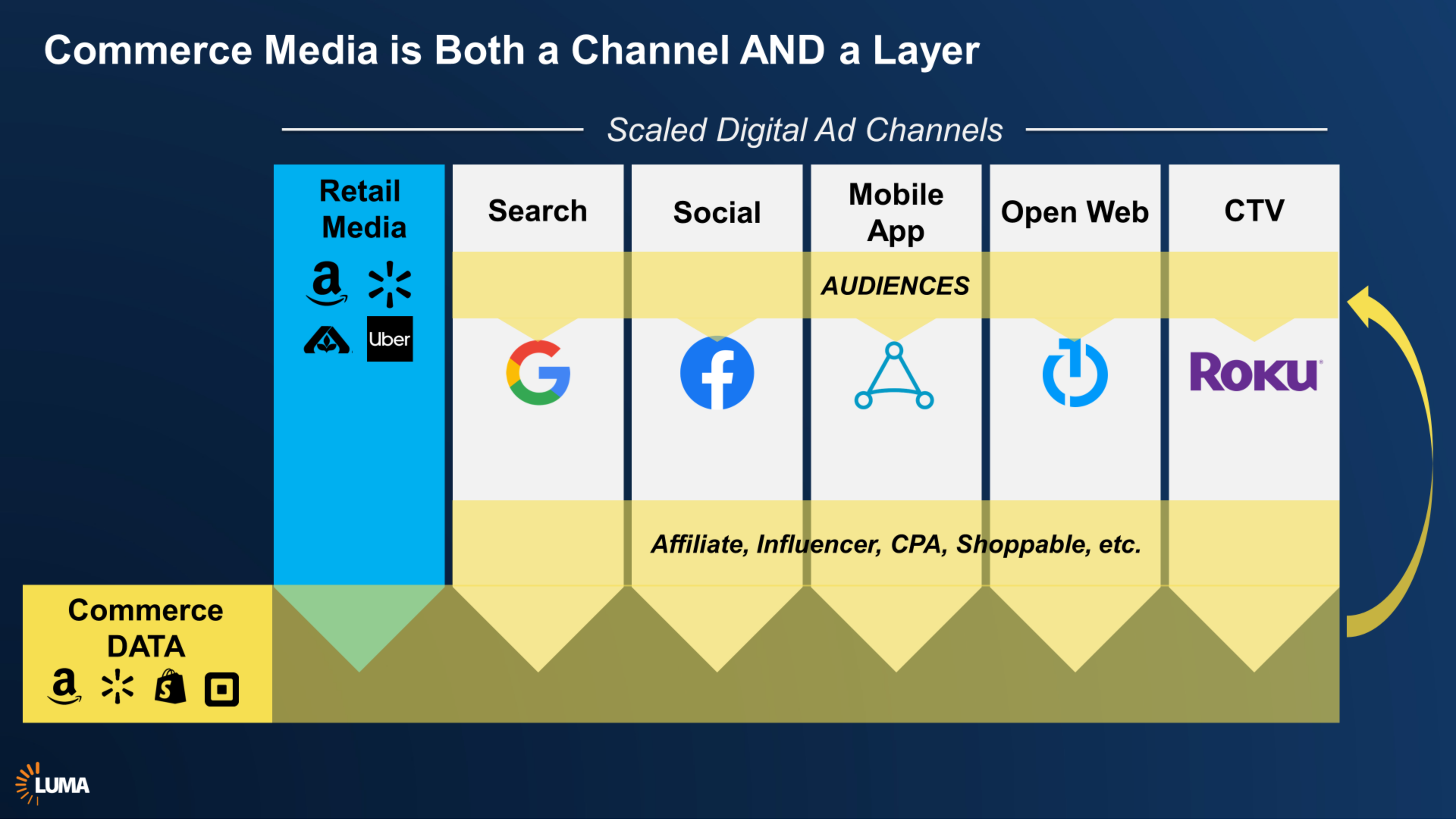
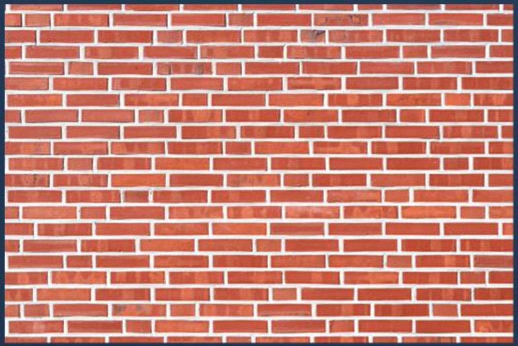


One of the things that interests us the most about Commerce Media is that it has this dynamic of being both a channel and a layer. This is something we haven't seen since mobile. For years, people were talking about the "year of mobile", as if it was simply a new channel, but mobile was in fact a layer, connecting everything we do digitally. Commerce Media has a very similar dynamic. You have retail media, which is a new channel, bringing new inventory opportunities to the market via on-site ads. Yet, there are even bigger opportunities with Commerce Media as layer to the broader digital ecosystem, leveraging data to connect siloed channels.



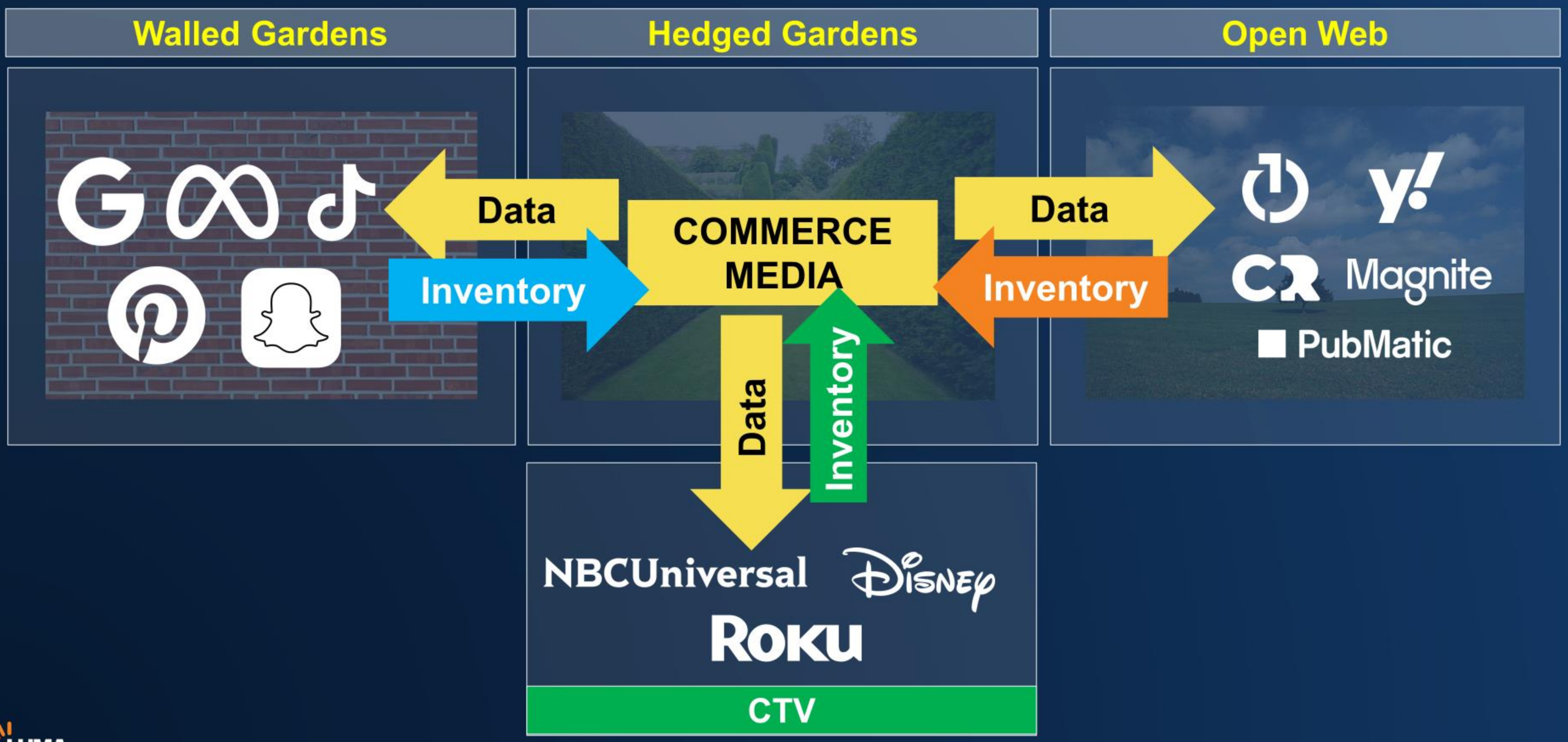
This isn't entirely new. The performance marketing ecosystem has long focused on tying media purchases to commerce outcomes. Just consider the affiliate ecosystem, influencer marketing, general Cost Per Acquisition ads, and shoppable media formats, all of these are forms of "Commerce Media". What is new, is the quantum of companies providing their data into these ecosystems and platforms using their data to move up-funnel and begin informing audiences and upper funnel media purchases. In an ecosystem dealing with data deprecation, this creates a massive opportunity and is one of the primary reasons there is so much promise around Commerce Media more broadly.

Uniquely, Commerce Media is the Great Unifier of the Trifurcation

Walled Gardens	Hedged Gardens	Open Web
		

We have been thinking a lot about the implication of the digital ad ecosystem moving to a trifurcation. If you think back historically, there was a very clear divide between walled gardens and open web, and they really did not cross over. That said, we're starting to see all these worlds cross into each other, and Commerce Media is the great unifier between them.

