# ZEITGUIDE

**Your guide to knowing what matters** in our constantly changing cultural and business landscape

**2018** | Q3 | CULTURAL TRANSFORMATION

# ZEITGUIDE

• 2018 CULTURAL ALMANAC - QUARTER 3 •

• JULY 31, 2018 •

# CULTURAL TRANSFORMATION

## What Business And Cultural Leaders Say About ZEITGUIDE

**"ZEITGUIDE is a powerful and provocative tool that promotes relevance in the most dynamic era of our time."**

*~ Bob Iger, CEO of The Walt Disney Company*

**"ZEITGUIDE is the Human CliffsNotes."**

*~ Beth Comstock, Vice Chair GE*

**"ZEITGUIDE is your go-to source to know anything quickly and comprehensively."**

*~ Linda Boff, CMO of GE*

**"I rely on ZEITGUIDE for the speed and accuracy of the insights they deliver on our constantly changing culture."**

*~ Geoff Walker, Executive Vice President and Chief Strategic Technology Officer at Mattel*

**"ZEITGUIDE synthesizes information about our constantly changing world in a digestible and engaging format."**

*~ Pam Kaufman, Nickelodeon CMO & President of Consumer Products*

**"I have an advantage in every room. It's called ZEITGUIDE."**

*~ Ross Martin, CEO of Blackbird*

**"ZEITGUIDE is about understanding the things that matter, which so few people understand."**

*~ Gary Vaynerchuk, CEO of VaynerMedia*

**"ZEITGUIDE is a window into our cultural soul. And in our business, there is nothing more important than being able to add insight to the reams of data that flood our senses."**

*~ David Sable, Global CEO, Y&R*

**"ZEITGUIDE always surprises me, always has something to teach me and keeps me smart."**

*~ David Nevins, President & CEO of Showtime*

**"ZEITGUIDE tells me what's just around the corner. It's the first to answer those questions that are on the tip of every smart person's tongue, but nobody quite has the words for yet."**

*~ Alexander Jutkowitz, CEO, SJR/ US CEO Hill + Knowlton*

**"ZEITGUIDE is relentless about staying at the bleeding edge of the conversation. A powerful tool for everyone at the mercy of the new velocity of change."**

*~ Katia Beauchamp, CEO & Founder of Birchbox*

**"ZEITGUIDE always understands the heartbeat of what matters."**

*~ Brian Grazer, Academy-and Emmy-Award Winning Producer and Author of "A Curious Mind"*

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*Hundreds of sources were used to substantiate our findings and they are all linked to in the web version on zeitguide.com*

## FOUNDER'S NOTE

Welcome back, ZEITGUIDE subscribers! This past quarter, I had an amazing opportunity to reflect on how leaders respond to the accelerating pace of change when I presented at the Cannes Lions International Festival of Creativity, the largest and most important annual gathering of advertising, media and tech execs and creatives. Though my talk was centered on the future of chief marketing officers, its thesis applies to anyone in the C-suite or at the helm of their own startup.

How should we measure growth in today's ever-changing business climate? Usually, it means generating more revenue. However, in an era of unprecedented dynamism and fluctuations, you can't evaluate growth by applying that same, outdated formula.

Today, in addition to those numbers on your spreadsheet, growth needs to be seen as a multidimensional concept, encompassing people, relationships and culture. You need to take stock of difficult-to-quantify factors—the intangibles, if you will—and individually address how to grow each of them in their own, bespoke way.

Are you strengthening your connection to your customers? Are you building on the latest technologies to increase your efficiency and improve your insight into your consumers? Are you expanding and enhancing your employees' skill sets? And, last but not least, are you growing yourself into an executive who is well prepared for this new world we live in?

Build up all of those areas, and you will have a greater potential for your bottom line to fatten up down the road. Ignore them, and you will be less likely to turn your organization around—Boston Consulting Group predicts only 30 percent of organizations will actually succeed at transforming.

But you can't grow if you don't know *what* to grow. That's what ZEITGUIDE is here for: to connect new knowledge to next steps, and to provide fresh viewpoints and inspiration throughout your organization.

This quarterly continues the narrative of how workplace shifts, technology, fickle consumers and geopolitical and societal issues are impacting the world around us. It tracks what is on the CEO's mind, the moves legacy players are making to respond to FAANG dominance, trade war angst, the evolving media and retail landscape and recent cultural trends that have resonated within the chaos.

See you in October with ZEITGUIDE 2018 Q4 as the story of cultural change continues.

