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Brand Disruption 2021

The IAB Annual Report on the Evolving
Consumer Ecosystem

November 2020

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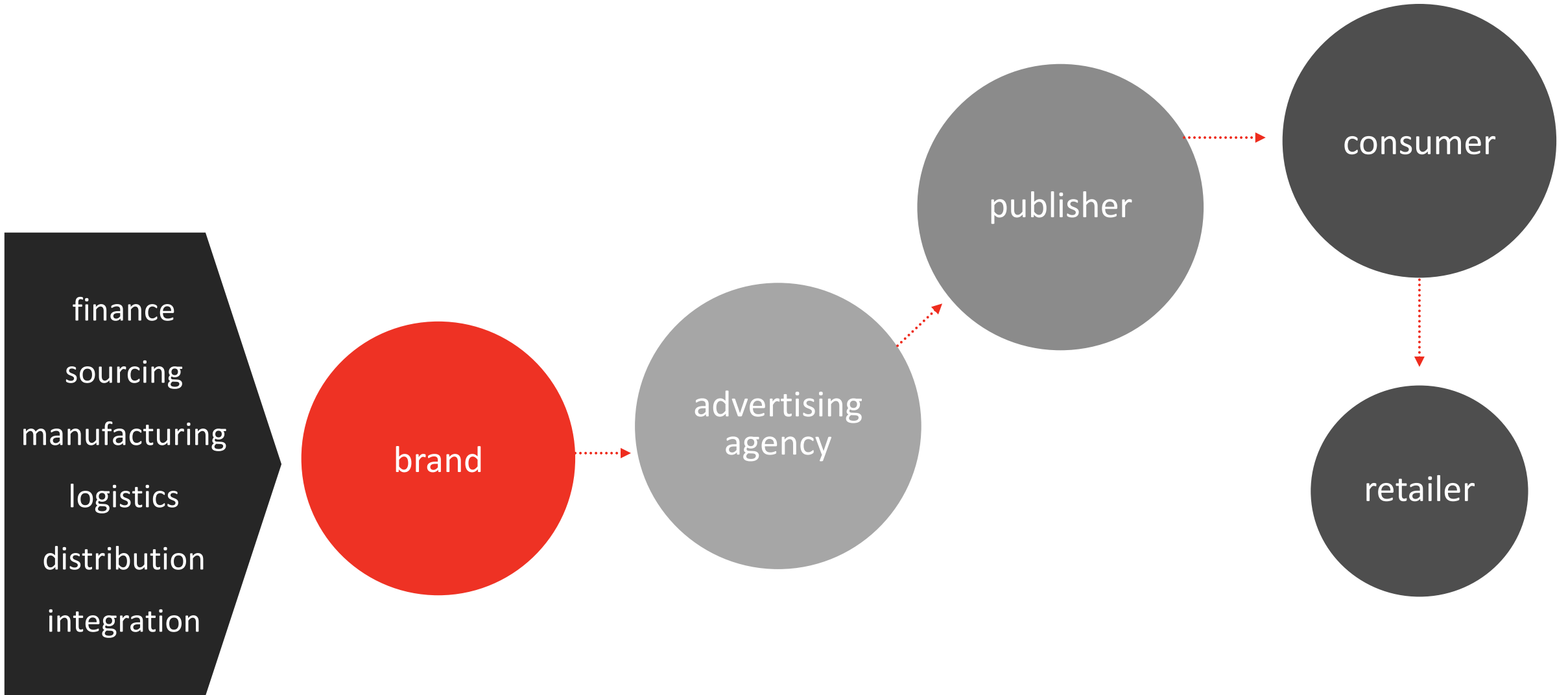


Google

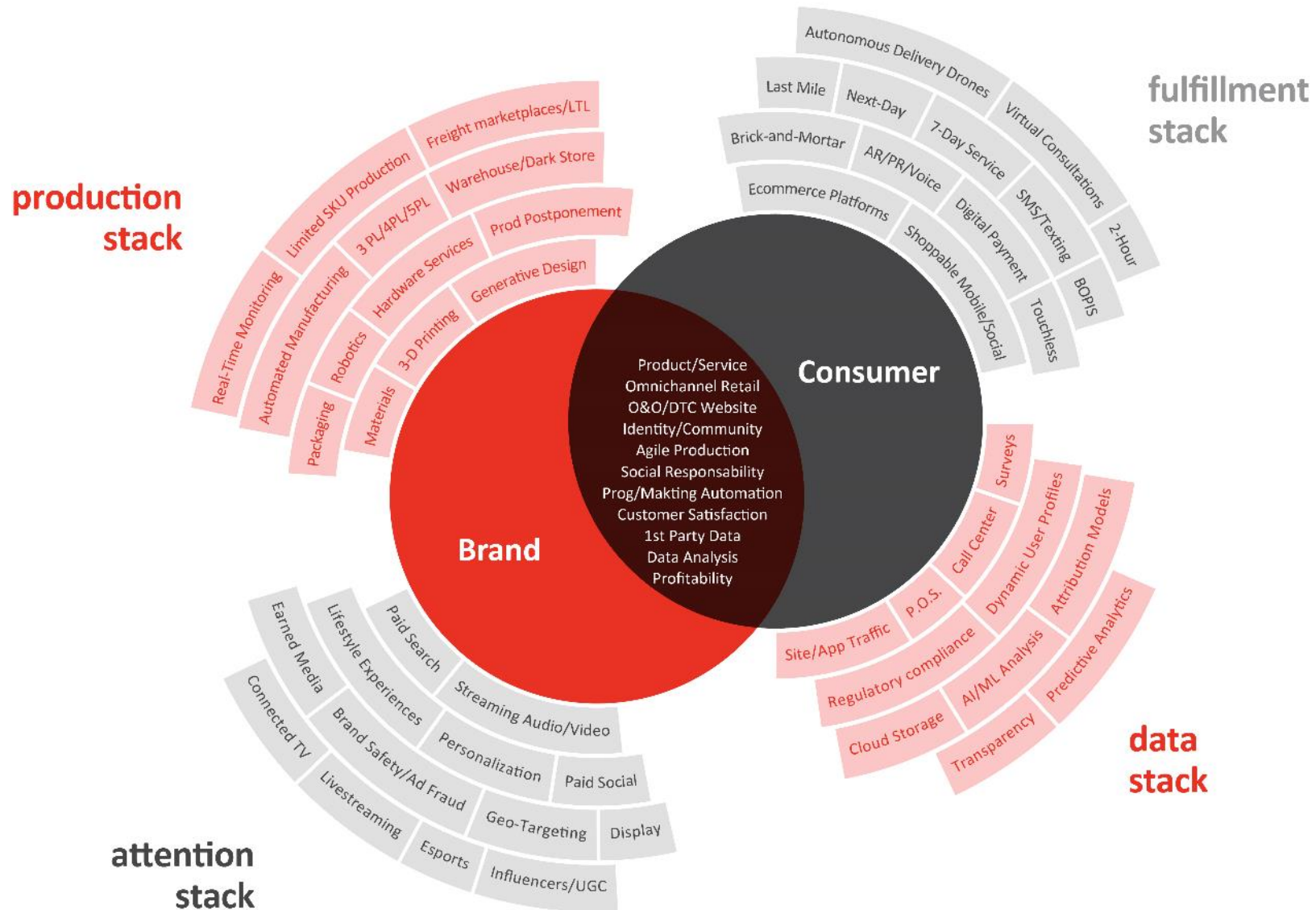
TikTok

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The Indirect Brand Economy (1879 – 2010) required tightly woven supply chains and physical stores...



... While the Direct Brand Economy (2010 -) rewards agile outsourcing and scaled individual relationships



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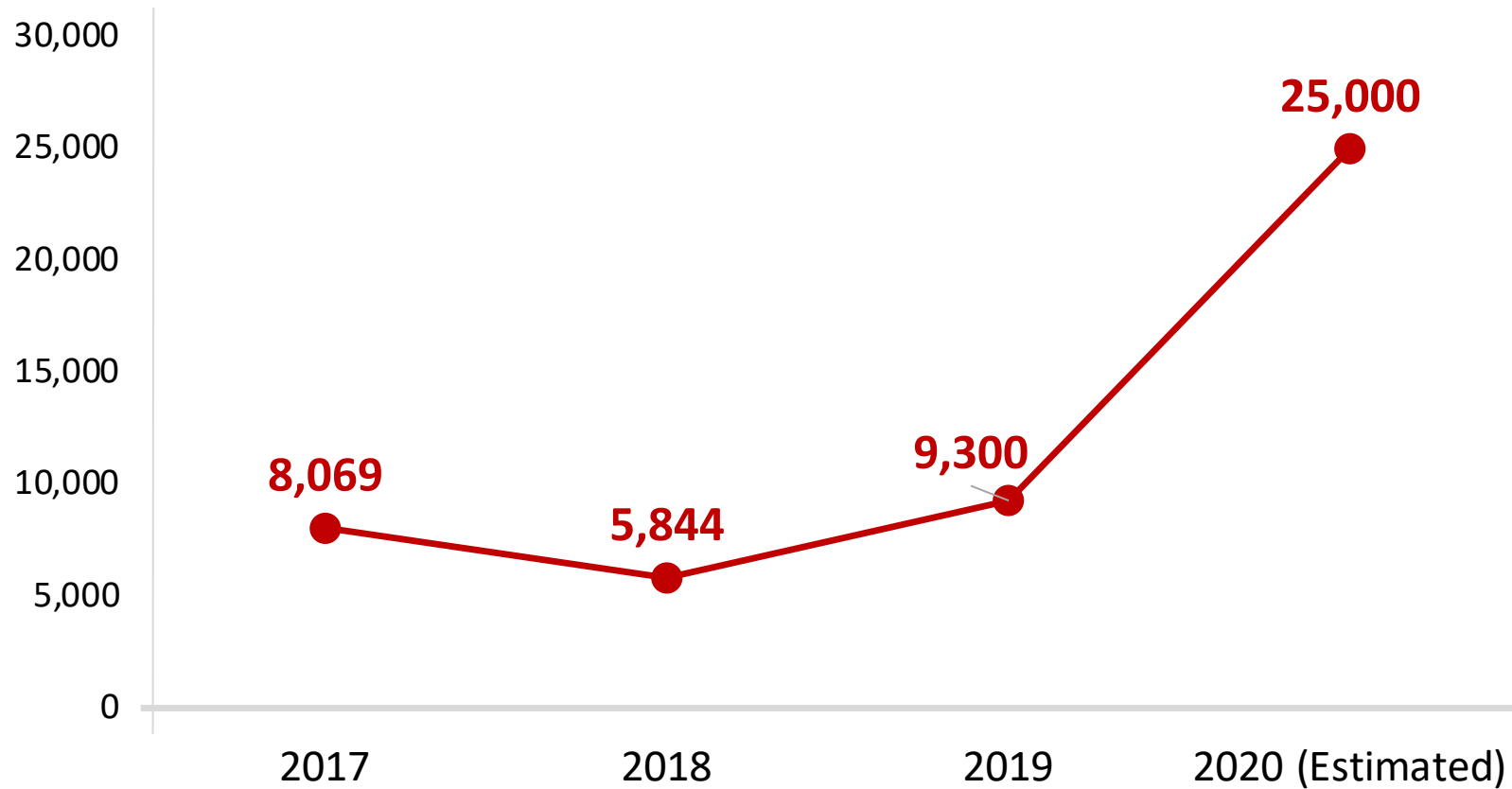
1. The COVID Disruption

One Big Takeaway

COVID accelerated the transition from a brick-and-mortar consumer economy to a “storeless” economy by up to 500%, permanently altering the brand value chain.