Uniquely, Commerce Media is the Great Unifier of the Trifurcation



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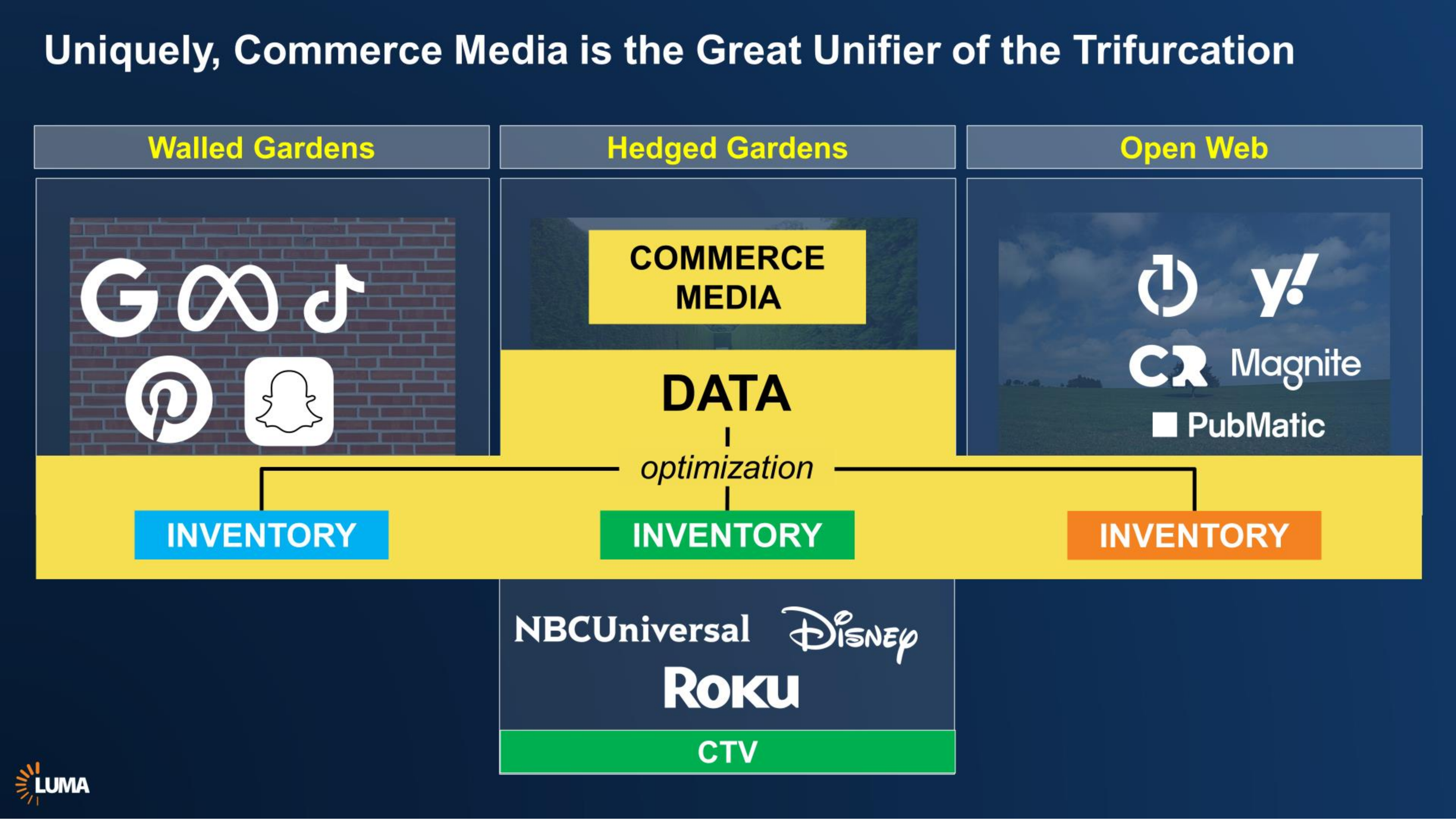
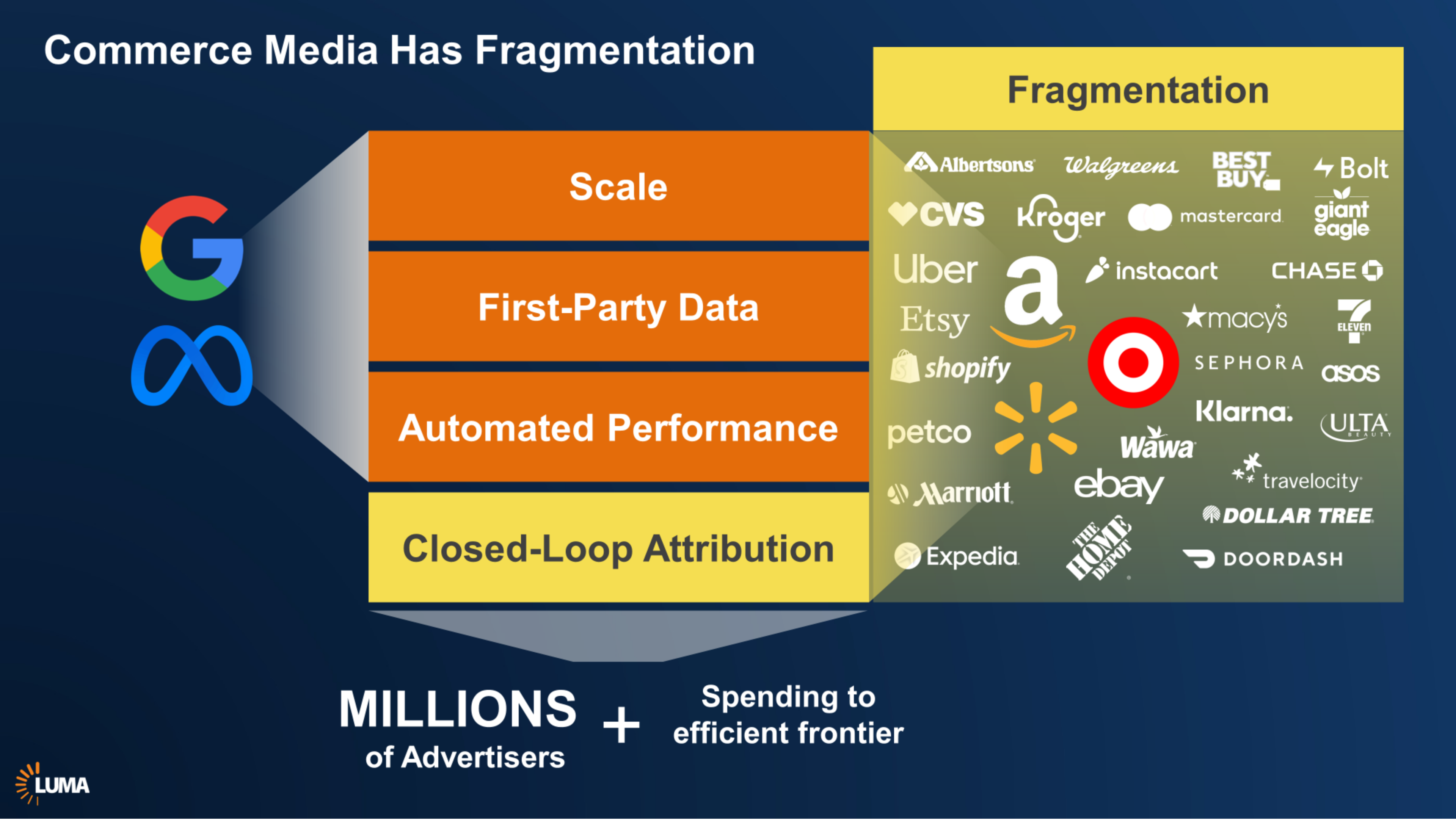
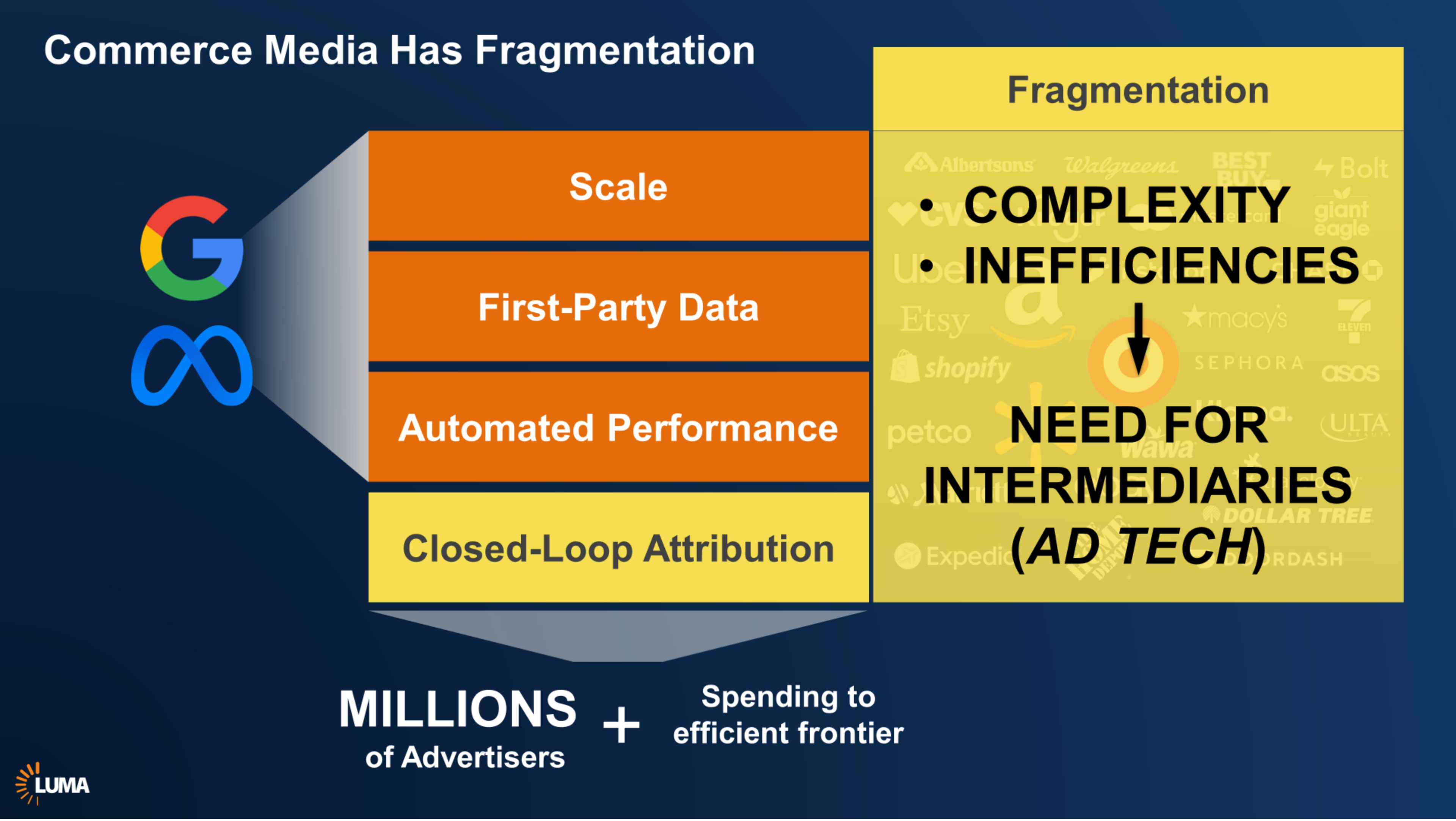
One of the biggest focuses in Commerce Media is the move “off-site”. As commerce media platforms seek to leverage their data not just for O&O inventory but to increase their reach through partnerships. This started with partnerships in the open web, as ad tech companies quickly saw the value of incorporating commerce data into their platforms. It’s also expanded into other “hedged garden” environments, with CTV the primary beneficiary. Just in the last few weeks, there have been a slew of announcements related to commerce audiences and data being used to add value to CTV inventory. But importantly and uniquely, Commerce Media is also opening access to the walled gardens. This has not been prevalent across other digital media channels (e.g. CTV or open web) as walled gardens had no need to partner. They didn’t need more inventory or data on digital usage, but they do need more access to commerce signals. As a result, we’ve seen a range of partnerships between Commerce Media platforms (Walmart, Amazon, Target, Shopify, etc.) and the traditional walled gardens (Google, Meta, Snap, etc.).