Keep Learning,

**Brad Grossman**
Founder & CEO, ZEITGUIDE

ONE

# ON THE CEO'S MIND: THE POLITICAL CHIEF EXECUTIVE

**In April and January,** we discussed how CEOs can better prepare their businesses to handle cyber-threats. It's just about inevitable that every company will have to deal with a cyber event at some point, but drills, employee training and investments in the latest tech are a few ways for CEOs to reduce these risks.

**Since then,** another concerning issue has bubbled up, one for which a concrete risk-avoidance strategy doesn't exist: the constant churn of political events challenging CEOs—and their companies—to take a stance and craft an impactful response.

Notable examples from the past year have included **Disney** head **Bob Iger** advocating for stricter gun laws after the Las Vegas mass shooting, a stance he's reiterated following ensuing tragedies. During Pride Month in June, you'd be hard pressed to find a brand not marking the occasion either by participating in Pride festivities or donating to LGBTQ+ causes. And the Trump administration policy of separating families attempting to cross the U.S. border illegally engendered widespread backlash that included formal statements from heads of **Apple, Airbnb** and **Microsoft.**

These days, brands are more often finding that these issues touch on their businesses directly, creating even more of an imperative to respond. When a **Starbucks** employee was accused of racially profiling two customers in April, the company shut down all its locations for an afternoon of racial sensitivity training for employees. **Walmart,** the largest gun retailer in the U.S., joined **Dick's Sporting Goods** in raising the minimum age for buying a gun in its stores to 21.

## So, What's Next?

We expect even more of a convergence between politics and brands, despite the risk of losing once-devoted consumers this represents. Taking a firm stand may prove to make good business sense in the long term.

Walmart's own internal research found that **85 percent** of its shoppers want to see the company "make it clear what values [they] stand for."

Younger consumers are particularly interested in the politics of the companies they engage with. Fuse, a marketing firm, conducted a survey of 2,000 teens aged 14 to 17, discovering **67 percent** are more likely to buy from companies that support causes than those that don't. And as young consumers grow in their spending power, so too will the imperative for businesses to take political stands, even at the risk of alienating some other customers.

It's also important for a company's employees to feel that their employer is doing the right thing. Pressure from employees led **Google** to pull out of a partnership, dubbed Project Maven, with the U.S. Department of Defense that involved using AI to analyze videos and images, information that could be used for targeted drone strikes. **Amazon** has faced pressure to terminate contracts for supplying police departments with facial recognition technology. Ensuring tech, products and services are being used for good is an increasingly important facet of a company's employee experience (EX) that allows it to remain competitive for top talent.

**TWO**

# EX RISING

**In April,** we expanded on the imperative for companies to shore up EX. This has long been a focus among tech companies that bitterly compete for top engineering talent. Now, given the lowest unemployment rate since April of 2000, other companies are also discovering a need to do more to attract—and retain—great employees.

**Since then,** we've seen the conversation continue with these EX-boosting moves:

> *Walking the Walk on Equal Pay:* When **Salesforce** HR head **Cindy Robbins** went to CEO **Marc Benioff** to suggest an audit to determine if the company had a gender pay gap, he was certain there wouldn't be one. Not so.

The company's internal review found widespread pay discrepancies between men and women, which led to pay increases for more than 10 percent of the women at the company. The total cost, around $3 million, is likely nothing compared to the long-term benefits to the company's morale, recruitment and public image.

*Walmart U:* **Walmart** has joined companies like **Starbucks** and **Chipotle** in offering college benefits for its employees. Under a new program, employees can contribute a dollar a day for 365 days every year in exchange for online classes in business or supply chain management at the University of Florida, Brandman University or Bellevue University. Walmart, currently the largest private employer in the U.S., anticipates around 68,000 of its 1.5 million employees will take advantage of the program.

*Baby, You're Hired:* Skincare company **Badger Balm's** "Babies at Work" program allows employees to bring three- to six-month-old infants to the office. Around 200 U.S. companies offer a similar benefit. "These [policies] contribute to parents feeling really grateful and loyal to these companies in the long term," says Carla Moquin of the Parenting in the Workplace Institute (PIWI), an organization that works with companies to develop their own office infant policies. It also makes for a unique pitch that can help attract new hires.

*The End of Anything Goes:* In Hollywood, execs once enjoyed carte blanche to act as terribly as they wanted as long as they could produce hits at the box office. In the wake of #MeToo, and as Tinseltown's business environment becomes more buttoned-up and corporate, this no longer holds true. **Paramount** president Amy Powell, **Netflix** PR head Jonathan Friedland and comedian Roseanne Barr all recently lost their jobs over offensive comments. While inappropriate or risqué behavior was once tolerated as part of working in a creative business, now it is viewed as unacceptable and counterproductive to creating an environment open to disparate voices and ideas.