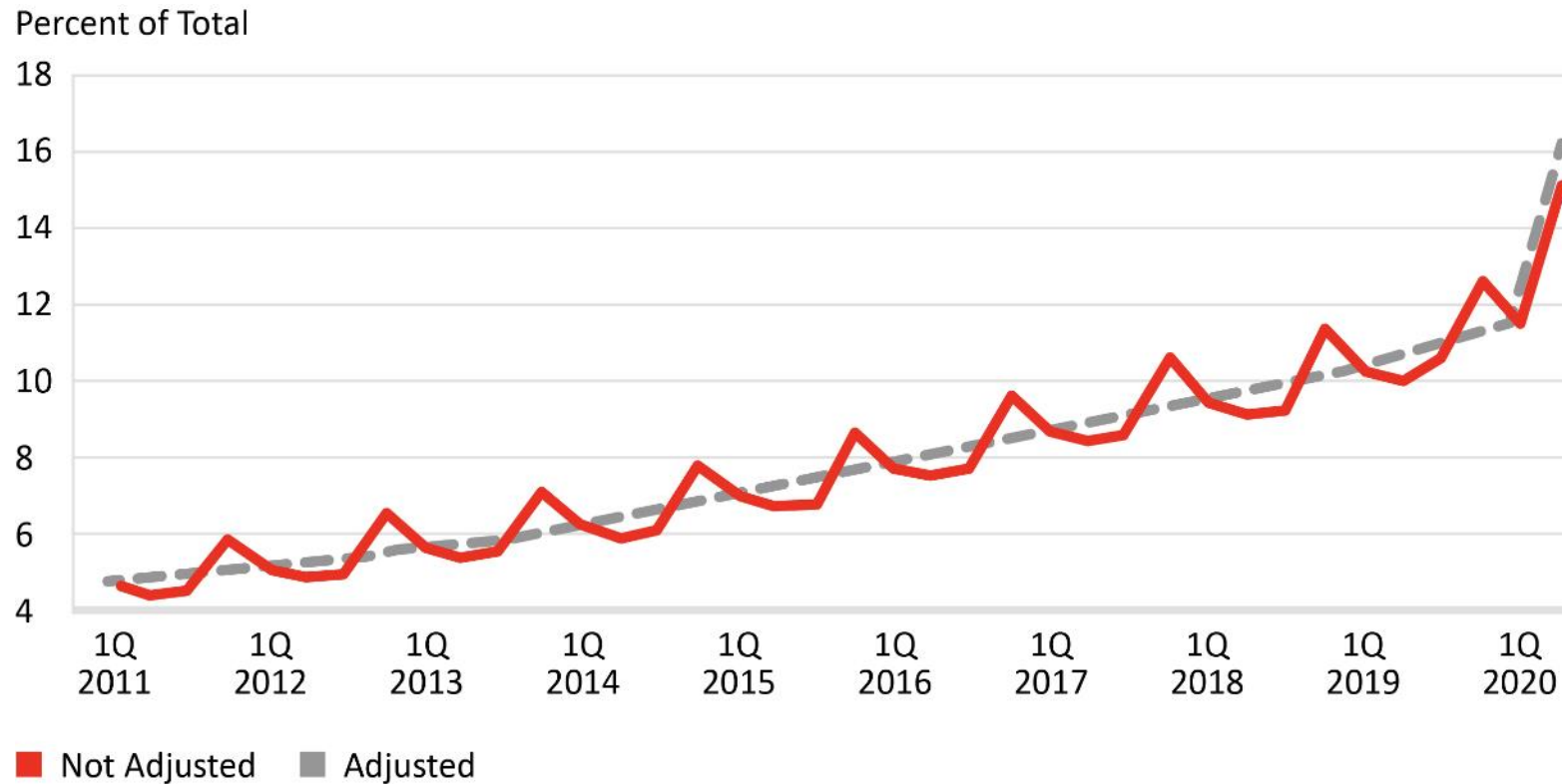
The U.S. economy is becoming storeless: Physical store closings will rise ~3x in 2020

U.S. Store Closings



Online retail spending was up 30% through the 1st quarter...

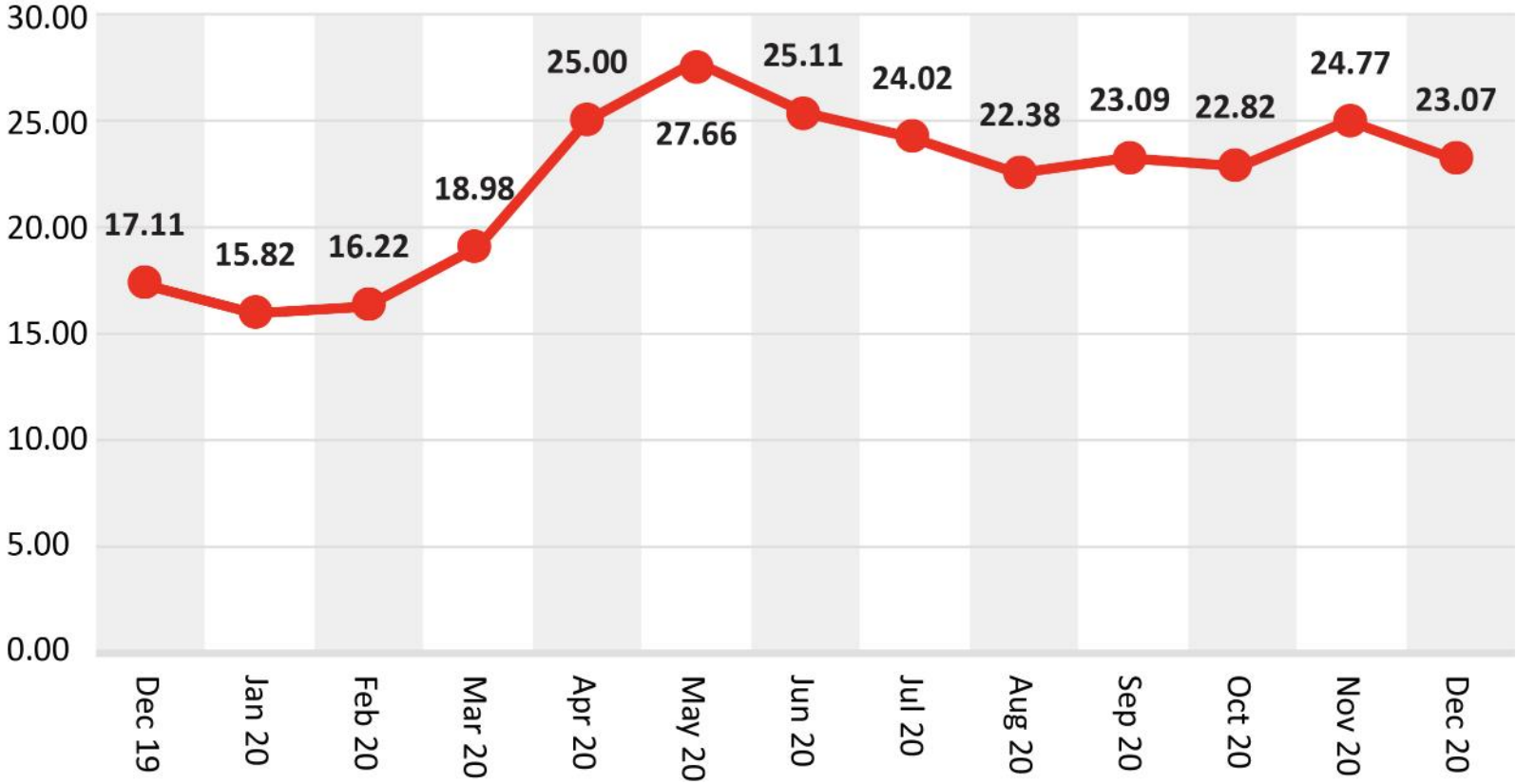
Estimated Quarterly U.S. Retail E-commerce Sales as a Percent of Total Quarterly Retail Sales:



...And grew digital shopping's share of retail 5-7x faster than pre-COVID rates

Overall Online Penetration by Month

% of total retail sales

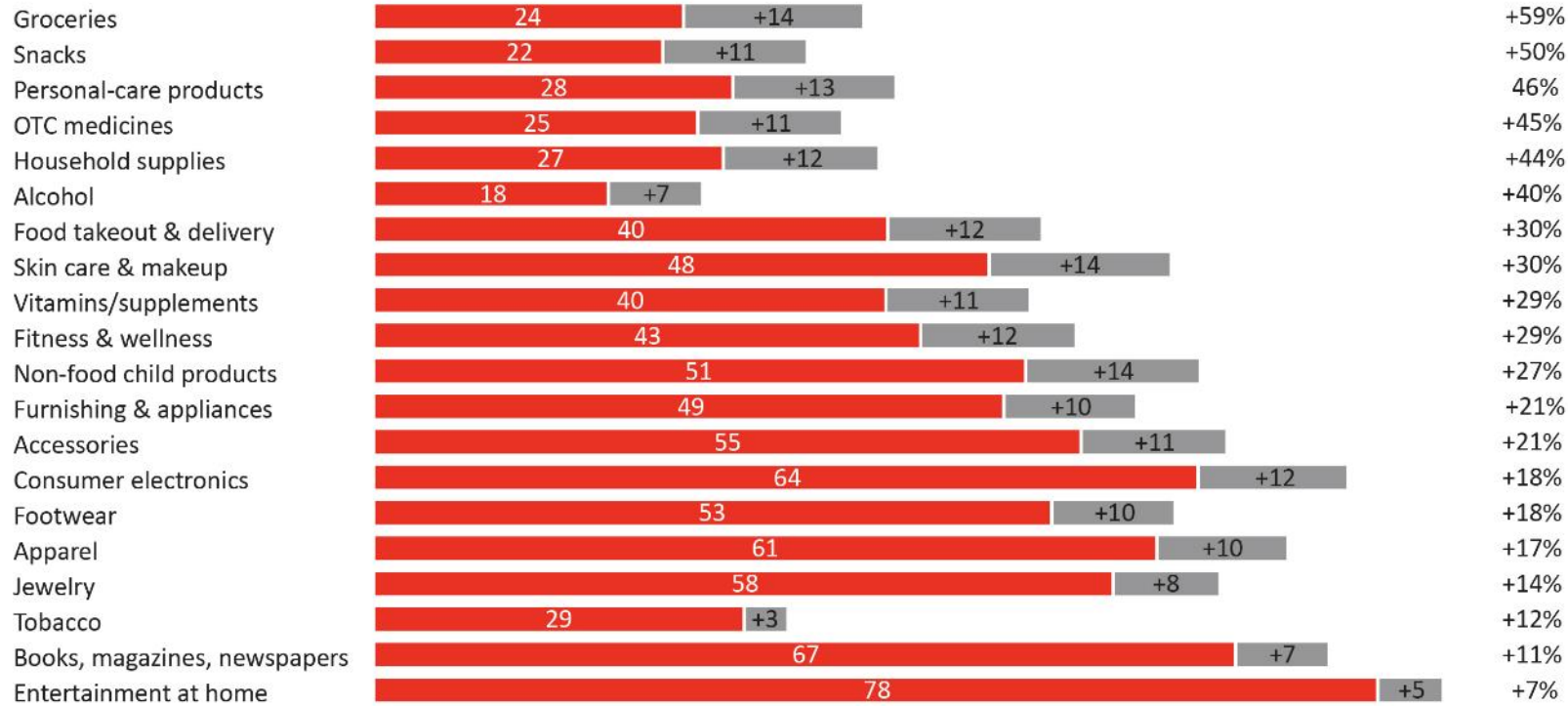


COVID is turning most consumer categories into majority-online by purchase %

Consumer's Use of Online Channel before and Expected Use after COVID-19

% of respondents purchasing online*

% growth in customers purchasing category online



■ Pre-COVID-19 ■ Expected growth after COVID-19

~15—45%
growth in consumers who purchase online for most categories

Question 1: Before the coronavirus (COVID-19) situation started, what proportion of your purchases in this category were online vs from a physical store/in person?

Question 2: Once the coronavirus (COVID-19) situation has subsided, tell us what proportion of your purchases in this category you think will be online vs from a physical store/in person?