Importantly this year we saw Amazon and Meta announce a big partnership, which is something you never would have seen before, because they didn't need access to that data when they could more easily track consumers. Now that they've lost data signal, there's suddenly this opportunity. The challenge today is most of these partnerships are separated into the respective channels. There are walled gardens partnerships, open web partnerships, CTV partnerships, but the real opportunity here is that you can bring all of this together and start to optimize across these channels uniquely with commerce data. Amazon is starting to do this. They have a DSP, they have CTV, they have access to walled gardens. They are very much on that track. We think there is a big opportunity for more of the open ad tech ecosystem to start to come into this as well.



And the reason is fragmentation. So, if you've heard us talk about this before, this is one of the reasons we were excited initially about Commerce Media. It has the scale of first party data, automated performance, and closed loop attribution that search and social had. It also has one other critical component, fragmentation. It's not dominated by a single company, and it can't be because most of commerce happens offline in-store. It requires massive amount of CapEx to get consumers and comes with real geographic barriers. You must have stores, you must have inventory. It's a much more difficult challenge than accessing the next social user, and so it's going to remain fragmented.

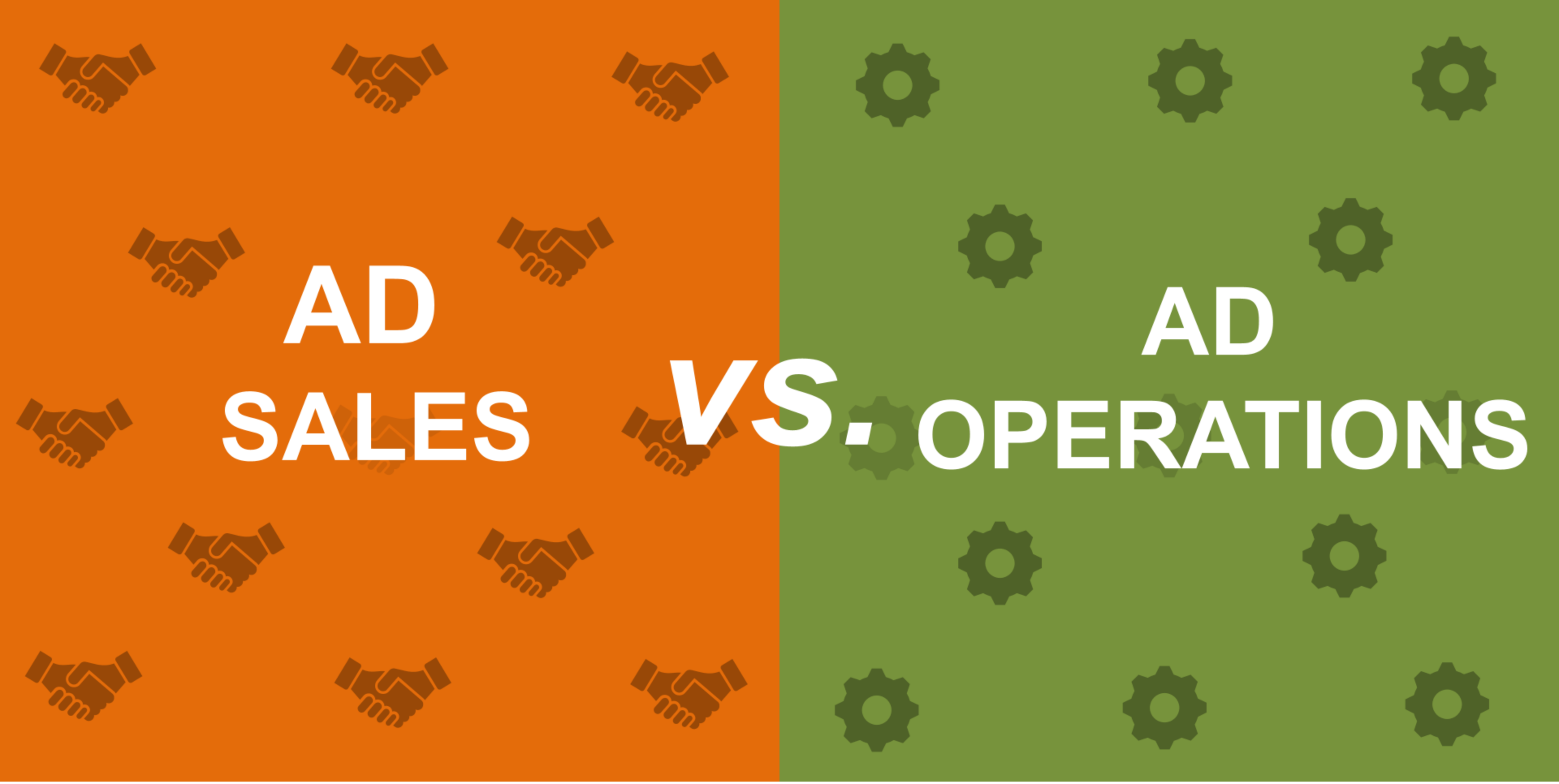


What fragmentation means in the context of Retail Media and Commerce Media is a massive amount of complexities and inefficiencies in trying to buy across all these different platforms. That inherently brings in the need and opportunity for intermediaries, also known as the Ad Tech ecosystem. Ad technology is far more complex than most give it credit for and when you add in 200+ platforms with their own unique data, measurement, and priorities, it only becomes that much harder. With sustained fragmentation also comes sustained ad tech margins, as for most platforms there is not enough scale to build O&O solutions or market power to drive brands to buy directly through their platform.

Fragmentation Requires Standardization

What does fragmentation and complexity also require? Standardization. It feels like retail media is sort of the digital ecosystem in the mid 2000’s, right? You have massive sales teams, selling bespoke campaigns, based on the overall hype and their own measurement. There's no standardization. It may work in the short term, but ultimately, it's keeping the industry behind. There is a huge opportunity here, and luckily many of the key constituents are focused on this problem and actively working to drive standards to this space.

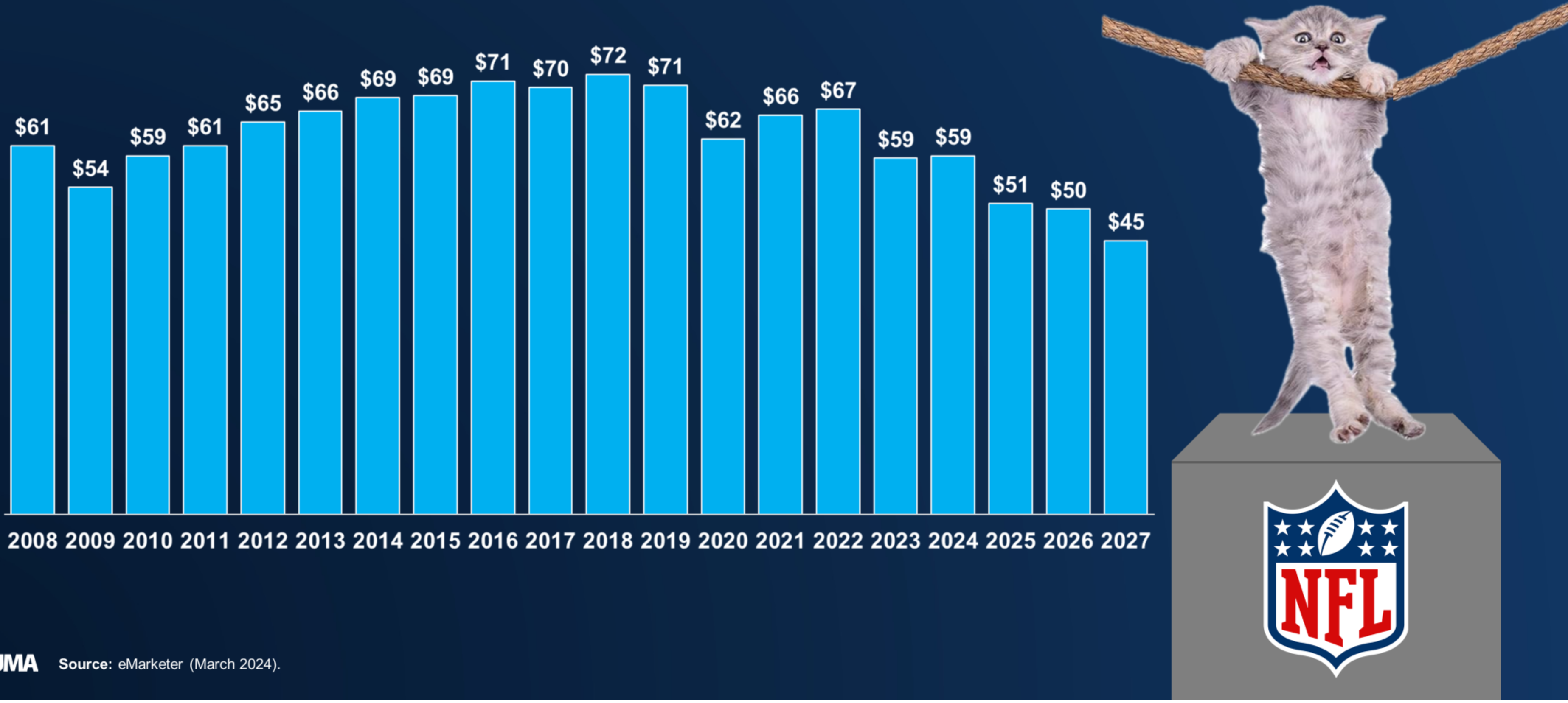
Commerce Media Needs to Move From Ad Sales to Ad Ops



The move to standardization will also come with a shift from focus on ad sales to ad ops. Again, if you go back to the mid 2000’s, most digital publishers had large sales teams focused on large, flashy deals. They weren't focused on programmatic and thought of it as the side piece for their “remnant inventory”. Flash forward and programmatic makes up the vast majority of all digital ad sales. We think everyone in the ad tech space knows it's somewhat inevitable. You find a scaled digital ad channel and it's going to shift from direct selling of campaigns to more standardization and moving towards really optimizing the operations and revenue, not one-off sales.