## So, What's Next?

A competitive job market for employers will mean more perks for workers, and could translate into a greater focus on providing the latest digital tools and educational programs to make employees more productive and happier at work. Expanded parental leave and more flexible work-from-home policies are ways companies are promoting a family-friendly corporate dynamic.

Salesforce's actions regarding equal pay are a great example of how companies can play a proactive role in addressing base issues of inequality, as well as alleviating the systemic causes that lead to abuse and harassment, which (as we illustrated with an example from the restaurant industry in Q1) are less likely to occur when men and women are on equal financial footing.

**THREE**

# THE VALUE OF PRIVACY

**In April,** we continued the narrative of the growing consumer concern around privacy and the use of personal information, with many tech leaders voicing support for more stringent government protections on consumer data.

**Since then,** Europe's General Data Protection Regulation (GDPR) went into effect May 25th, representing the most sweeping effort yet to give consumers stricter control over how tech companies can collect and use their data. Privacy activists quickly used the law to bring billions of dollars in lawsuits against **Google** and **Facebook,** and within just three weeks, both companies (including Facebook-owned apps **WhatsApp** and **Instagram)** were the subjects of 24 cross-border complaints filed with regulators.

The need for a stricter regulatory environment was also underscored by another Facebook scandal. Since 2010, the company had been sharing data with at least 60 device-makers—including information on users' friends, even those who had explicitly barred such sharing in their settings. Partnerships with device-makers involved familiar names: **Apple, Amazon, Microsoft** and **Samsung.** They also included four Chinese companies, one of which—**Huawei**—has close ties to the Chinese government and has been flagged by American intelligence officials as a national security threat. The scandal also brought attention to similar agreements **Alphabet** and **Twitter** have with Huawei.

## So, What's Next?

Advertisers have reason to care about the GDPR, as we observed during conversations at Cannes Lions, an important annual gathering of ad, media and tech execs. The law has created renewed interest in contextual advertising, the practice of posting ads based on the content they will appear with, rather than on targeted data about the person viewing them. The GDPR also makes it harder to rely on third-party data to gain insight into customers, underscoring the importance of brands developing direct relationships with consumers.

There are rumblings that the Trump administration will move the U.S. toward a set of data privacy rules similar to the GDPR, the first of which may be an executive order calling on federal agencies to develop those guidelines. Lawmakers in California have already enacted legislation to limit data sharing between companies, as well as to enable consumers to delete their data.

However, another recent regulatory action by the E.U. shows the time it can take for legal challenges to the tech giants to make an impact. An E.U. commission that began investigating Google's anti-competitive practices in 2015 took until this July to issue the company a $5 billion fine. That put a dent in Google's reported Q2 profits, but the company's revenue is stronger than ever. As long as the growth of the tech giants outpaces the speed of regulation, the consequences for breaking the rules won't outweigh the potential benefits.

Google's continued success contrasts the historic drop in Facebook stock that followed weaker-than-expected earnings from the company. Have scandals around fake news, privacy breaches and Russian meddling in the 2016 election caught up to Facebook, suggesting a heavy price to be paid for violating consumer trust? Or with Instagram's popularity and its expanded commerce features, ownership of WhatsApp and new innovations like Watch Party, will the company inevitably rebound and become further proof of the invincibility of big tech?

**FOUR**

# LEGACY VS. BIG TECH

**In April,** we continued the narrative of legacy companies staving off the FAANGs (**Facebook, Apple, Amazon, Netflix** and **Google**) by merging with—or acquiring—other businesses.

**Since then,** a federal court approved **AT&T's** $85 billion deal to buy **Time Warner.** Long mired in legal challenges brought by the U.S. Department of Justice (which continued on July 12th with the DOJ appealing the decision), the deal will allow AT&T to marry Time Warner's library of content (including **HBO, CNN, Turner, TNT** and **Warner Brothers**) with its mobile and satellite services and vast consumer base. A recent acquisition of **AppNexus** signals another bid to make AT&T more competitive in the digital advertising space, a market in which Google and Facebook soak up 57 percent of all spending.