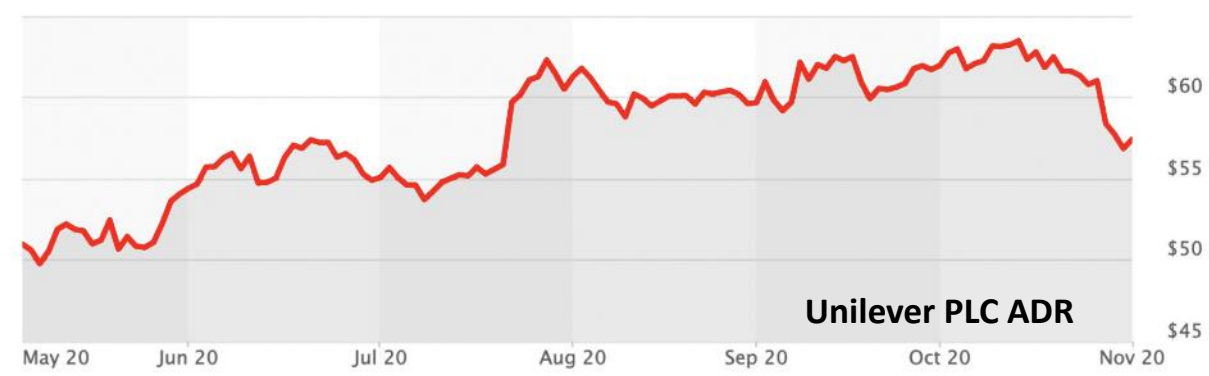
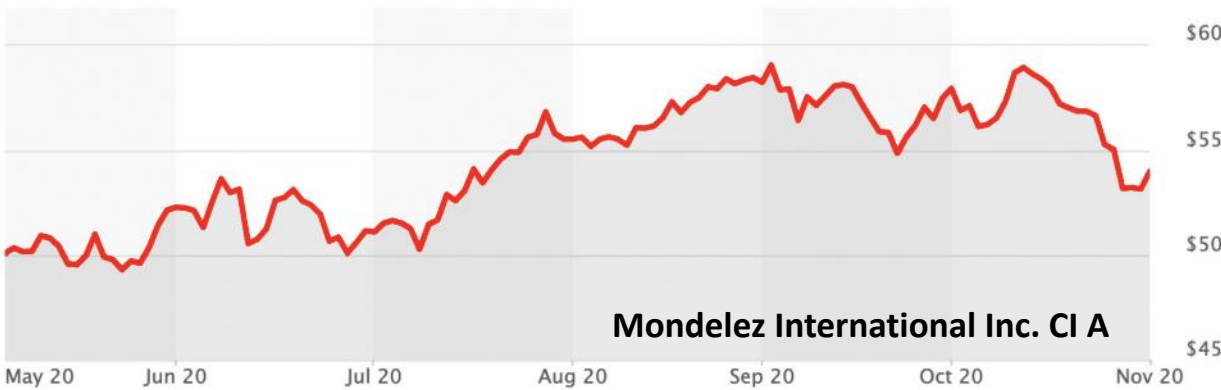
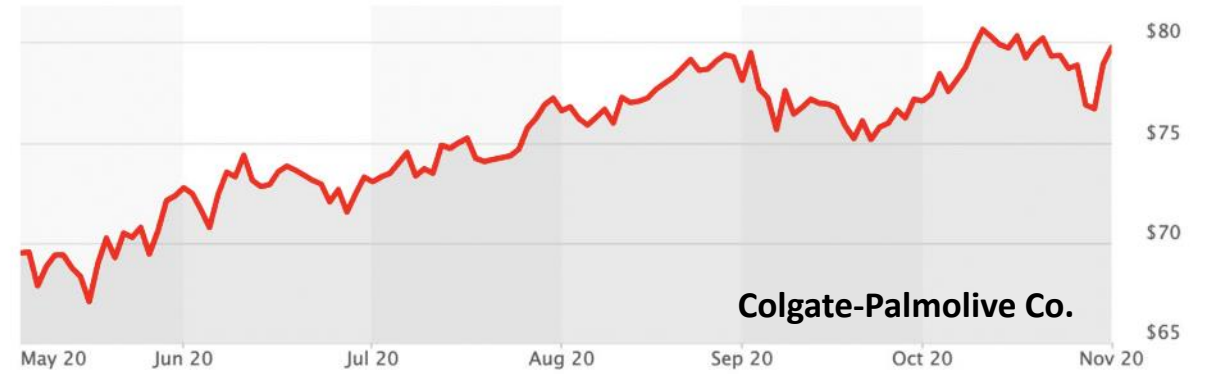
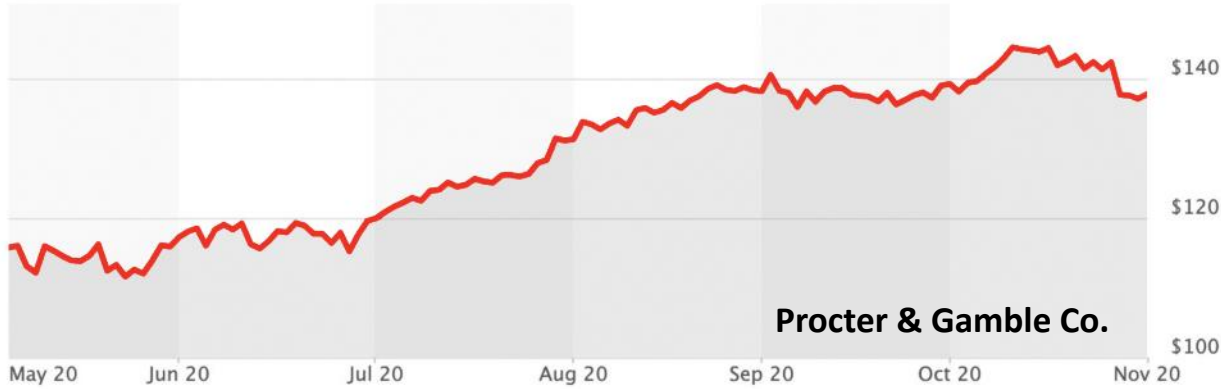
* Includes respondents who chose "some online," "most online," and "all online." Respondents who indicated that they have not bought the category online and do not intend to do so in the next two weeks are classified as not purchasing online.

Source: McKinsey & Company COVID-19 US Consumer Pulse Survey 7/30—8/2/2020, n - 2,024, sampled and weighted to match the US general population 18+ years

Increased demand is boosting the value of leading CPG brands

Since COVID's emergence, the CPG industry demand index is up 10% YoY; typical industry growth is 2-3%

Stock Market Value: Last 6 Months (11/2/20)



Digital media democratize the scale and competitiveness of smaller brands

200

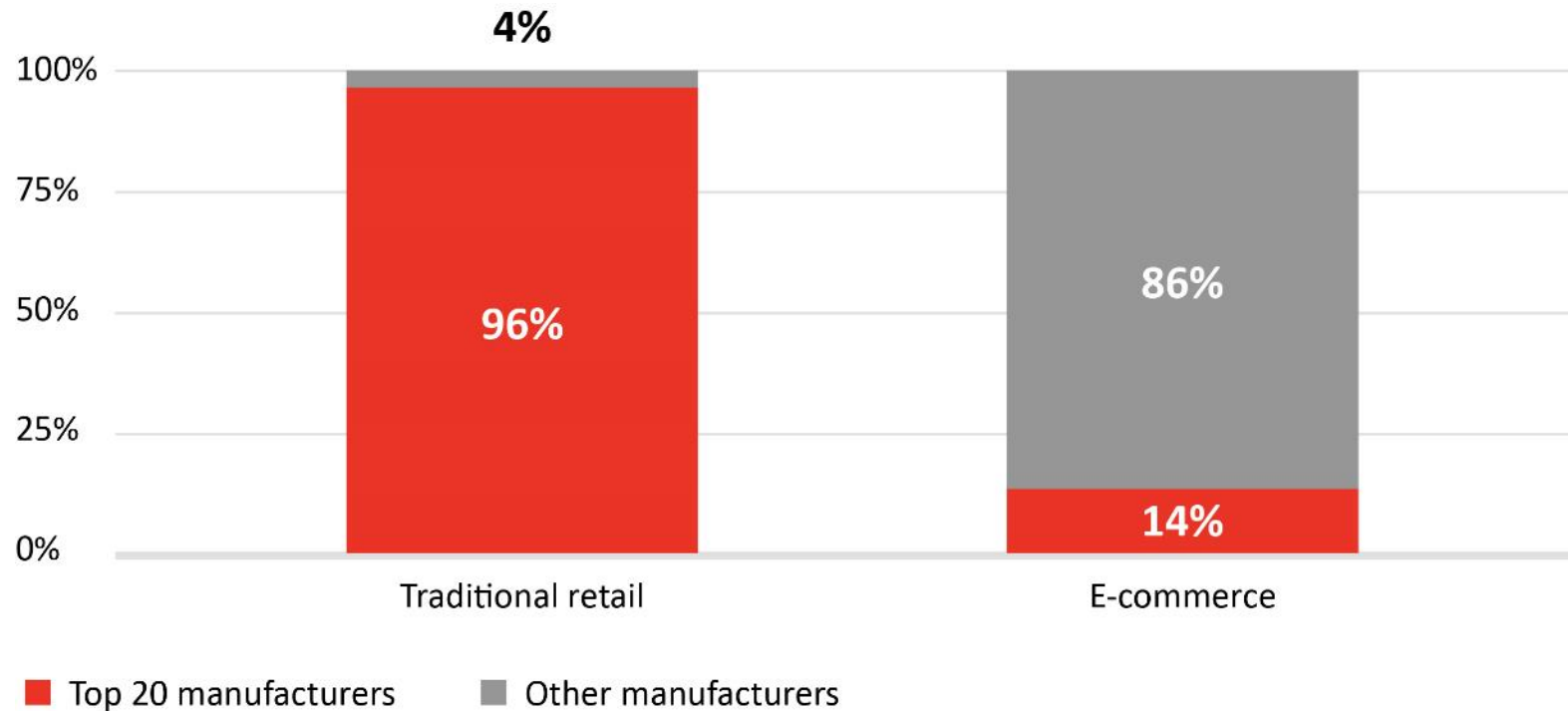
of advertisers
supplying 88% of U.S.
network television
revenue

10
million

of individual
advertisers on
Facebook

When consumers go digital, disruptor brands benefit most...

Distribution of Cosmetic Retail Sales by Channel in the U.S.



...When consumers go digital, disruptor brands benefit most...

Total pet food sales grew 7% in 2019; online sales have grown 2x that since 2015.

Chewy's net sales grew 40% YoY in 2019 (to \$4.85B) and 46% in Q1 2020

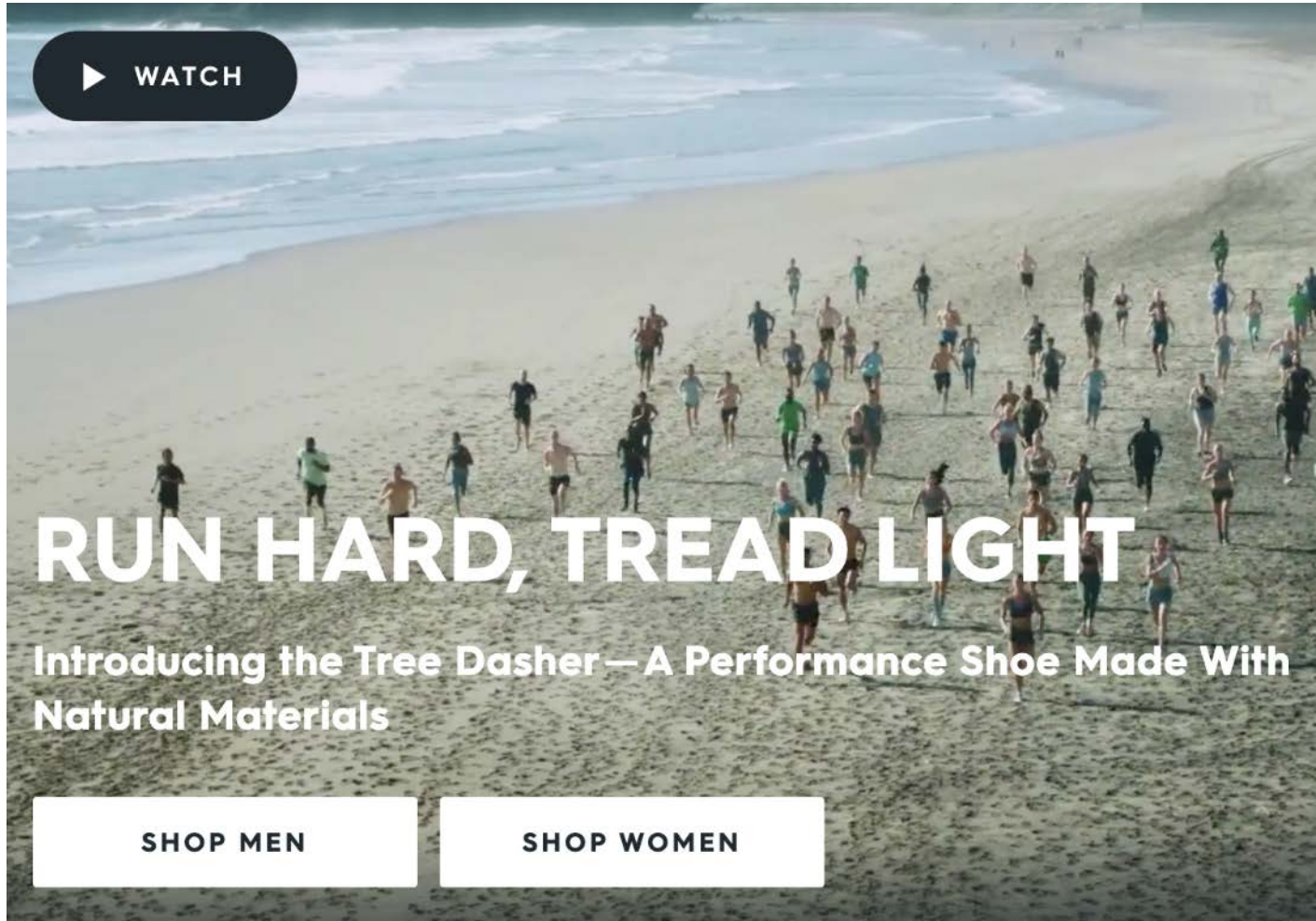


...When consumers go digital, disruptor brands benefit most...