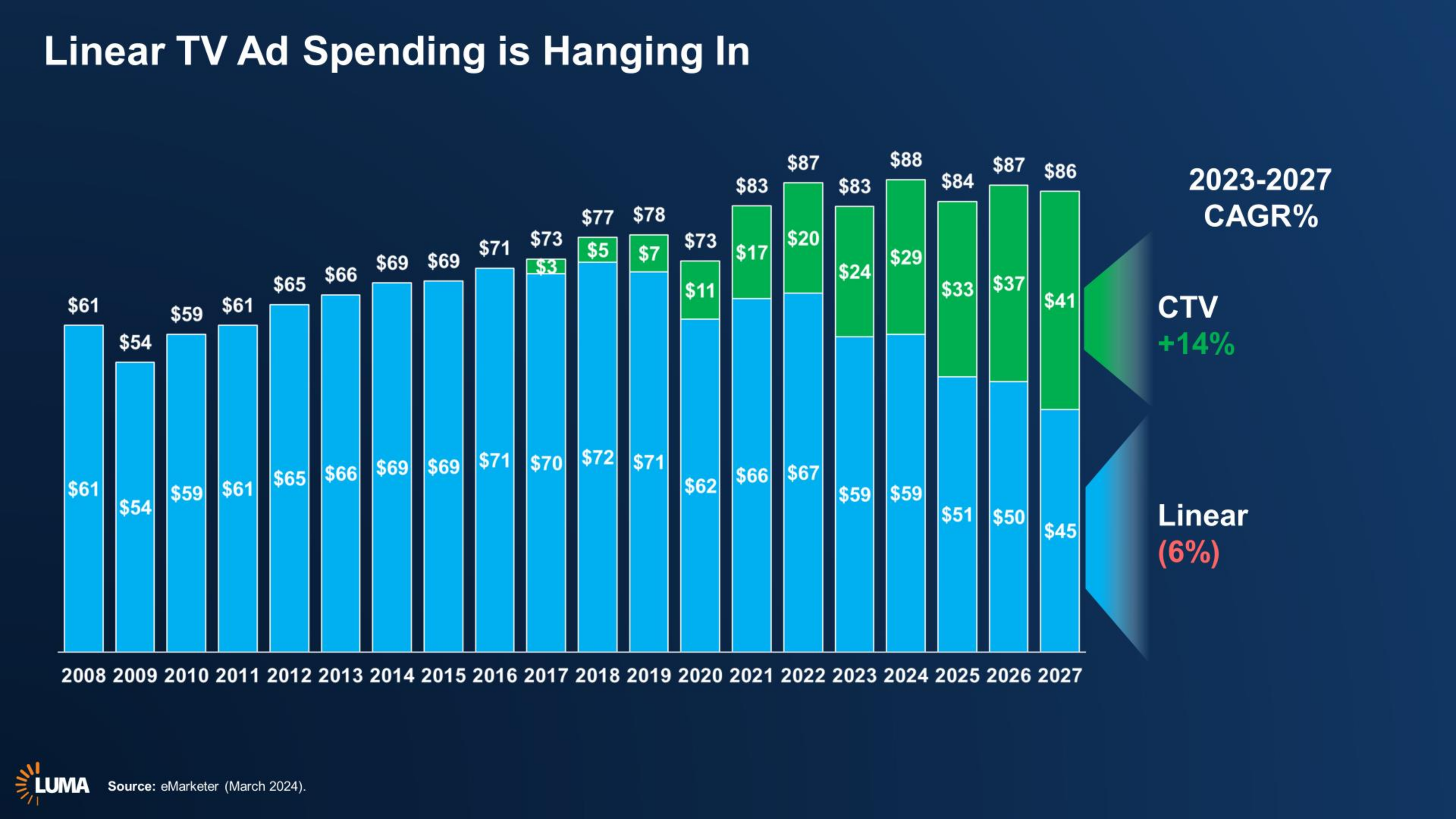
CTV

Linear TV Ad Spending is Hanging In…Thanks to Sports



LUMA **Source:** eMarketer (March 2024).

Let's talk about CTV, in fact, let's talk about TV in general. Given the inevitable shifts, it's worth noting the resilience of linear TV ad spend. It's hanging in there thanks to live sports and primarily the NFL.

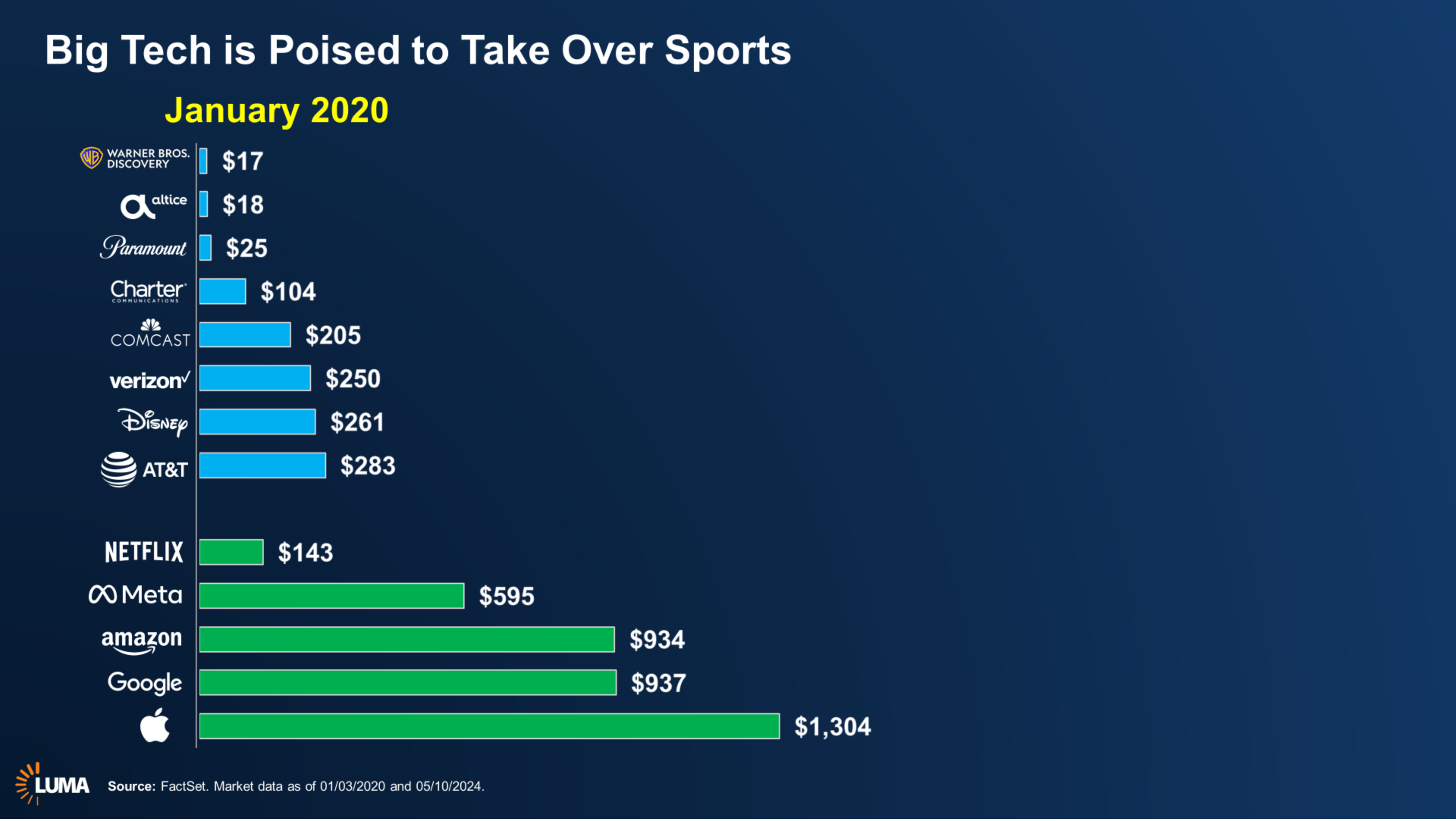


However, we know that CTV is the growth channel with the continual shift to streaming.

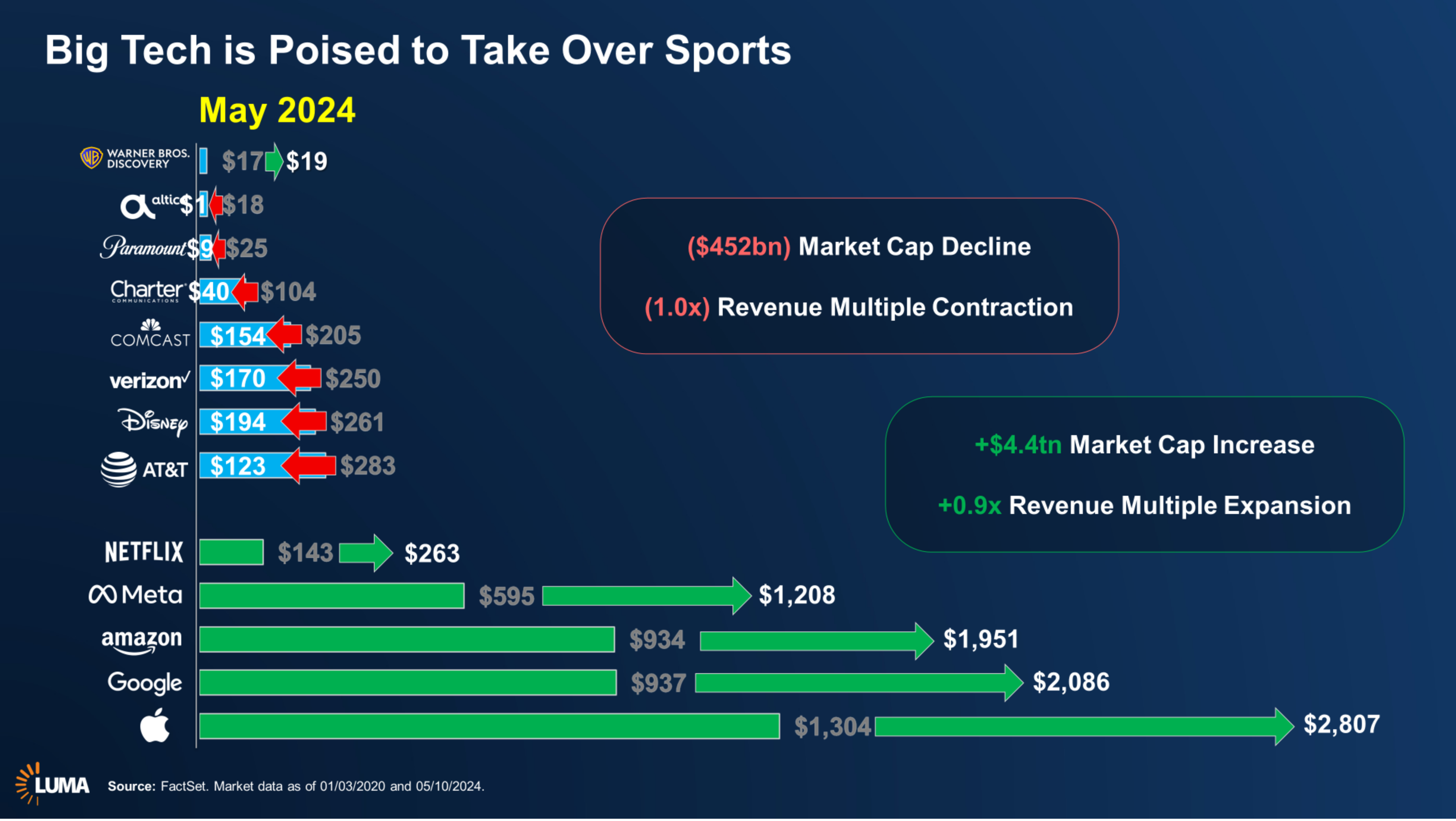
Tech Giants Streaming Initiatives in Live Sports

LUMA **Source:** S&P Market Intelligence as of March 2024.

We noticed that the tech giants are all investing in live sports with substantial campaigns, efforts, and funding around various sports. By the way, Netflix, Roku, Yahoo and other tech platforms are also getting the memo. We're going to continue to see more and more tech companies focused on live sports – the Achilles heel of linear TV.



