

Investment Insight

DIGITAL MARKETING: LAST MONTH WE SAW THE FUTURE

Adobe Systems is one of the flagship investments in our portfolios. Over the last three years since we have owned the stock in the portfolio, the shares have performed exceptionally well. Whilst many people are familiar with some of their Creative products, for example, Photoshop and Acrobat PDF, there is another business division within Adobe, their Digital Marketing suite which does not garner as much attention. We were very early to identify the opportunity of the Digital Marketing business and it is now coming into the foreground. Adobe is the pioneer in this industry but there is also a multitude of smaller specialist companies who are attempting to break into this market.



Last month, we arranged an event in association with Exponea, one such specialist digital marketing company, which helped to highlight just how large this industry will become over the next decade. With a panel of speakers and audience ranging from technology executives to advertising agencies, marketing industry consultants, entrepreneurs and investors, we learned

about some of the challenges faced and how the industry is likely to evolve. We summarise below some of our key takeaways from the event.

EVOLUTION OR REVOLUTION?

The world of advertising is changing and is changing at a rapid rate. Advertising strategies used to centre on buying television spots and newspaper pages. However, we spend more time online rather than reading newspapers and do not watch linear television but instead television on-demand. Attention spans are getting shorter and shorter, causing difficulty for advertisers and brands to address their audience in a timely manner.

We understood that this change was occurring just from our own habits, but after listening to the panel speak, it is on an even larger scale than we had originally thought. Additionally, whilst technology is attempting to offer a solution, it is still at a very early stage. Our take is that the digital marketing industry is still in its infancy regarding the size of the market and also the sophistication of the tools.

ME, ME, ME

Personalization has become a key facet of advertising as people appreciate relevant adverts customized for them. Formerly, advertisers used contextual marketing where they would predict who would watch the television programme and then advertise products which they thought would be appropriate (e.g., a football match would have adverts for cars since it would be males aged 25-45 who would be watching the game and they would be interested in cars).

Advertising has now evolved, as like it or not, our personal information is widely available on the internet. Brands can now engage with us on a much more individual basis and design their adverts and offerings appropriately. The panel discussed how with a personalized message, brands can have greater advert conversion success and also increase the purchase value. Our website history and internet footprint shape the dynamic creative advertising which we receive. Coupled with quantifiable data on purchase behaviour, advertising tools are becoming more sophisticated. Listening to the panel speak, we recalled how Adobe is the oft-quoted industry source for the state of Black Friday and Thanksgiving retail sales. This emphasized the competitive moat around their business and how using their enormous dataset of retail transactions preserves their leadership position.

The collage features several news articles and social media snippets:

- FASHIONISTA**: A photo of a shopper with bags from ALDO and FORTUNE.
- BBC NEWS**: Article titled "US 'Cyber Monday' spending up 16% driven by mobiles".
- MARKET INTELLIGENCE**: Article titled "Cyber Monday Sales Hit a New All-Time Record in 2016". It states: "It's official: Cyber Monday 2016 was the biggest day in the history of U.S. e-commerce. Consumers spent \$3.45 billion online on Monday, according to Adobe Digital Insights, easily blowing past initial estimates and continuing a strong Thanksgiving-Black Friday weekend when a number of brick-and-mortar retailers, including Walmart (WMT, +8.08%), Kohl's (KSS, +2.08%), and Target (TGT, +1.42%) beat company records for digital sales."
- CNBC**: Article titled "'Couch Friday'". It states: "Still, double-digit online sales growth kept some shoppers at home, as retailers like Wal-Mart, Kohl's and Target offered the same deals online that they did in stores. Retailers rung up \$1.93 billion in online sales on Thanksgiving — an 11.5 percent increase over last year — coming in just short of forecasts, according to Adobe Digital Insights. The firm, which measures 80 percent of all transactions from the top 100 U.S. retailers, said online sales on Black Friday are expected to grow 11.3 percent, to \$3.05 billion."
- Forbes**: Article titled "Leadership / #GiftGuide". It states: "Adobe Digital Insights shared its 2016 holiday predictions. It looks like this will be a good year." It lists predictions:
 - Black Friday will be bigger than ever. For the first time, sales are expected to exceed \$3 billion, an 11.5% increase over last year.
 - Cyber Monday's sales will exceed \$3 billion, an increase of 9.4% over last year.
 - 5% of customers will drive 35% of the revenue.
 - 25% of the top products sold this holiday season will be during Black Friday weekend.
 - This should be a good year for retail as holiday season sales are expected to grow 11% over last year, reaching \$91.6 billion.
 - The top five holiday gifts (in order of popularity based on social mentions) are Pokémon Sun/Moon, Barbie, Legos, Oculus and PlayStation VR.
- FINANCIAL TIMES**: Article titled "Holiday season to test Walmart's strategy revamp". It states: "Retailer looks to break Amazon's market-leading grip on ecommerce. This year's holiday season will be a key test of how Walmart's strategy revamp is panning out, as ecommerce becomes increasingly critical across the retail industry. US online sales jumped 11.4 per cent to a record \$3.45bn on Cyber Monday, according to Adobe Digital Index."

INTRUDING ON YOUR PERSONAL SPACE

Hearing from the panel, we learnt that the use of personal data can also bring problems. Naturally, there are privacy concerns and laws dictating how much information can be used. This poses a challenge to brands and advertisers as to how they can segment and best use our data. The panel remarked upon our investment in Amazon since of course, Amazon has a wealth of information on their customer's purchase behaviour. It is unlikely that Amazon ever would want to share this customer information with others, but this does cause a wider difficulty for advertisers and brands which lack this data on their clientele.

Additionally, the panel highlighted the problem of marrying together online and offline data. For example, you could be searching for an item online, go into a shop and purchase it, but then adverts subsequently pop-up around the internet for days after you have purchased in an attempt to entice you into buying online. Thus the marketing is not yet sophisticated enough to understand that you have already bought the item. This ends up annoying the user but also wasting advertising spend.

LET'S GET SOCIAL

We also learnt from the panel that social media is becoming another area of focus. Brands are discovering that using social media influencers like bloggers and YouTube stars can reach customers more effectively. Additionally, they are able to react much faster to customer reviews and comments. In an age where media can spread virally (for example the United Airlines passenger overbooking incident) across the internet, companies realize the importance of swift communication with their customers.

"ALEXA, WHO WILL WIN THE GENERAL ELECTION?"



Lastly, whilst we had already mentioned voice as a new medium in last month's compelling insight, we saw first-hand the Amazon Alexa and its capabilities. The intelligence behind the device is truly remarkable. Our colleagues at Exponea helped to run a demonstration where Alexa was able to analyse business data and provide

intelligent recommendations. It also highlighted how important it will become in the future for companies to promote their brands as an identifiable feature. For example, the panel asked, "Would you ask Alexa to re-order tissues or re-order Kleenex?"

IT MAY BE THE END OF THE ARTICLE BUT THE INDUSTRY IS JUST THE BEGINNING

In conclusion, we had a wide-ranging and stimulating discussion around the future of marketing last month. The famous John Wanamaker quote of "Half the money I spend on advertising is wasted; the trouble is, I don't know which half." might finally become redundant as the advertising industry evolves. What we do know is that the digital marketing industry will continue its torrid pace of growth as more time is spent online and advertisers chase our attention. It increases our conviction that the industry pioneer Adobe will continue to lead the way and capitalise on the enormous opportunity ahead.

Giles Tulloch

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