2019 consumer home goods spend was up 3%; Wayfair's total net revenue was up 35% to \$9 billion, 6x Crate & Barrel



First-wave disruptors are pushing their brands into new segments

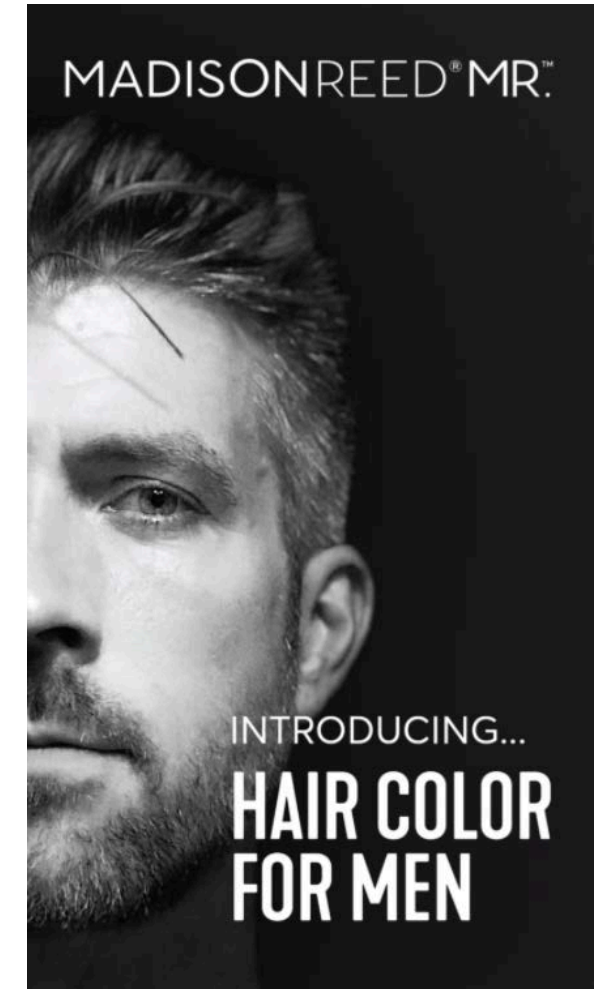


▶ WATCH

RUN HARD, TREAD LIGHT

Introducing the Tree Dasher—A Performance Shoe Made With Natural Materials

SHOP MEN SHOP WOMEN



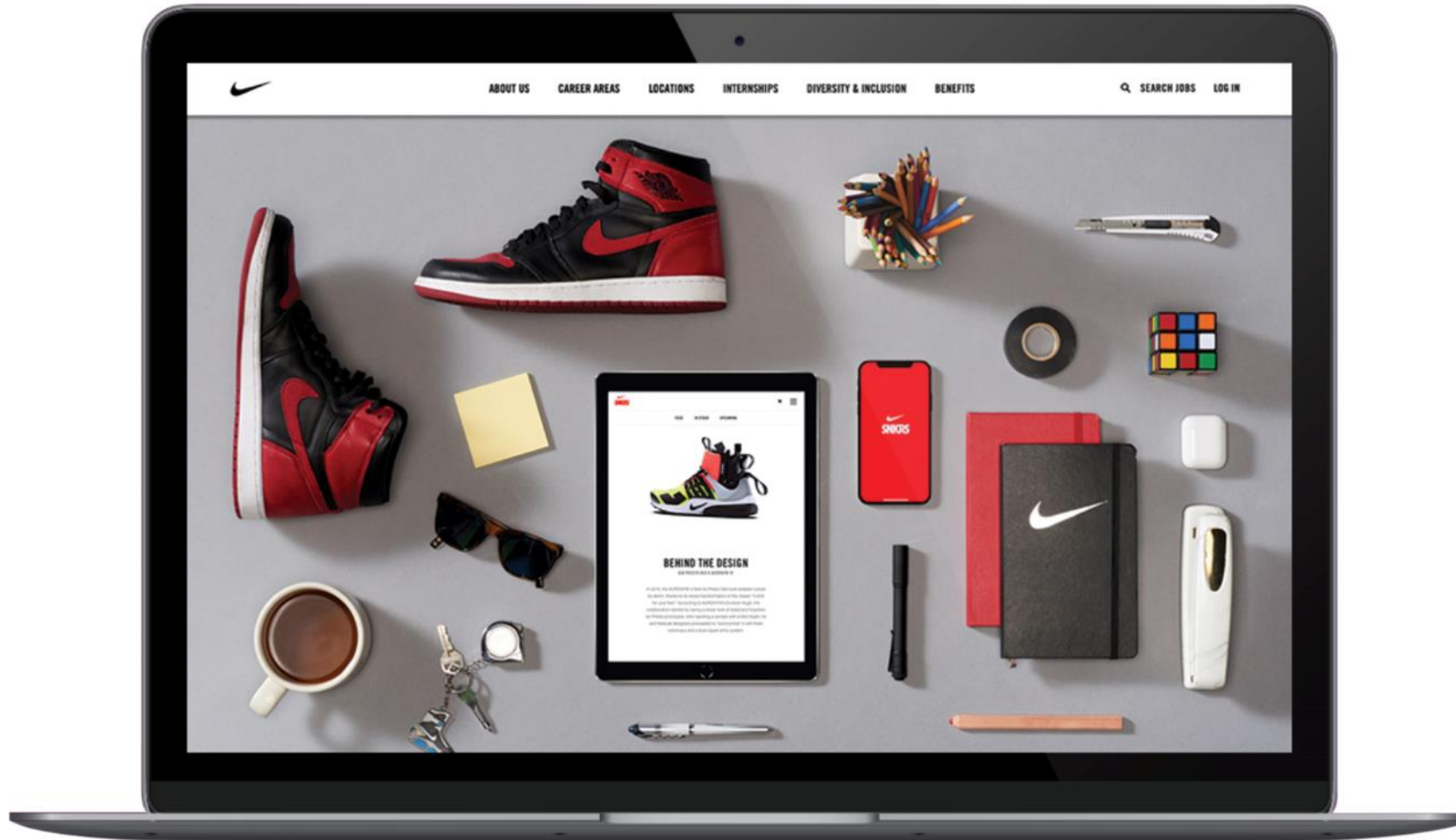
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INTRODUCING...
**HAIR COLOR
FOR MEN**

Big brands are playing catch-up, and amping up direct consumer sales

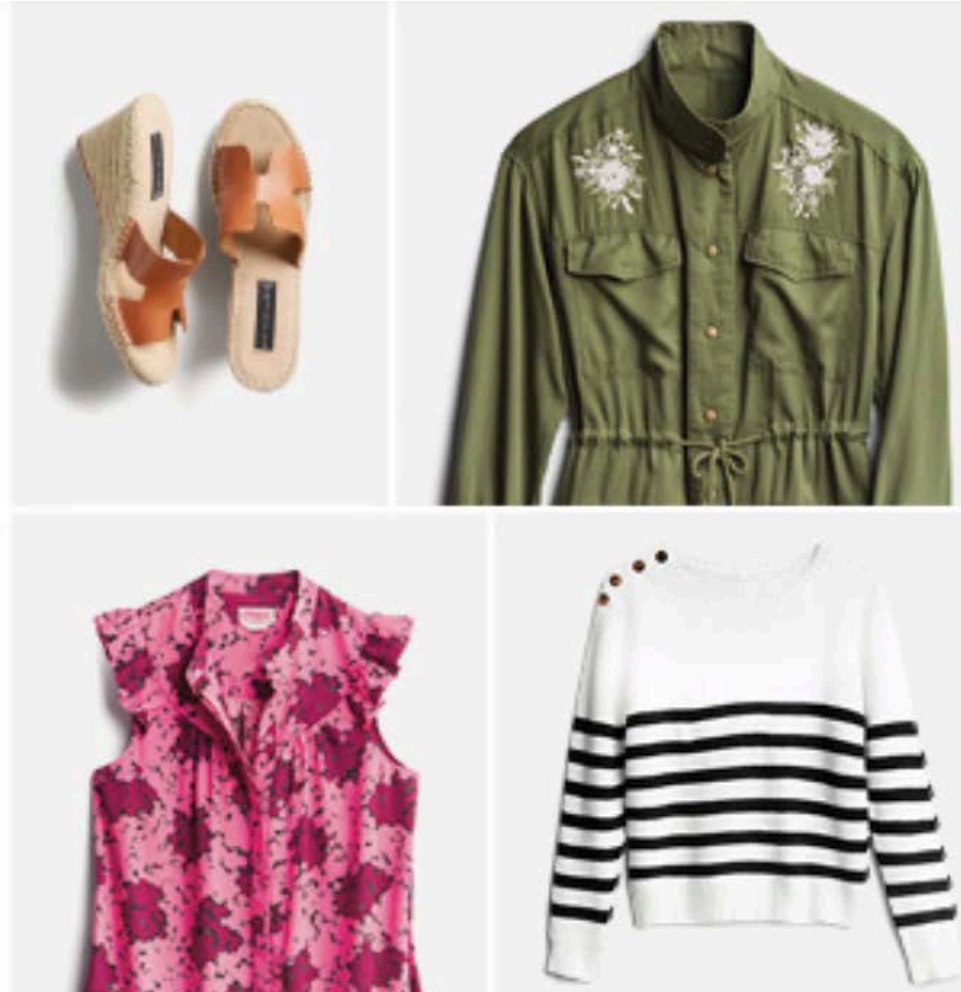


Nike is shifting increasingly from wholesale to O&O and DTC



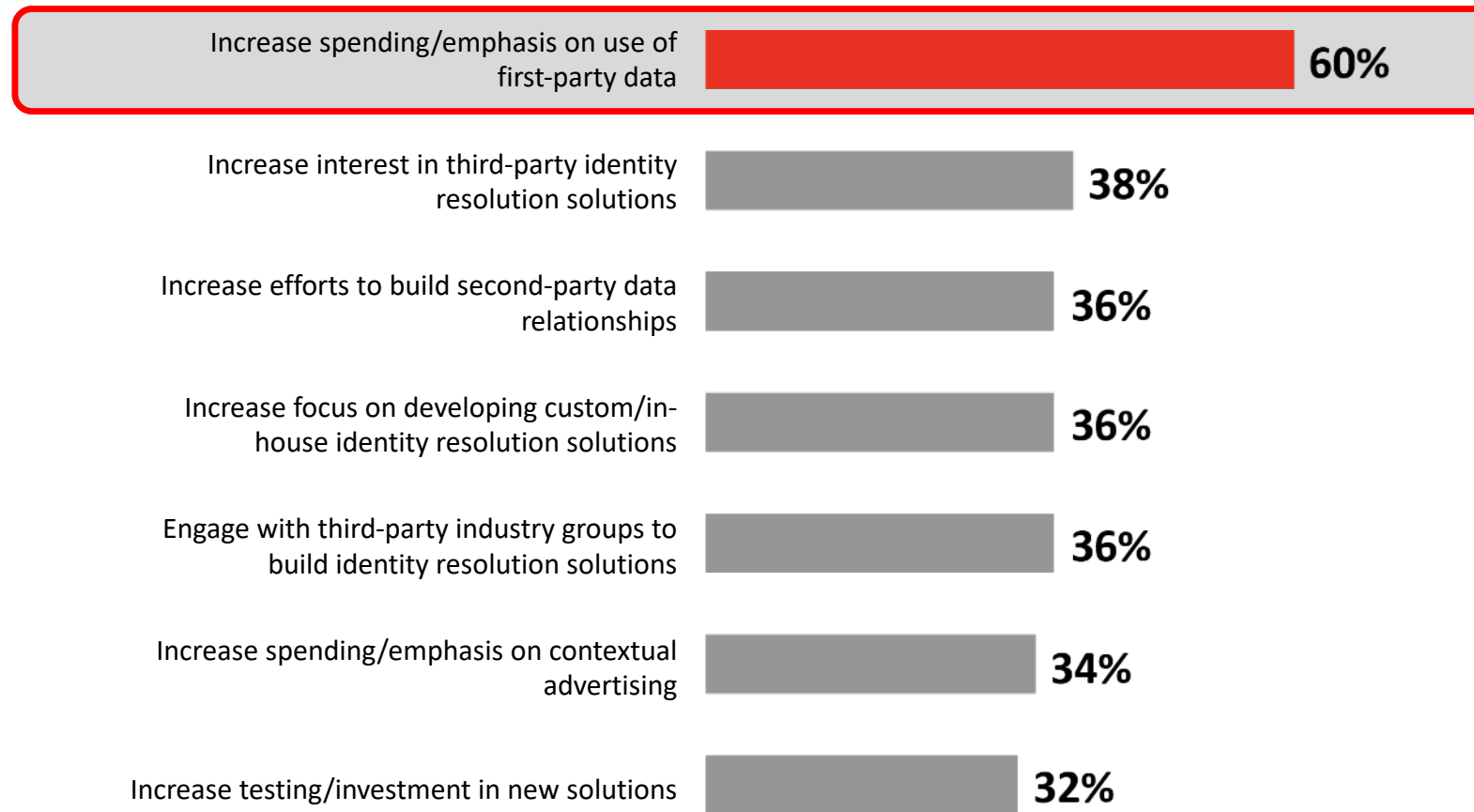
1P data-modeling prompted Stitch Fix to offer one-off purchases for non-subscribers