It’s increasingly becoming a mismatched fight between tech and media companies. Think about the market cap comparison – who’s going to win in this race, big media or big tech? In January of 2020 we called out, look how much bigger big tech is than big media.



Well, in the interim, four years have passed, and big media lost about half a billion of market cap. At the same time, big tech gained $4.5 trillion of market cap. There is simply no comparison. Now, think about sports. It’s inevitable that when these contracts get renewed, they’re going to go to big tech. That will of course be the instigator towards an inflected decline of linear.

Some of these contracts dwarf the market caps of the media companies.

Media Companies Need to Successfully Transition to Streaming

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Ultimately here, media companies need to successfully transition to streaming. However, this has not been an easy transition.

Media Companies Need to Successfully Transition to Streaming

Challenges with the Handoff:

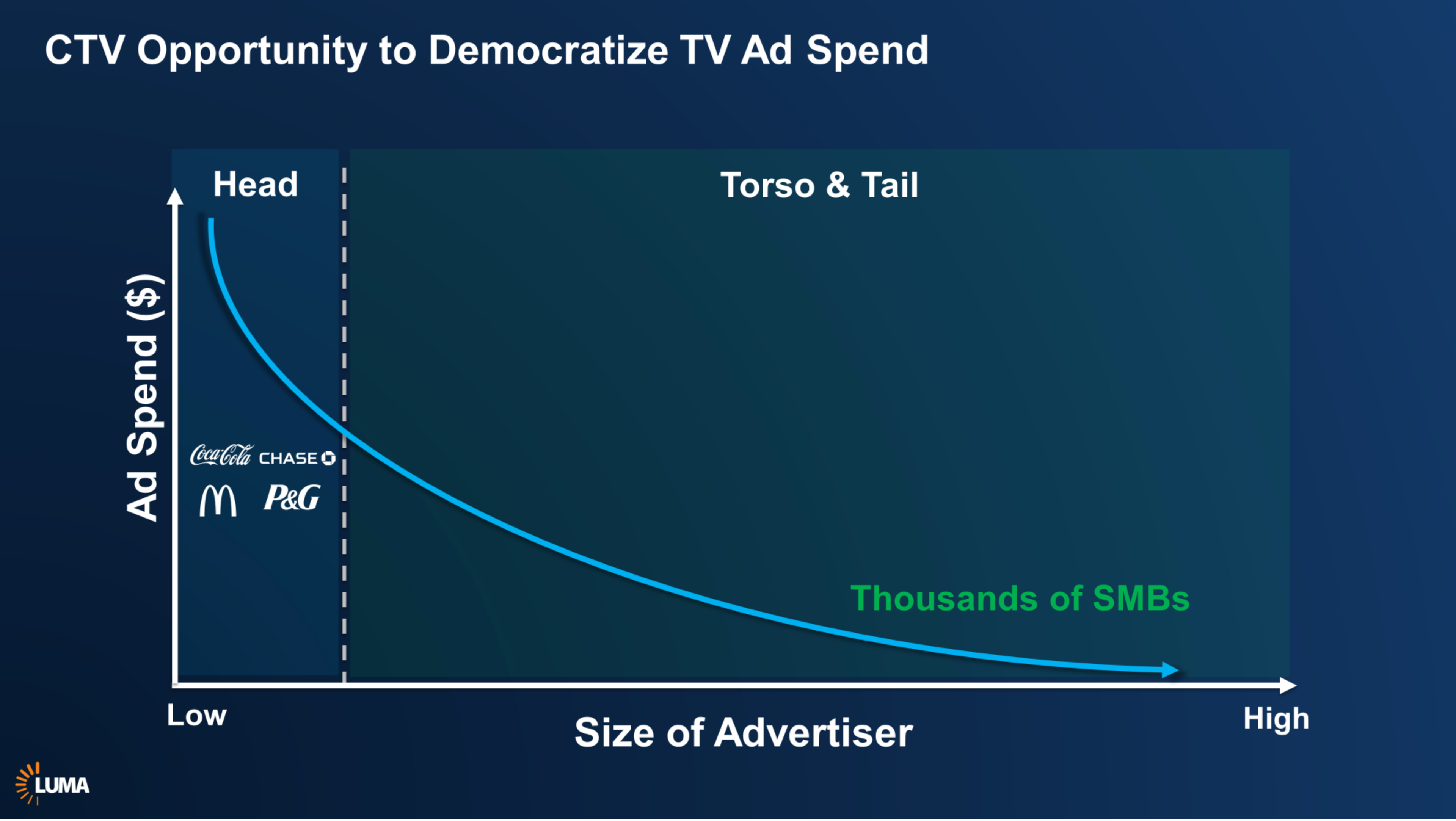
- × DTC business model
- × Higher churn
- × Lower ad loads
- × Loss of affiliate fees

Mitigating the Challenges:

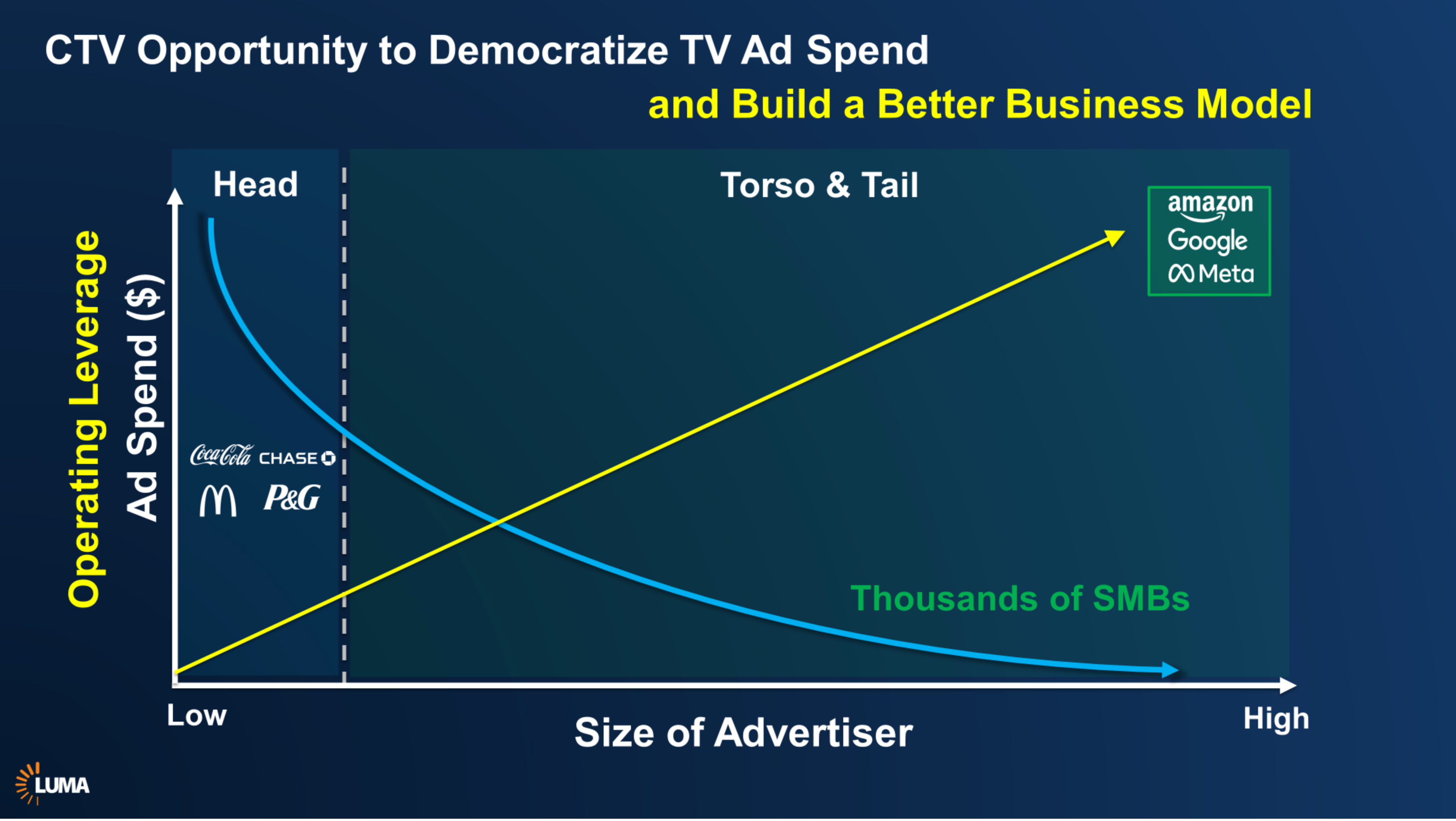
- ✓ Rebundling
- ✓ Wholesale
- ✓ Consolidation

Media companies have had several challenges, probably the single most important one being that media companies were in the B2B business, and they are now forced through streaming to get into the direct-to-consumer business. They don't really understand that business, and you can see it from the churn. These companies are having to reacquire their customers two, three, sometimes five times per year. There are lower ad loads and the loss of affiliate fees. How have they responded? By rebundling, wholesaling and consolidation.

If all we did was transfer eyeballs from linear to streaming, that would be a big loss. The real opportunity in CTV is to bring digital attributes to the big screen so that we can have all the kinds of capabilities around targeting, precision, and performance that we do in digital, applied to TV.

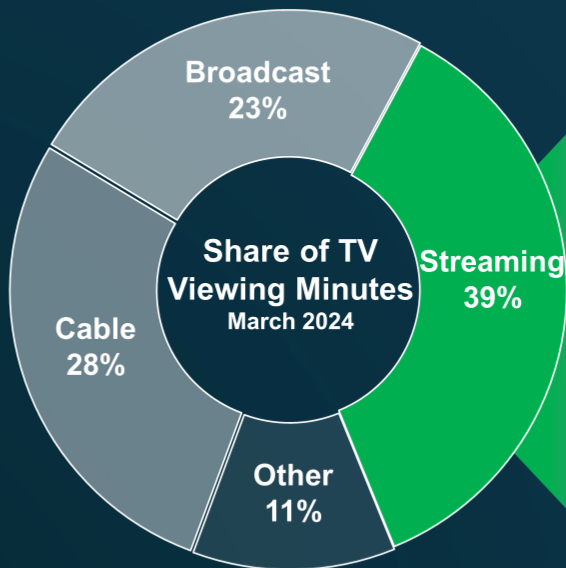


The other opportunity is to democratize TV spend. If you think of it in a chart, historically, TV ad spend was in the head – it was only hundreds of very large advertisers that would utilize the TV channel. The real opportunity here is to go to the long tail of smaller and more performant advertisers.



It just so happens that will build a substantially better business model with more operating leverage as the large tech companies have done with the thousands, if not millions of small advertisers, and that we believe will bring a lot of health and vigor to CTV.

CTV is Creating a New Fragmented Hierarchy



Company	% of Total TV	% of Streaming
YouTube	9.7%	25.3%
NETFLIX	8.1%	21.1%
hulu	3.0%	7.8%
prime video	2.8%	7.3%
Disney+	1.7%	4.4%
tubi	1.6%	4.2%
peacock	1.3%	3.4%
Roku	1.3%	3.4%
max	1.3%	3.4%
Paramount+	1.0%	2.6%
pluto tv	0.8%	2.1%
Other Streaming	5.7%	14.9%

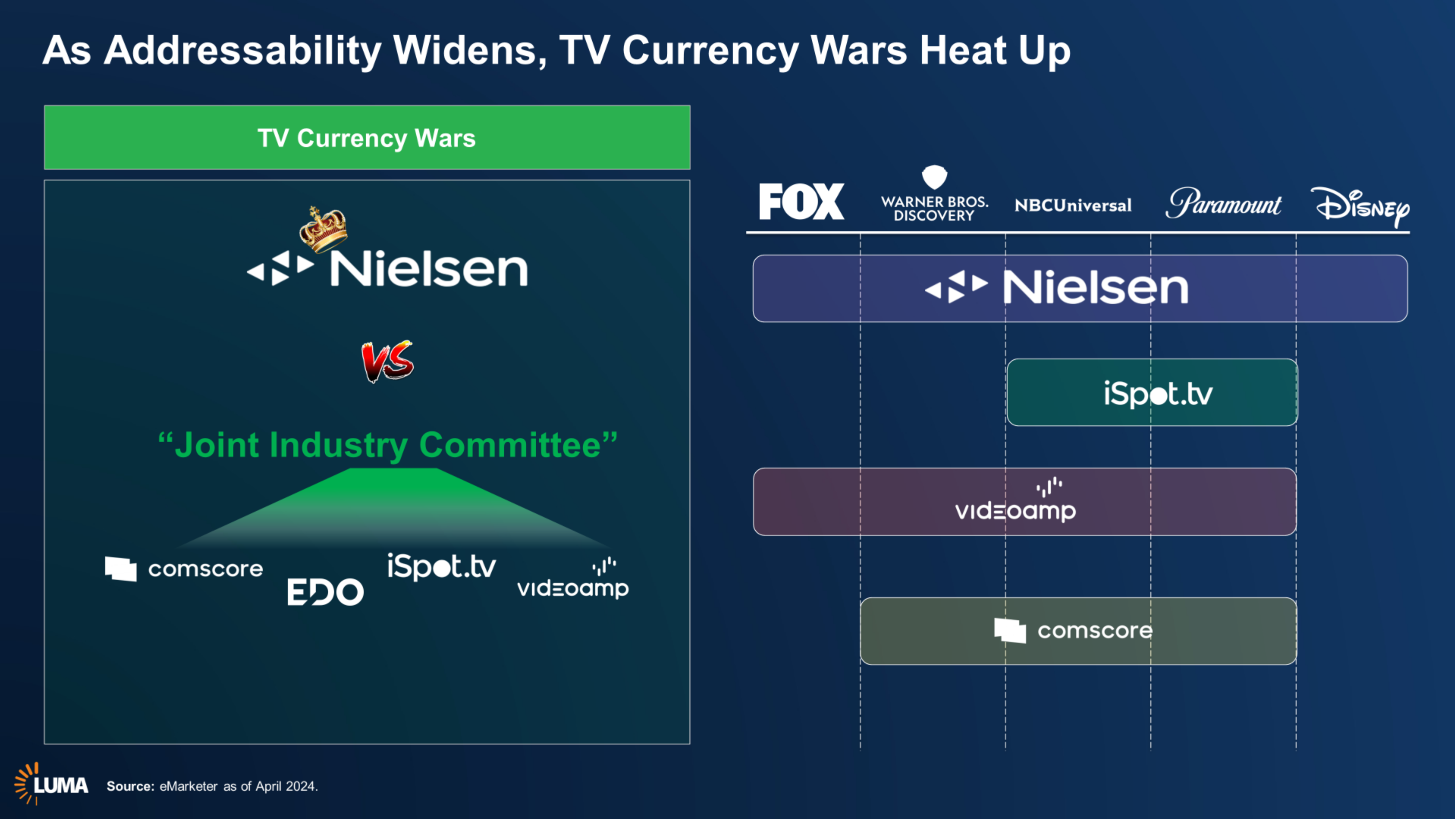
LUMA **Source:** Nielsen Insights, March 2024.

On the supply slide, we're also seeing a different type of fragmentation occurring. In the top five, there's really only three big tech companies - Google, Netflix, and Amazon, and then Disney being the largest big media company. So, we're seeing a reconfiguration of the fragmented hierarchy in streaming.

Short Form Video Also Going After TV Budgets

LUMA

Let's not forget, that's just the definition of "TV" is changing. People are consuming short form video on a vertical phone, which increasingly considered "TV". We note that YouTube tomorrow is doing their Brandcast event at the Upfronts, not the Newfronts. It's clear these companies are all coming after the same entertainment, the same eyeballs, and the same budgets as TV.



Much has been talked about TV currency wars, and some of these competitors are bringing new forms of performance and census-based measurement, which is healthy for the ecosystem. That said, every major media company has renewed with Nielsen. So, the currency wars perhaps are not so much of a war as earlier hyped and the future looks like one of multiple currencies.

CTV Ad Formats Going Beyond 15 and 30's

Interactive

Shoppable

Pause Screen

Product Placement

Finally, CTV brings innovative new ad formats beyond the standard 15 and 30 second spots. We are seeing innovation around interactive, shoppable, pause screens, and even product placement with AI that is going to bring new blood to the CTV ecosystem.

DMS BY LUMA

CREATOR ECONOMY

We Need to Reframe What Defines a "Creator"

"UGC"
&
Influencer Marketing

- **Journalists**
- **Scientists**
- **Athletes**
- **Bankers…**

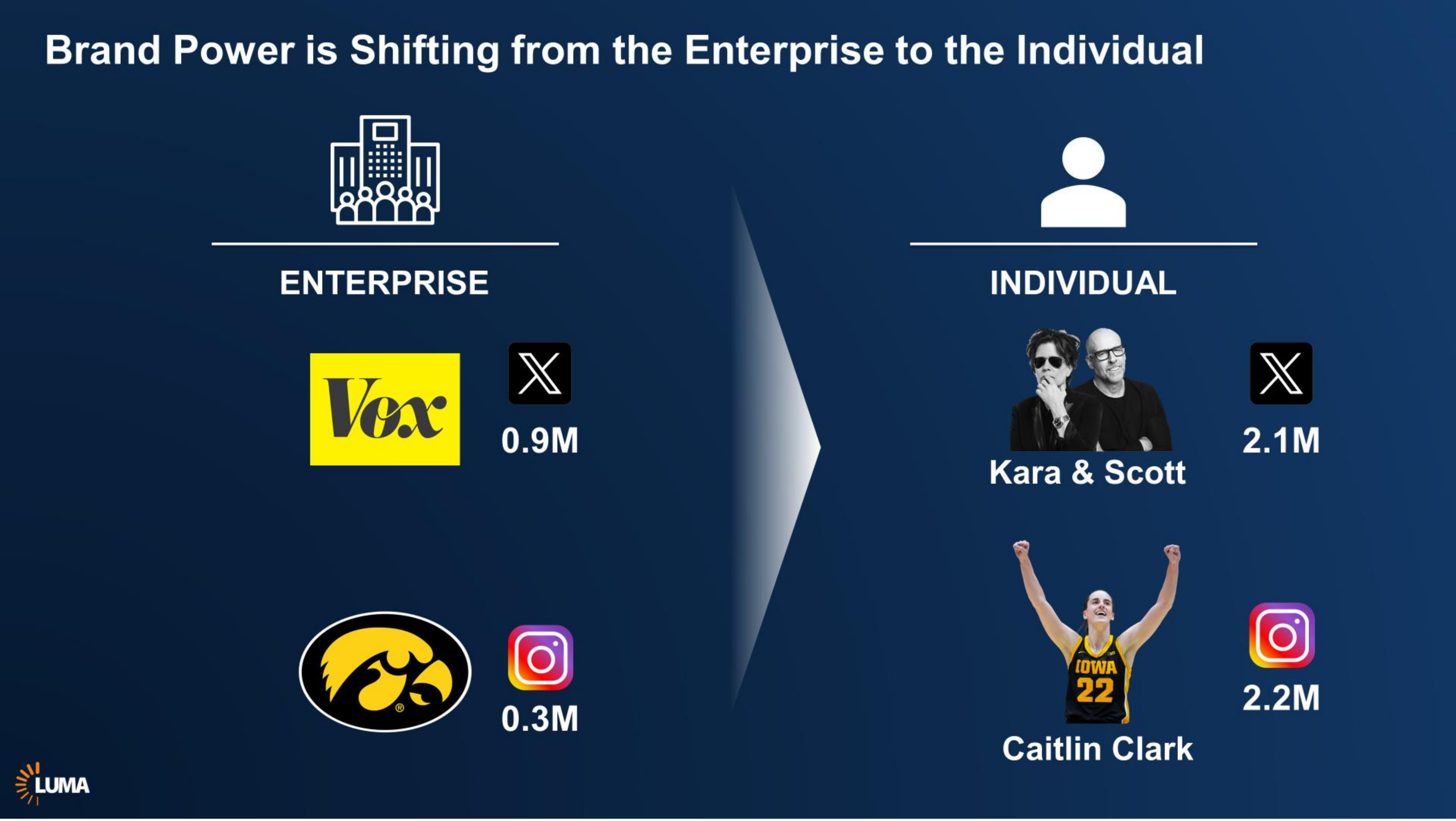
LUMA

The creator economy is another part of the digital ecosystem that ad tech hasn't paid too much attention to, as the activity has occurred on walled gardens and driven by agencies / rep firms. However, it's a large multi-billion-dollar business. As we've dug deeper, we believe part of the problem is the framing. The way most of us think about the creator ecosystem is these UGC / influencer marketing personalities looking to build an audience and sell advertising / sponsorships. However, as we see it, the creator ecosystem really includes anyone who's leveraging personal content / posting to expand their own brand and awareness.