PERSONAL
STYLING FOR
EVERYBODY



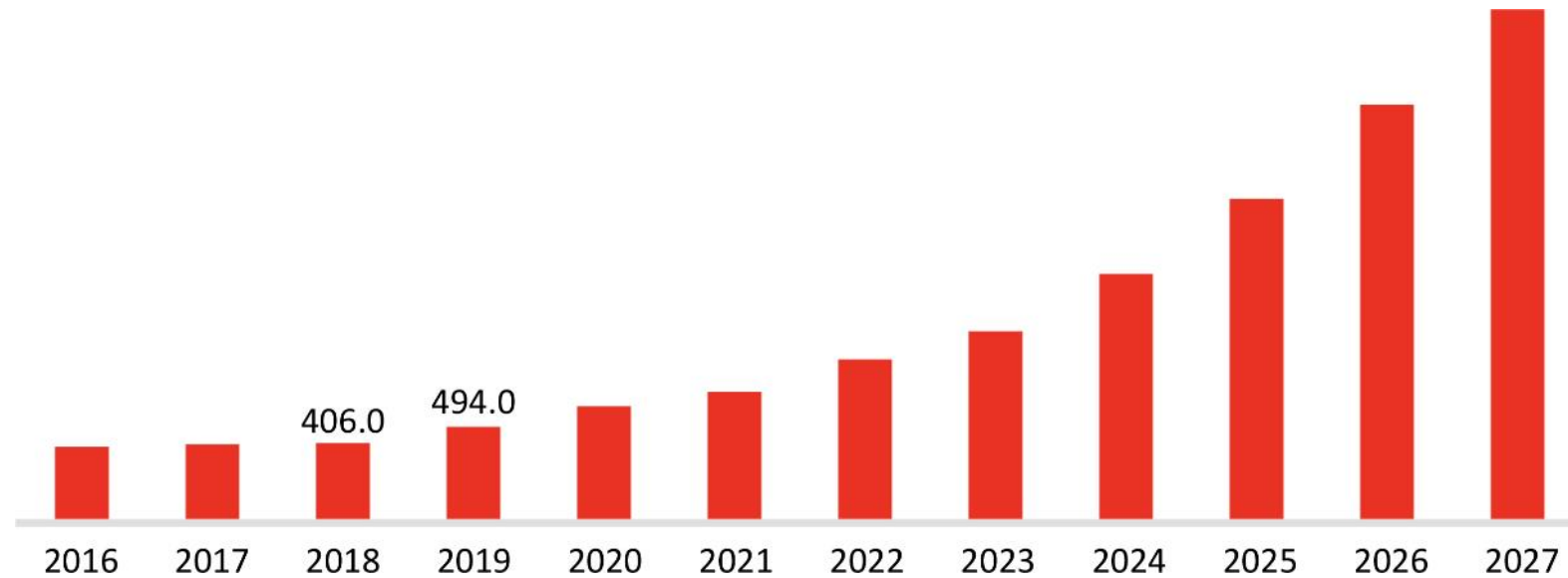
Increased use of 1P data is the highest post-cookie priority for brands

“Google and other major browser developers have discontinued support for third-party audience cookies (or announced plans to do so). How do you expect this change will affect your use of data?”



CDPs are another solution: Demand will triple by 2027 as brands try to unlock 1P data

North America Customer Data Platform Market Size, 2016-2027 (USD Million)



www.fortunebusinessinsights.com

Brands increasingly are data companies that make products – not vice versa



PEPSICO



Tropicana.



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2. Retail Reimagined

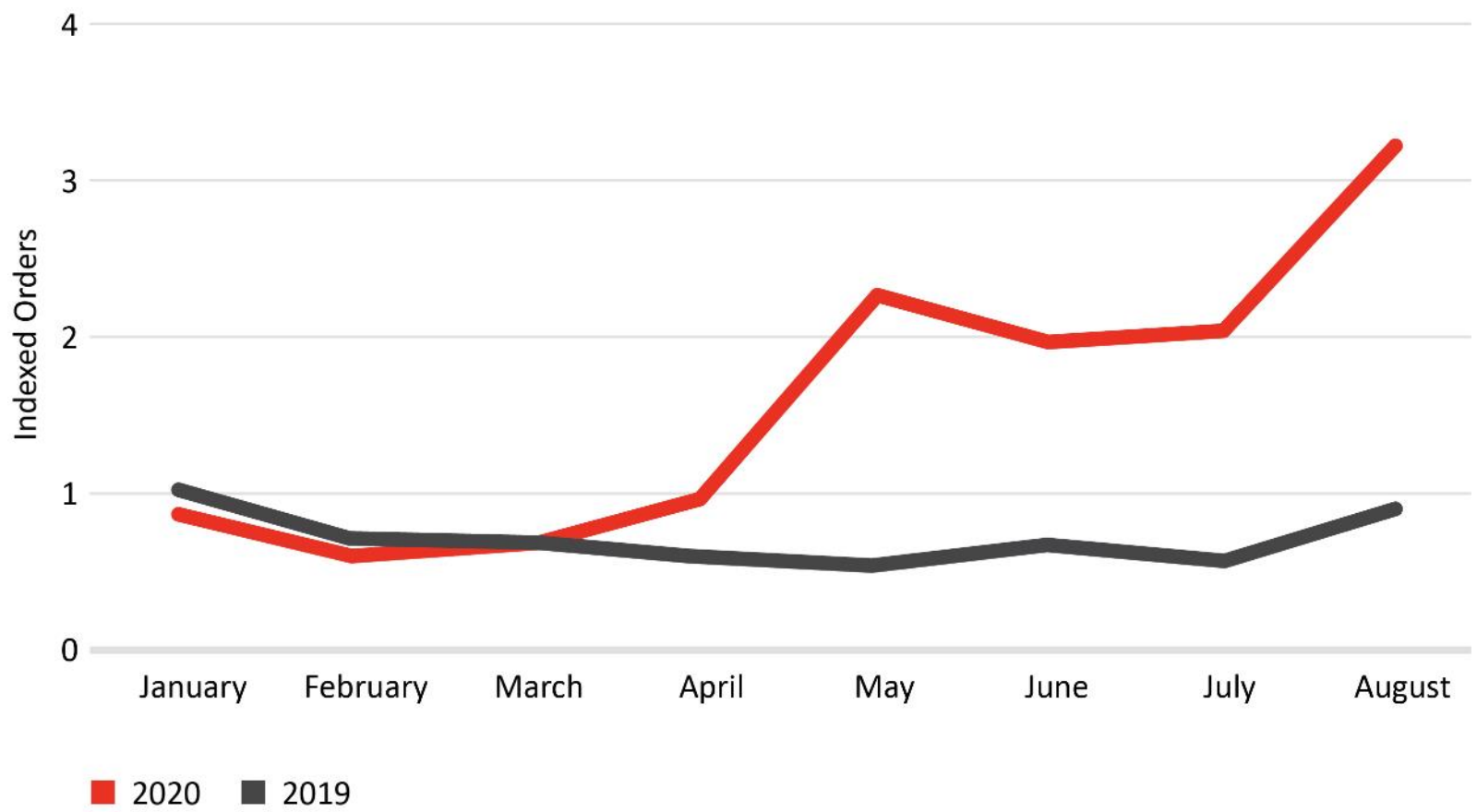
One Big Takeaway

The medium is the store: Livestreams, AR, showrooming, social selling “experiences” are proving more effective than physical stores, becoming brands’ new competitive arena.

BOPIS has surged 259% since the pandemic began

Online BOPIS Orders, 2019 vs. 2020 (U.S.)

BOPIS = Buy Online, Pick Up in Store



Source: Adobe Analytics



Source: McKinsey, [May 2020](#); Retail Dive, [9/18/20](#); Emarketer, [May 2020](#)

More than 2/3 of consumers will continue to click-and-collect after COVID

Future Habits

Compared to before the pandemic, which of the following will you do more of once things have returned to normal? (%)



Collect online orders from inside a store

59.6%



Collect online orders from curbside / outside a store

68.2%



Return an item bought online to a store

49.7%

Target's same-day delivery grew 278% YoY



We've added 10 million new digital guests in the first half of 2020.

Same-Day Services

Our safe and convenient same-day fulfillment offerings grew **273%** and continued to help build trust with guests.

 We saw the fastest growth in Drive Up, which grew **more than 700%**. Q2 2019  Q2 2020 

 Year-over-year Target sales fulfilled by Shipt grew **more than 350%**.

 In-store pickup sales increased **more than 60%** in Q2.

Order Pickup has been in stores for 5 years and continues to grow in popularity.

Walmart, Instacart, and Amazon set the new standard: 2-hour delivery

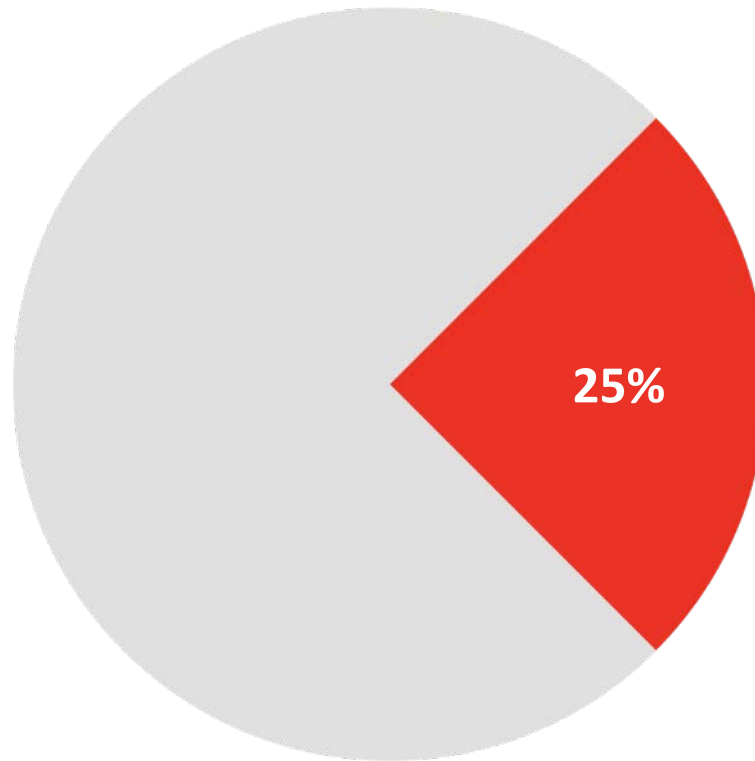


Best Buy and BB&B are converting ~25% of stores into shipping hubs & fulfillment centers



Weekly streaming video minutes climbed 74% YoY in Q2 2020, to 25% of U.S. TV usage