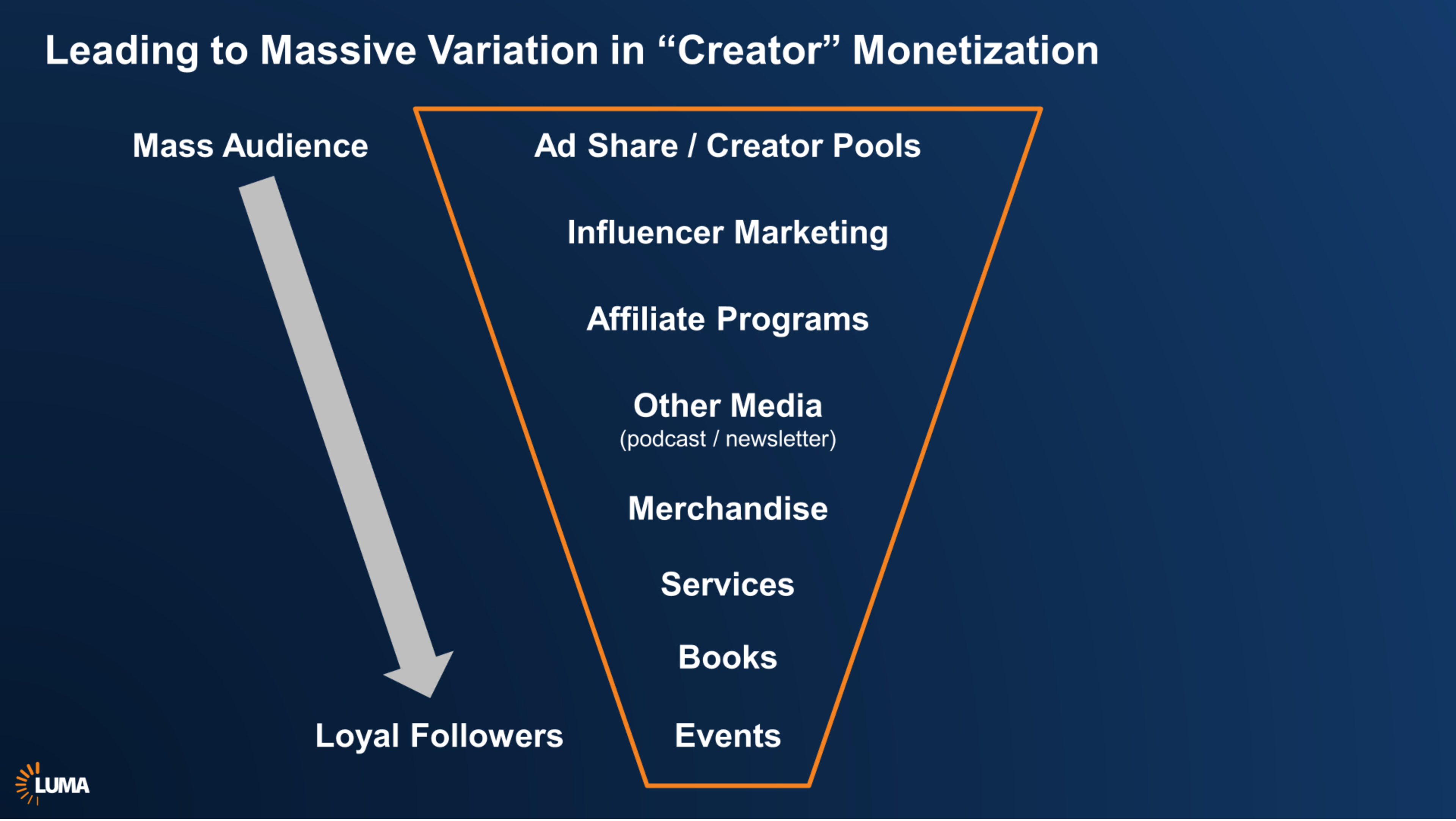
We Need to Reframe What Defines a "Creator"

CREATORS

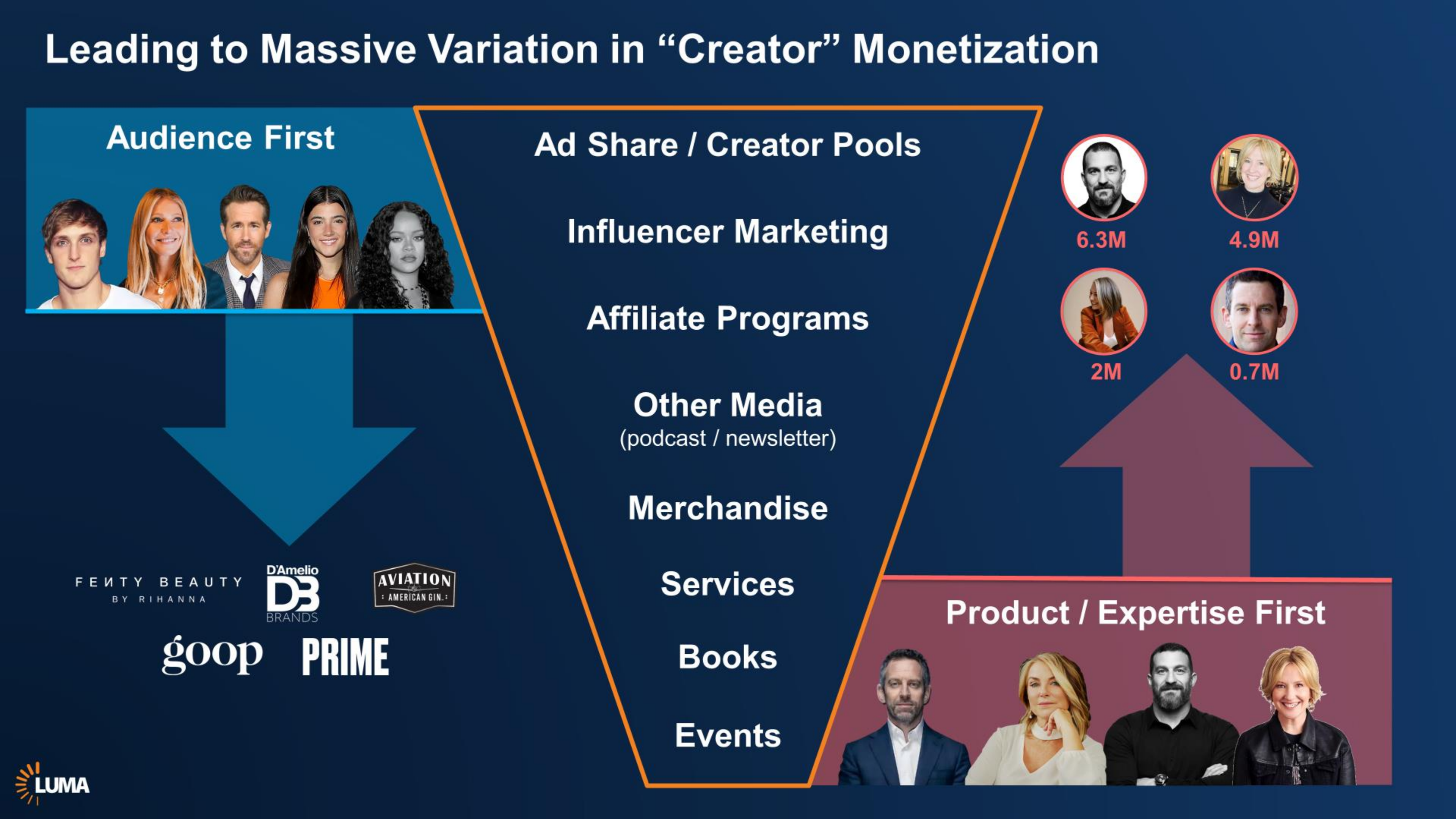
This means "creator" has a much broader definition. It includes journalists, scientists, athletes… we even know bankers that are creators.



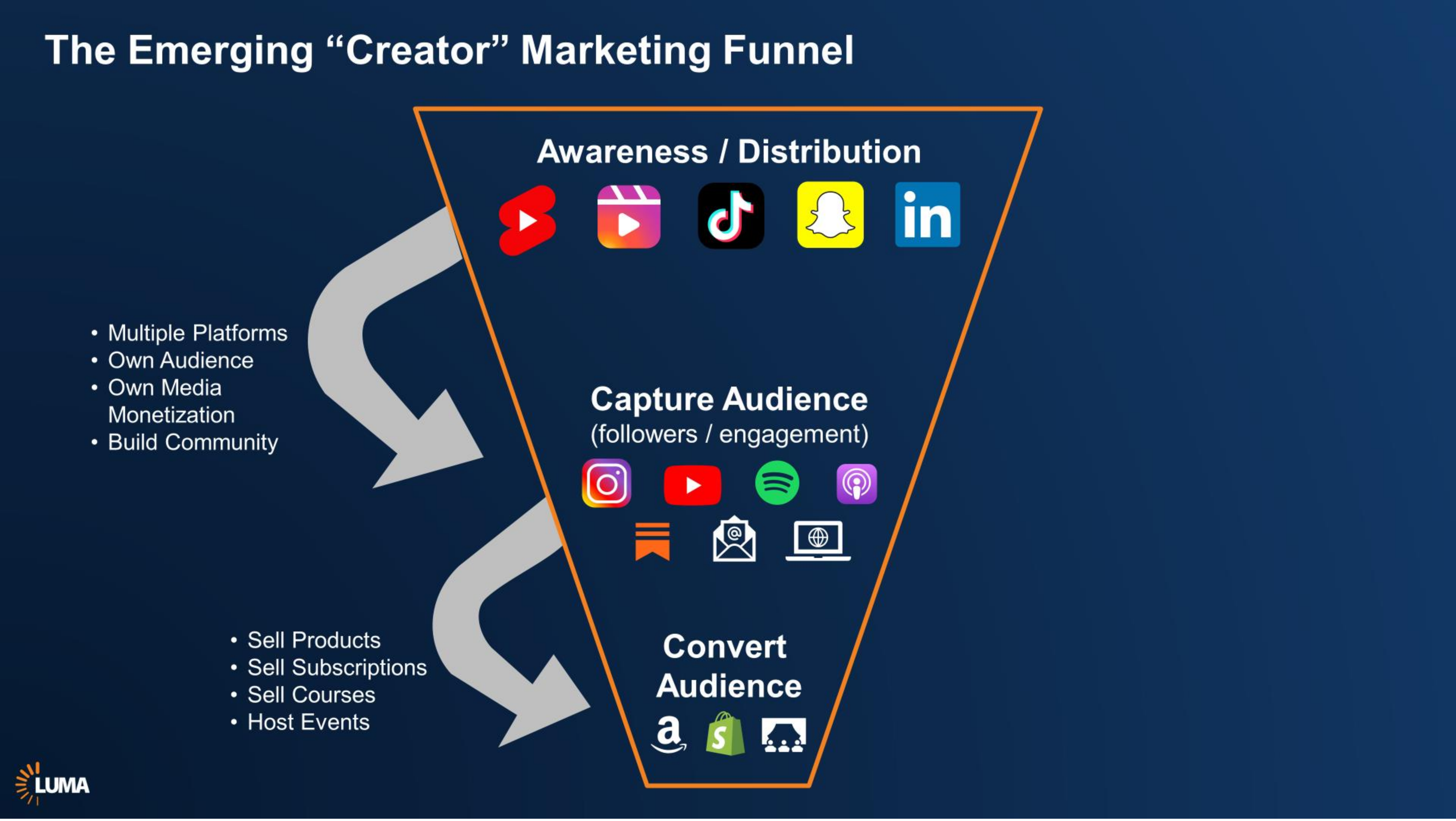
The underlying driver here, is a much broader shift of brand power from the enterprise to the individual that has been going on for a long time buts seems to have accelerated with Covid. Consumers are increasingly looking for a personal connection to the individuals at the heart of what they're following and what they care about, and it's across the board. It’s pervasive in media. Take Kara and Scott for example. Fans of the Pivot podcast know them, but rarely is it because Vox produces the show. Similarly, if you look at the recent women's basketball run, we were all following Caitlin Clark more than the Iowa basketball franchise. It’s evident in how people are following them and where the attention is going. Just look at followers of these few examples. There is far more traffic to the creators themselves than the representative enterprises.



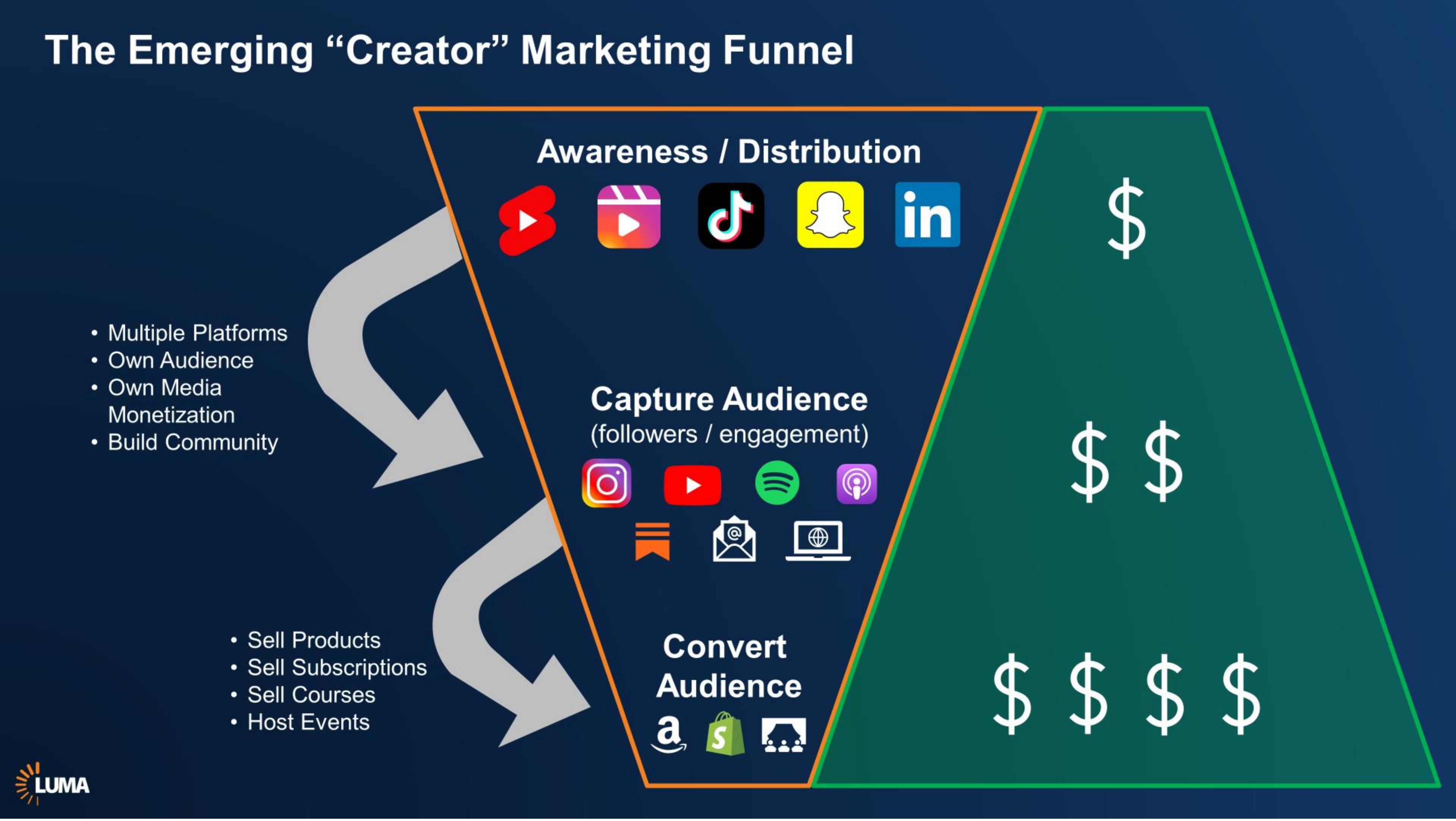
If you take this lens back and look at creators in a different way, it's creating a massive amount of variation in how creators are monetizing. At the top end you have the traditional forms of “creator” monetization (creator pools, paid sponsors, affiliate, etc.), you then see creators connecting other media like newsletters, all the way down to creators looking to sell products, services, books, events, etc., Effectively, you have this funnel from the mass audience down to loyal followers and an increasing variety of how you can monetize followers along the way.



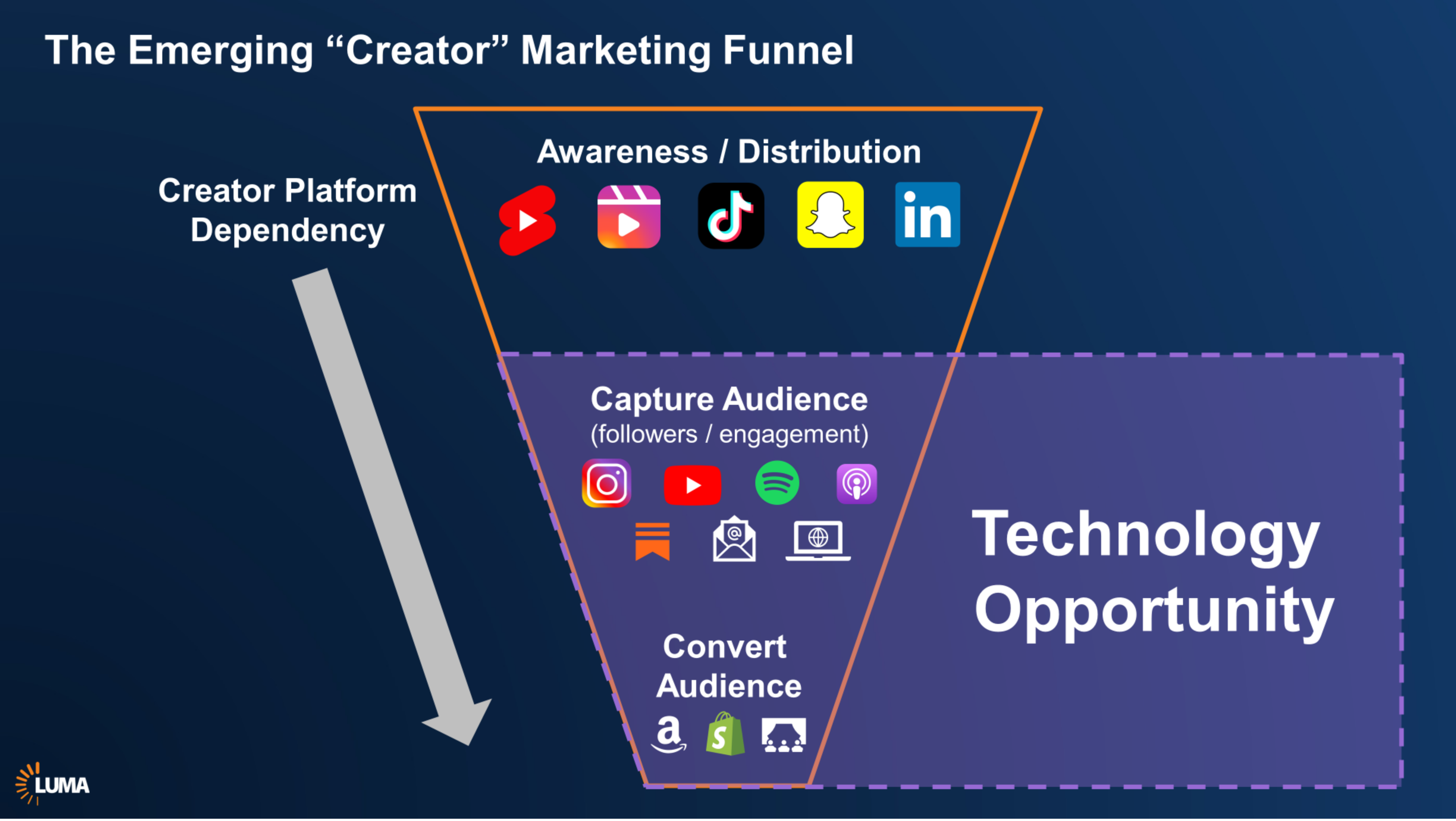
As a result, we've noticed two different types of creators forming, which are starting in opposite positions and heading towards each other. You have those who are creator / audience first. They have built a big personal brands and are now using their distribution and attention to sell their own products vs. sponsoring others. Then you have those like Andrew Huberman or Brene Brown who started with an expertise and have used creator platforms to drive massive awareness and audiences. Being "creators" initially helped their core practice / business, but as they've scaled, it's also opened new opportunities and changed the breadth of their monetization considerations.



Collectively, the re-framing of a "creator" and focus on capturing multiple points of monetization, are leading to the emergence of the creator marketing funnel. This starts with what's occurring at the biggest creator platforms. YouTube, Instagram, and TikTok are all driving creators towards more short form, mass reach content. This is great for getting initial awareness and for platforms to drive time spent and ad monetization, but it's actually very tough for creators to monetize. As a result, creators are starting to think about how they can take their reach and move their audience down funnel for better monetization. This often first focuses on connecting with customers on multiple forms of media, collecting data from followers to "own" the audience, building community, and selling direct advertising deals. For others, they are taking it the step further and then monetizing that audience with actual products, subscriptions, events, etc. Ultimately, creators are shifting from just thinking about their reach, to thinking of themselves as a business and starting to use marketing automation to turn reach into conversions / monetization.



The reason this is so important is that the monetization for creators is inversely correlated. While awareness and distribution is very important for the top of the marketing funnel, the creator pools at the top are not too lucrative. As they move down to really capturing and owning their audiences, there is a lot more from a control in selling access to a loyal audience that comes with direct advertising / sponsorship deals. That said, the real money has really shown up in selling products and creating merchandise around that. Just ask Ryan Reynolds or Rihanna.



The other thing that happens to creators as they move down the funnel is they start to lessen their dependency on any one platform. At the top, they're very dependent on what platforms decide to do with the algorithms or how they payout / measure creator pools. As they move down the funnel, there is a lot more control & opportunity. So, what does this mean for this ad & marketing tech ecosystems? Well, this represents a massive amount of new "businesses" that are just beginning to consider marketing automation and how to capture value from audiences across different media channels. It also comes with lots of fragmentation, as there are millions of "creators" focused on these trends. This fragmentation combined with the broader shifts in creator importance and monetization, is ripe for technology platforms to bring new solutions to the ecosystem.

DMS BY LUMA

CREATIVE TECH

LUMA

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AI and media and marketing were made for each other. Massive data sets for learning and broad applications that we'd argue sit on a spectrum from evolutionary to revolutionary. Historically, there has been a tremendous amount of focus, investment, and deal activity in both media and data - the two aspects of ads that answer the "where" and the "who", with little activity around creative (the "what"), probably the single most important part. We believe that we're at an inflection point with AI that will see more focus on creative. Software that assists with data, workflow, and media optimizes for efficiency whereas for creative and content, it's software that optimizes for effectiveness. At the end of the day, we think it's the latter that will drive better outcomes. Finally, AI has the potential to reinvent search and potentially even websites. Who needs to put data on a website that consumers never navigate to if large language models will find and provide the answer?

Strategic Advice for the Digital Age