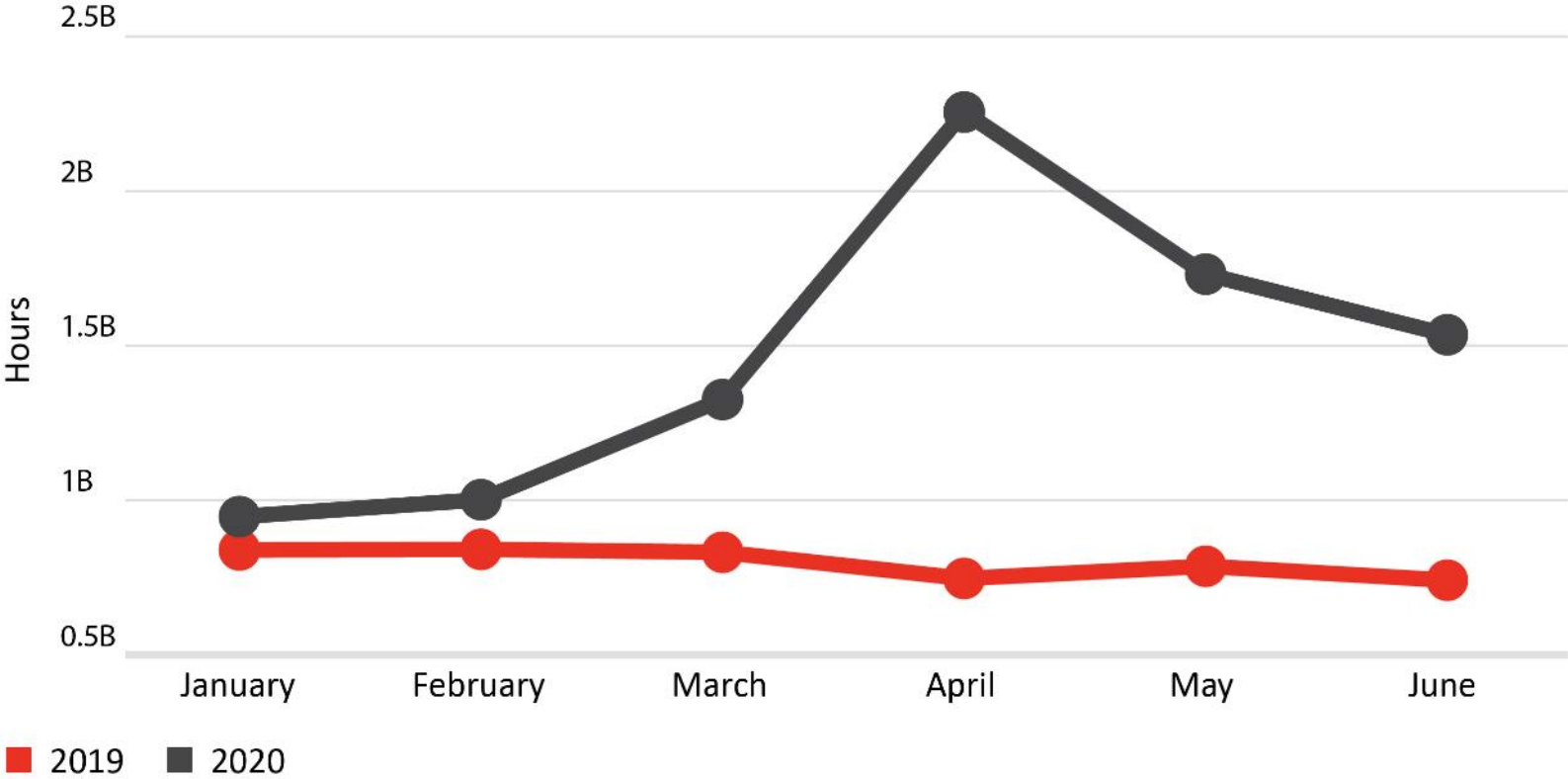
% of Streaming Out of Total Usage of TV *Among Streaming Capable Homes*



Q2 2020, P2+

Twitch added 1 billion+ monthly viewing hours during prime COVID period

Monthly Worldwide Hours Watched on Twitch

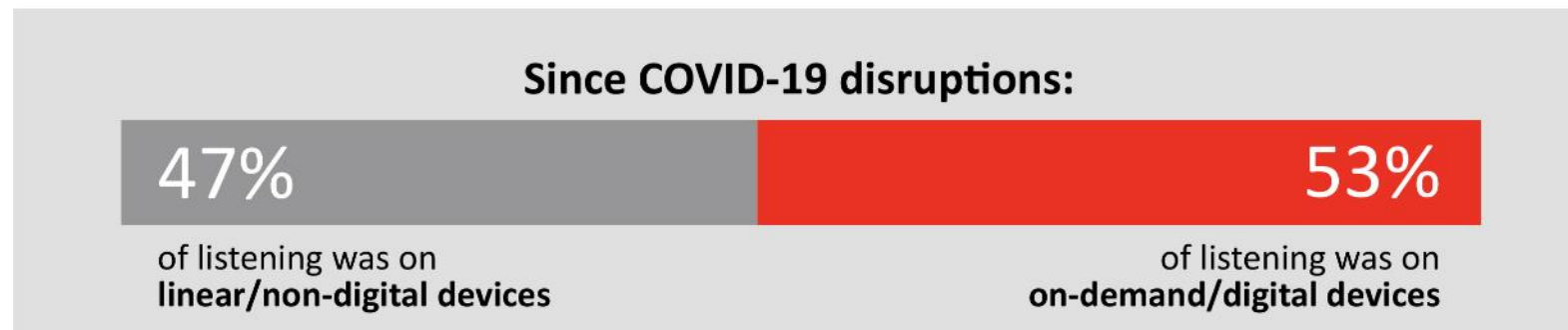
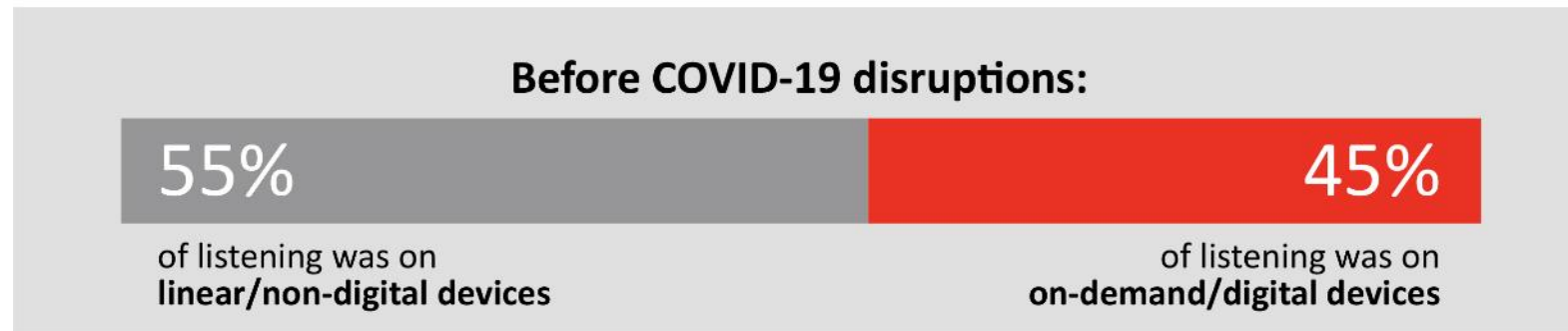


Source: SuperData

During COVID, streaming/on-demand listening overtook radio

Digital Device Listening Crosses the 50% Threshold During COVID-19 Disruptions

Share of Ear[®]



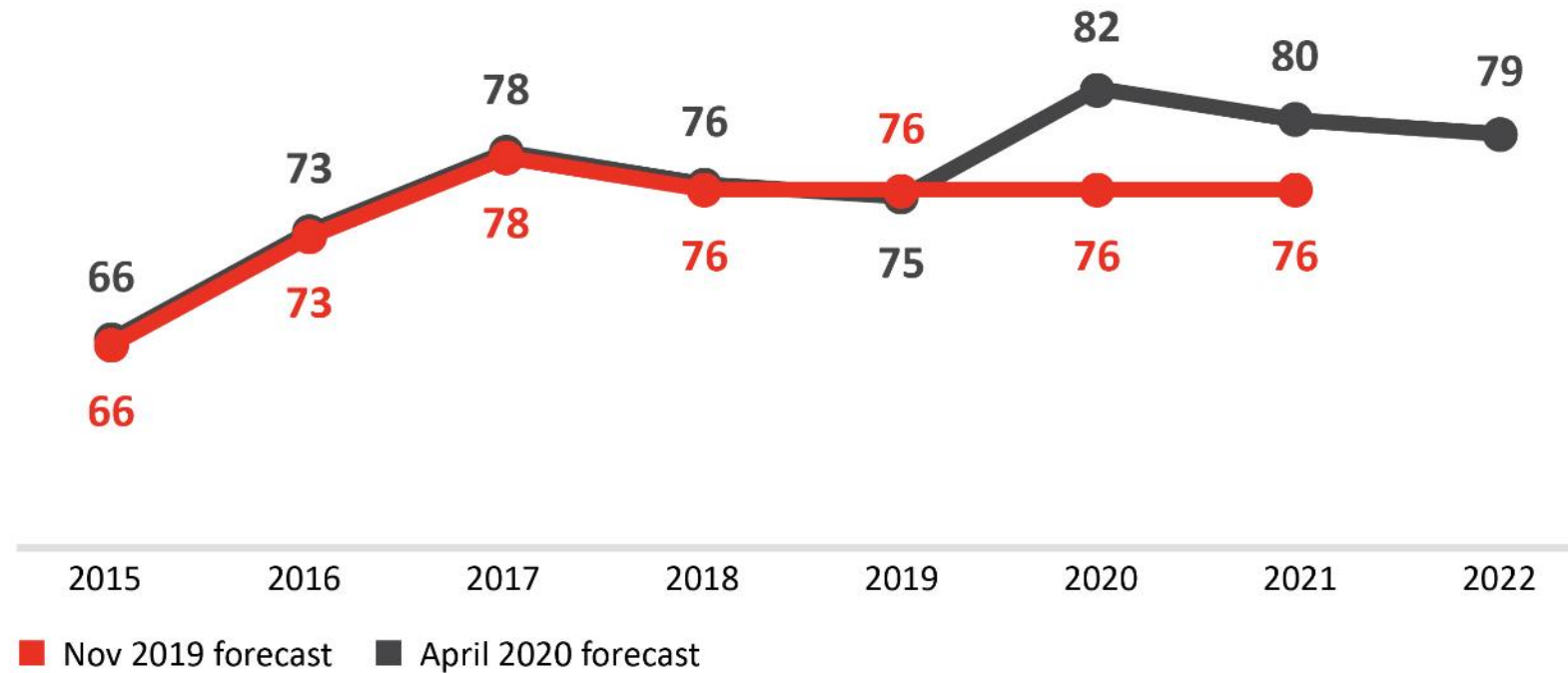
Linear/non-digital devices:
AM/FM radio receiver, CD player,
SiriusXM receiver, TV channels

On-demand/digital devices:
Computer, Internet-connected TV device,
Mobile device, Smart speaker

U.S. adults will generate an average of 82 minutes of daily social media usage, up nearly 7 minutes YoY

Social Networks: Average Time Spent by U.S. Adult Social Network Users, 2015-2022

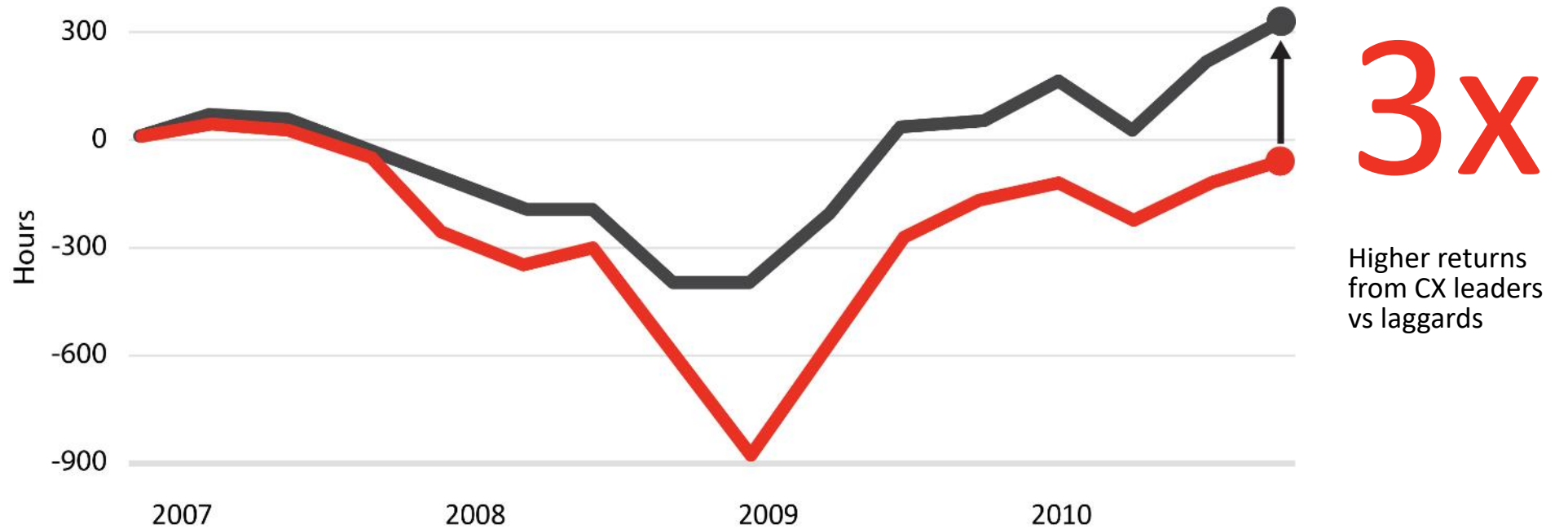
minutes per day, Nov 2019 vs. April 2020



Note: ages 18+ who use social networks at least once a per month; time spent with each medium includes all time spent with that medium, regardless of multitasking or device
Source: eMarketing, May 2020

Recessions reward customer experience innovators

Financial Performance (Total Shareholder Returns) of CX Leaders vs Laggards¹



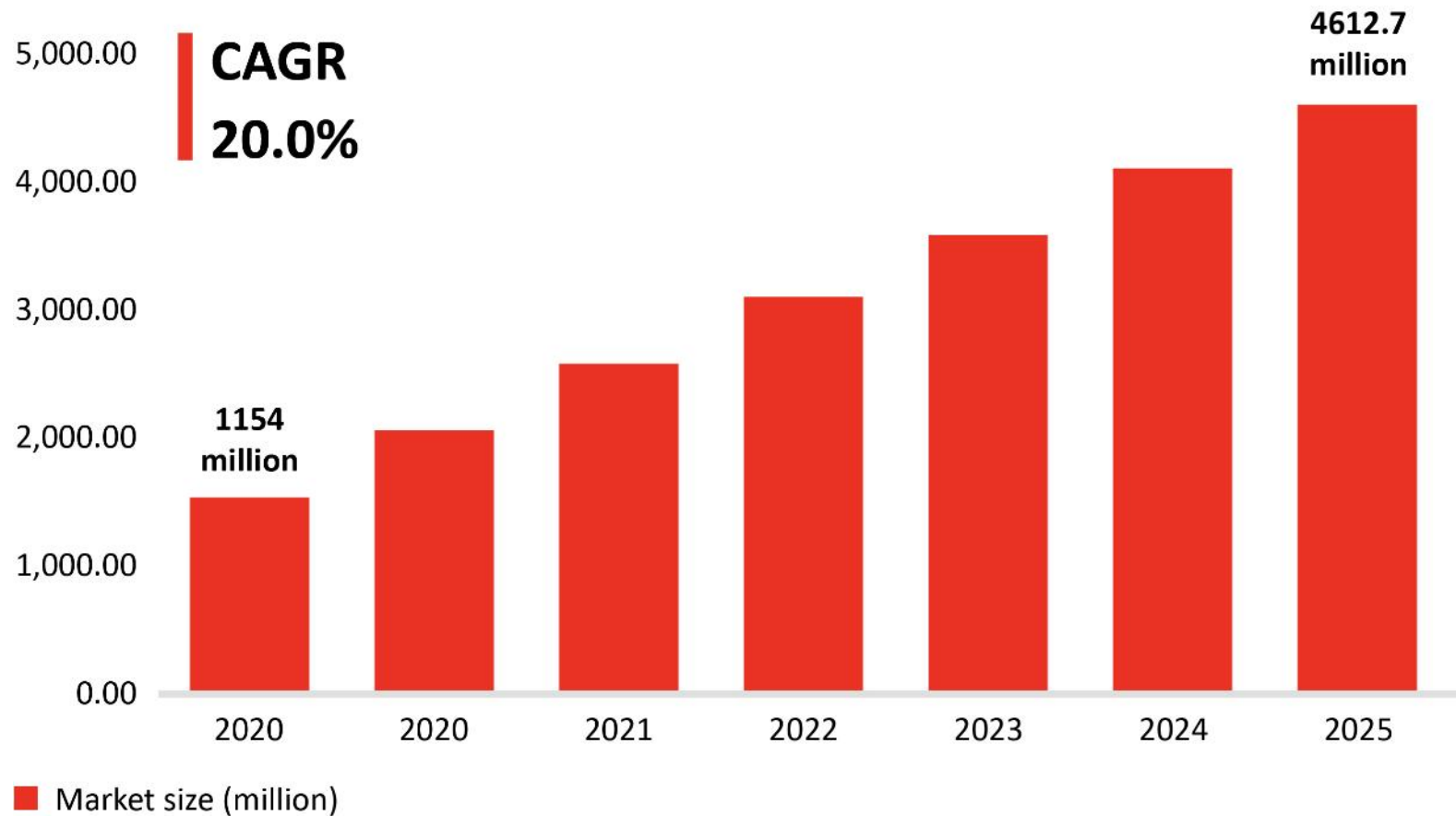
¹ Comparison of total shareholder returns for publicly traded companies ranking in the top 10 of Forrester's CX performance index from 2007–09.
Source: Forrester Customer Experience Performance Index (2007–09)

Nike made its active “Training Club” app free, while Lululemon spent \$500mm on Mirror



Retailers will grow their AR investments globally by ~300% to \$4.6b by 2025

Augmented Reality in Retail Market



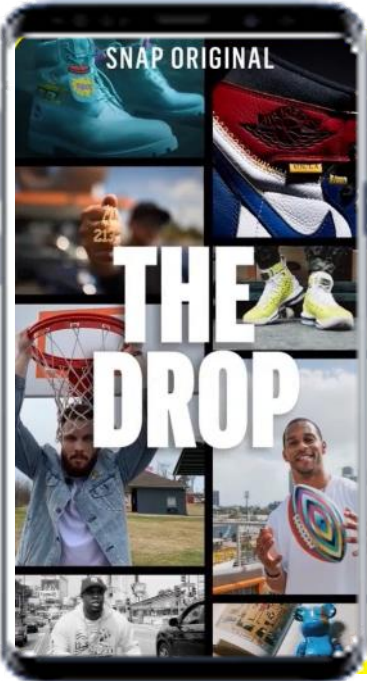
Shopify found that AR 3D models increased conversion rates 250%



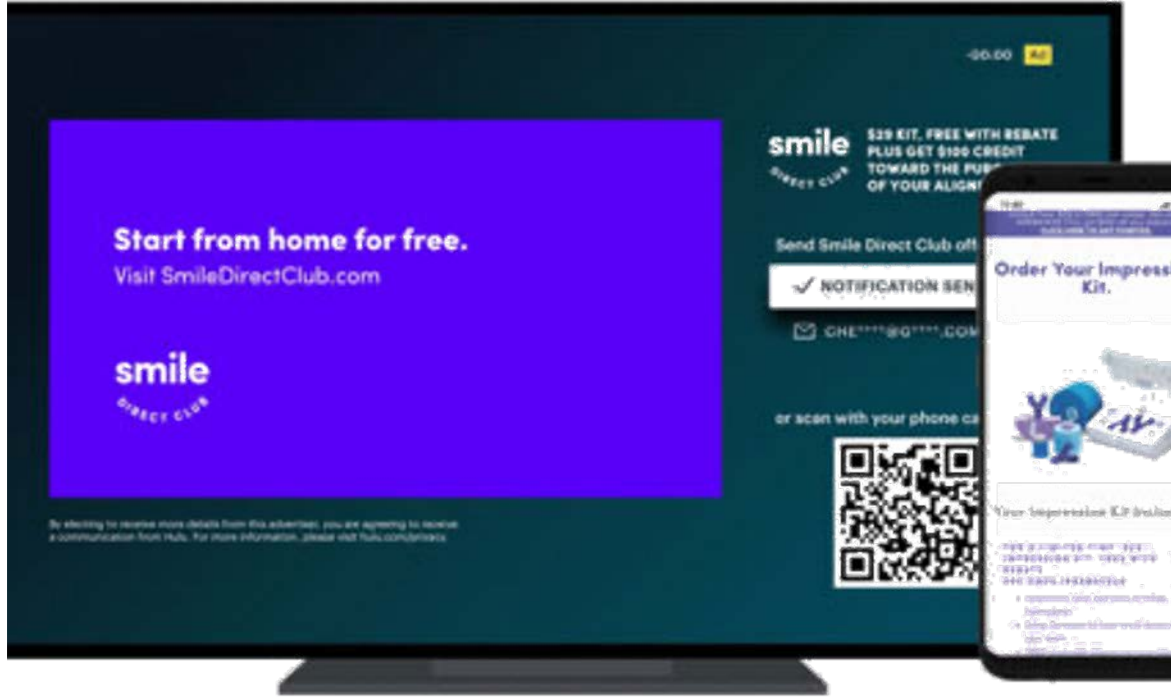
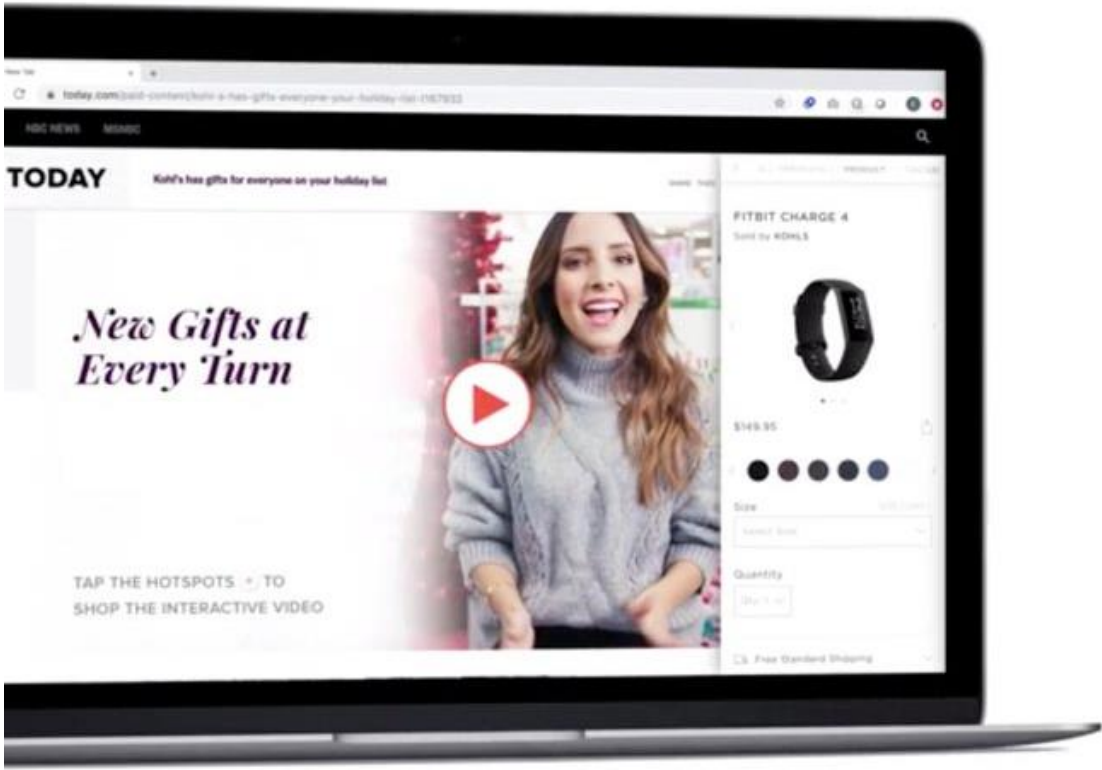
Livestreaming: Up to 6 million people at a time, generating 2020 sales of \$120 billion



TikTok, Snap are blending livestreams with shoppable ad formats



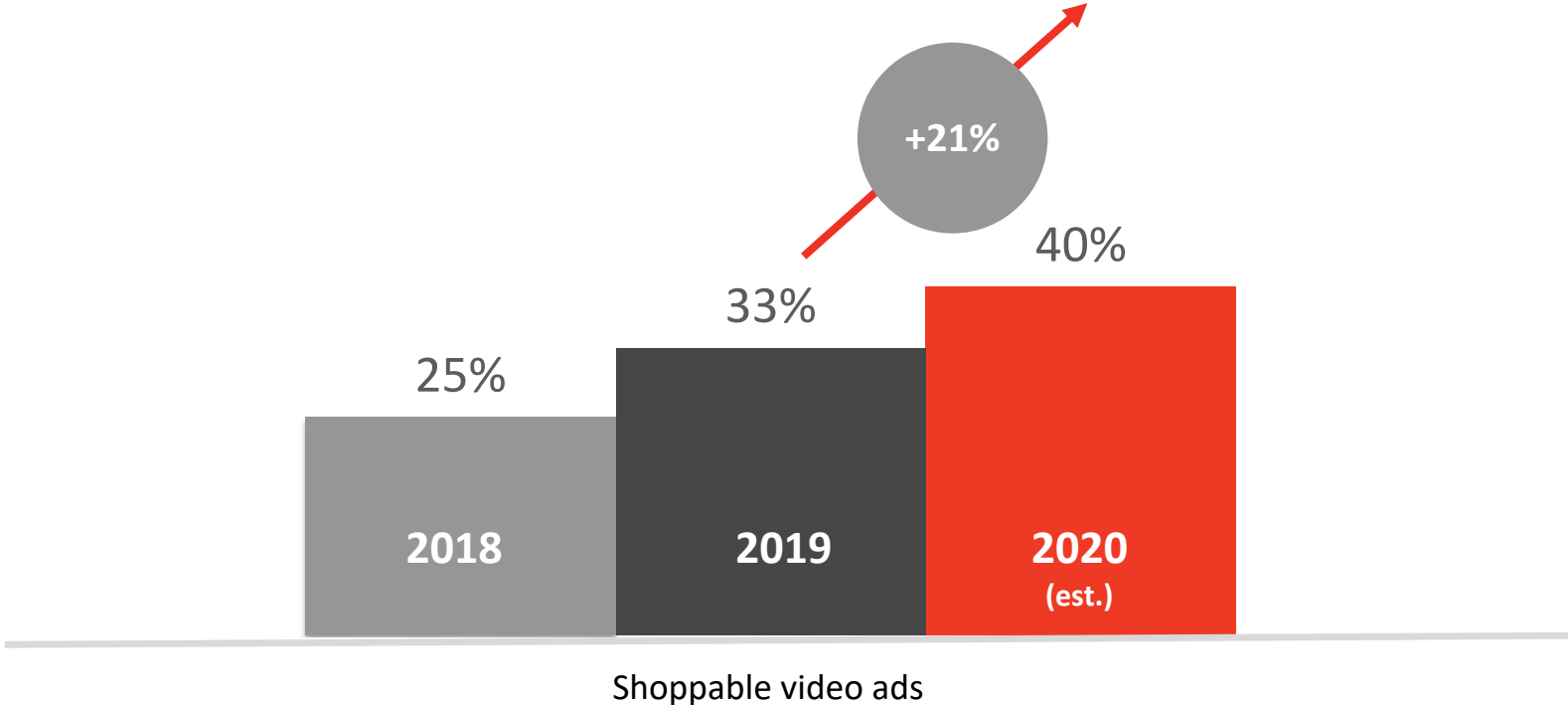
NBCU, Disney's Hulu, YouTube among major media cos rolling out shoppable ads



Performance-based shoppable video ads are expected to increase 21% YoY

Video Ad Formats Usage

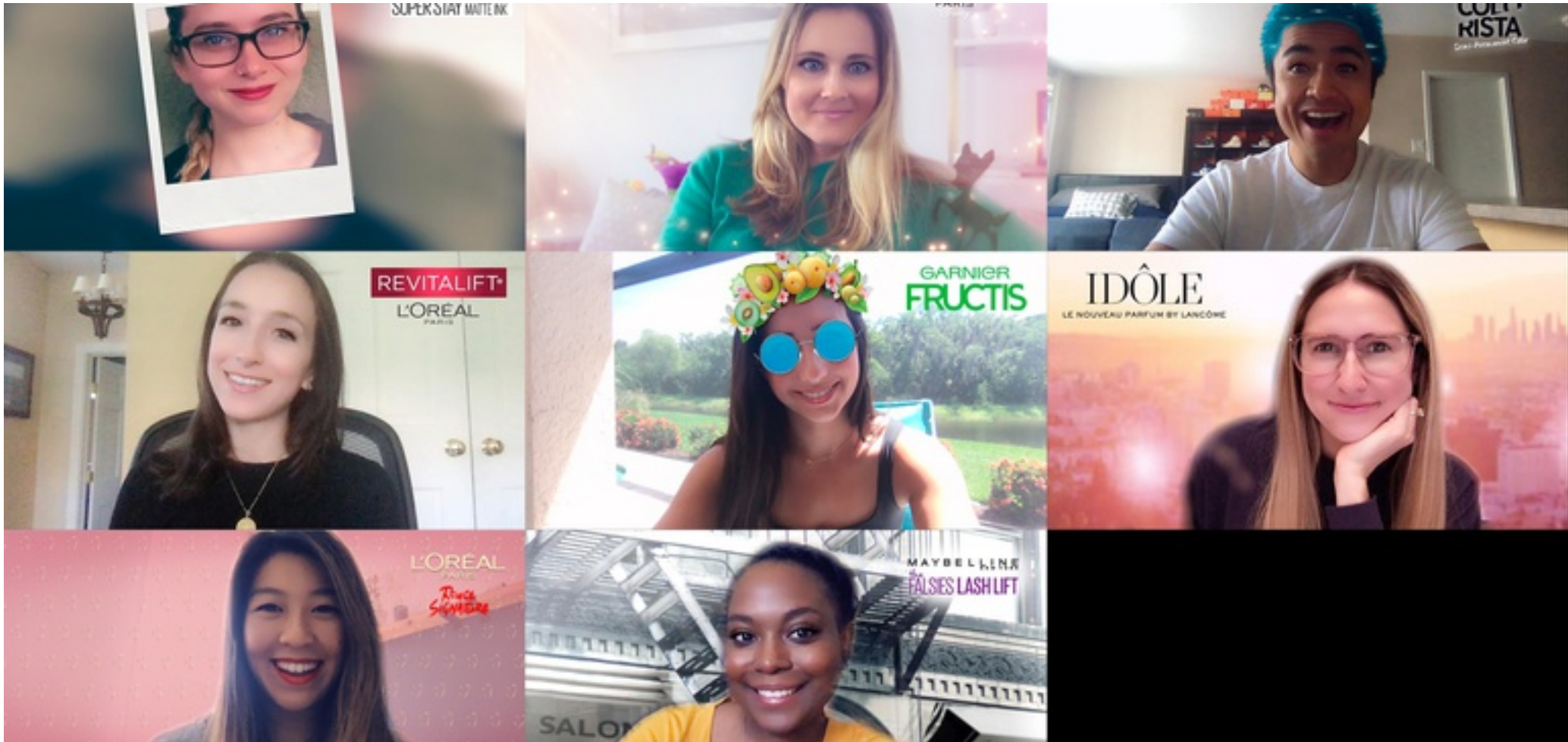
3-year trend



Q210: Which of the following video ad formats has your (company/client) in the [ASSIGNED MARKET SECTOR] market sector used in campaigns in 2018 and 2019? Which does your (company/client) plan to use in 2020?


Base: Total Respondents

Tech is enabling social commerce, e.g. L'Oréal on Snap's desktop app



Live digital consultations drove increased sell-through for Parachute & Bobbi Brown

Meet the Stylists




SHELBY
Favorite styling tip: "Versatility is queen."

NYJERAH
Favorite styling tip: "Take risks and wear them well."

BRIANA
Favorite styling tip: "Don't be afraid to add a pop of color."

ANNA
Favorite styling tip: "Put a belt on it!"

CHRIS
Favorite styling tip: "Remember to consider your hair color, eye color, and skin tone."

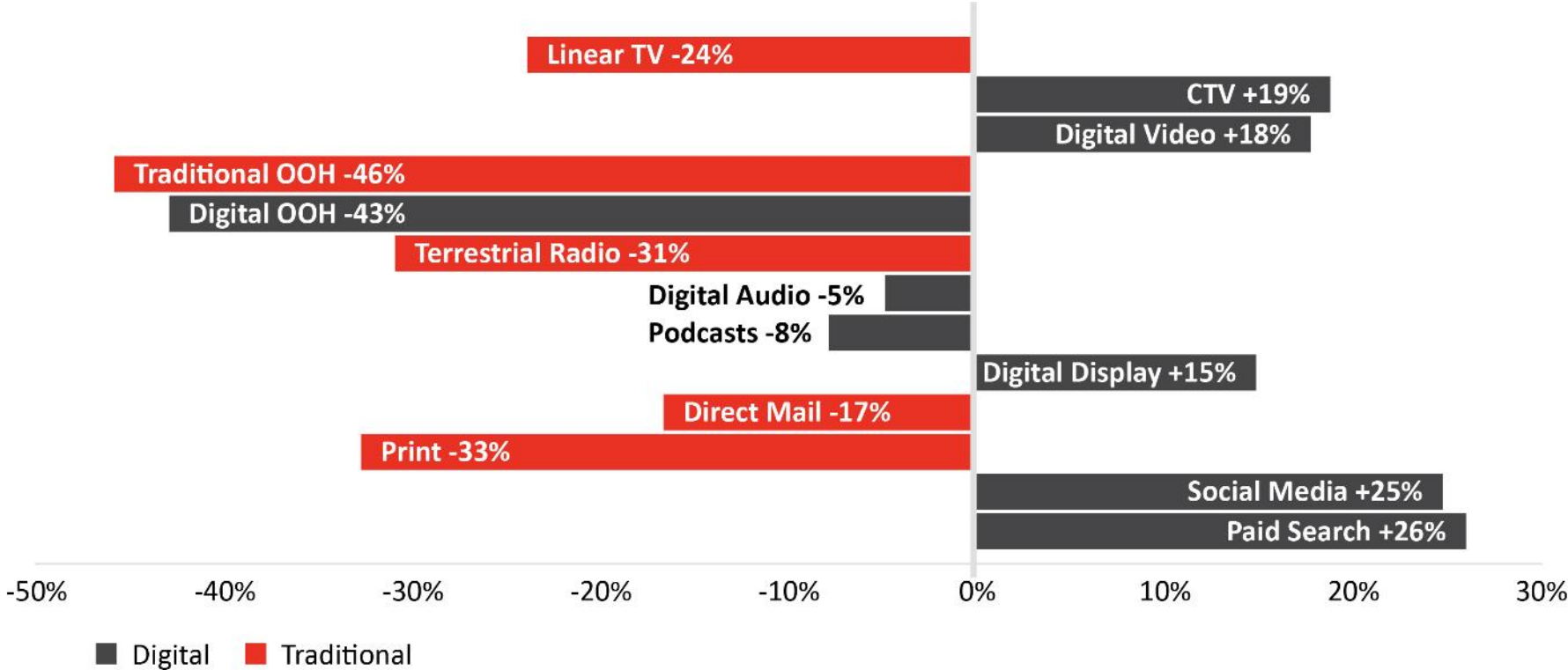


With Cadillac Live's success, GM is rolling out showrooming across the company



Only digital channels can expect net gains in FY2020 ad spend

Est. % Change in FY 2020 Ad Spend vs. 2019



n=135

Q: Please share your expected % increase/decrease or (0) for no change for 2020 (Jan-Dec) vs. 2019 (Jan-Dec) by CHANNEL for your primary brand.

Retailers and brands are becoming media owners & operators to scale even more



The 2021 recipe for brand growth

1. **The fastest-growing brands of 2021 will be:** Storeless, data-rich, live, participatory, entertaining, localized, and streaming.
2. **Small brands will continue to chip away:** All the trends in production, distribution, retailing, and marketing make small brands more competitive against large brands. But big brands' scale, recognition, and trust still give them significant advantages.
3. **You cannot delay gratification:** With Walmart and Amazon competing to make 2-hour delivery the norm in major markets, delivery partnerships for rapid fulfillment are now essential for all brands.
4. **How do I engage thee? Let me count the ways:** While the goal of marketing remains “creating a customer,” the way to do so is through participation via ongoing communities, social selling, live virtual events, classes, and other forms of active involvement in the brand – tactics that will experience hypergrowth as COVID mainstreams them.
5. **Make it stream, make it shoppable, and make it FAST:** Media advertising increasingly will focus on driving participation in live events. Successful publishers, brands, retail brands, and experience providers will partner to promote and fulfill live experiences, and enable shopping directly. The growth of free, ad-supported, streaming TV will boost the usage of shoppable media.
6. **Brands must be data companies that make things, not the other way around:** Consumer-facing companies cannot remain competitive without growing their 1st party relationships and 1st party data.



The Interactive Advertising Bureau empowers the media and marketing industries to thrive in the digital economy. Its membership is comprised of more than 650 leading media companies, brands, and the technology firms responsible for selling, delivering, and optimizing digital ad marketing campaigns. The trade group fields critical research on interactive advertising, while also educating brands, agencies, and the wider business community on the importance of digital marketing. In affiliation with the IAB Tech Lab, IAB develops technical standards and solutions. IAB is committed to professional development and elevating the knowledge, skills, expertise, and diversity of the workforce across the industry. Through the work of its public policy office in Washington, D.C., the trade association advocates for its members and promotes the value of the interactive advertising industry to legislators and policymakers. Founded in 1996, IAB is headquartered in New York City.

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TikTok is the leading destination for short-form mobile video. Our mission is to inspire and enrich people's lives by offering a home for creative expression and an experience that is genuine, joyful, and positive. TikTok has global offices including Los Angeles, New York, London, Paris, Berlin, Dubai, Mumbai, Singapore, Jakarta, Seoul, and Tokyo.

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