The approval of AT&T-Time Warner hints at more mergers and acquisitions (M&A) to come. A few of the looming deals to keep an eye on:

**Media**

> **Comcast** and **Disney** played ping-pong on bids to acquire **21st Century Fox's** movie and television assets, with Disney prevailing with an offer of $71 billion. The deal adds properties including Fox's TV and film units, **FX** and **National Geographic** to Disney's already deep roster of content as it prepares for a launch of its own over-the-top (OTT) streaming service to compete with Netflix. And Disney will now have majority control of two already enormous direct-to-consumer platforms with **Hulu** and **Star India.** Fox, which already owns 39 percent of European pay-TV giant **Sky,** has been trying to acquire the remaining 61 percent in order to sweeten the pot for Disney. But, having lost its bid for Fox, it appears **Comcast** is ready to go all in to outbid its competitors for Sky.

> **Shari Redstone,** whose family controls CBS's voting shares, is pushing for a **CBS-Viacom** merger, and is eyeing selling that combined company to **Verizon,** which already owns **Oath** (the ghost of **AOL** and **Yahoo**). Others speculate that Amazon could make a bid for CBS.

It's not smooth sailing for all media mergers. The FCC is reexamining a proposed **Sinclair Broadcasting** takeover of **Tribune Media** due to concerns the deal would give Sinclair outsized control of TV stations in select markets. That delay may serve to effectively kill the deal.

The first half of 2018 saw $9.3 billion worth of M&A activity in the agency and marketing services space. That included agencies spending big to get access to the kind of data insights that have helped consultancies expand into the ad business, and made Google and Facebook the advertising behemoths they are today. Notably, **Interpublic Group** paid $2.3 billion to acquire **Acxiom,** a database marketing company with data drawn from over two billion global consumers, enabling IPG to better target its own marketing efforts. Marketing services M&A activity to note also includes **Salesforce's** acquisition of **Datorama,** an Israeli AI marketing platform, for a reported $800 million.

## Healthcare

The AT&T ruling foreshadows likely-to-be-approved health care acquisitions, including **CVS** with **Aetna** and **Cigna** with **Express Scripts,** which would help both CVS and Aetna stave off Amazon's expansion into health care. (Never complacent, Amazon added to its health care efforts in June with a $1 billion acquisition of online pharmacy startup **PillPack.**)

### Retail

> Following a $7.7 billion acquisition of veterinary and dog-day-care company **VCA** in 2017, **Mars Inc.** (yes, the candy bar people) bought veterinary operator **AniCura** for $2.36 billion, adding to a portfolio of brands like **Iams, Pedigree** and **Royal Canin.** Amazon's own expansion into the pet food business (it launched a line of dog food in May, **Wag,** exclusive to Prime members) means existing brands in the space need to be proactive to hold on to their share of the $69.5 billion Americans spend on their pets each year.

## So, What's Next?

Could the AT&T deal be a step toward further modernizing TV advertising? The company, now the U.S.'s largest pay-TV provider and second-largest wireless operator, could join mobile subscribers' data with their TV viewing habits, in order to target TV ads and allow the company to stream hyper-customized ad content to different households.

Important questions linger as to the impact of this M&A activity on consumers. With net neutrality revoked, AT&T could offer its newly acquired Time Warner content at faster speeds on its internet service, and slow down—or charge users more for—access to a competitor like Netflix.

On the other hand, Amazon's move into health care could drive down prices for consumers, simplifying a notoriously complicated industry with the efficiency and logistical savvy the company used to reshape retail.

Now that there is a prominent court opinion holding that an AT&T-Time Warner mega-merger is not to the detriment of consumers, it may be more difficult for the government to break up the tech giants. Doing that, argues **Scott Galloway,** author of The Big Four and founder of business intelligence company **L2,** would be the best bet to ensure the kind of healthy competition that is ultimately best for consumers and innovation.

"Why should we break up big tech? ... It's because we understand that the only way to ensure competition is to sometimes cut the tops off trees, just as we did with railroads and Ma Bell," writes Galloway in *Esquire.* "A key part of a healthy economic cycle is pruning firms when they become invasive, cause premature death and won't let other firms emerge."

**FIVE**

# TRADE WAR CASUALITIES

**In April,** business leaders were already sounding the alarm on the negative impacts of a U.S.-China trade war. "We are on a dangerous downward spiral, and American families will be on the losing end," cautioned **Matthew R. Shay,** the president and chief executive of the **National Retail Federation.**

**Since then,** there's been more reason for heightened concern. The Trump administration has been exploring additional action on Chinese imports that would bring the total value of imports subject to tariffs to $450 billion. And Canada responded to the U.S.'s new tariffs on steel and aluminum imports from the E.U., Mexico and Canada by slapping $12.5 billion worth of tariffs on almost 80 U.S. products, including whiskey and ketchup. The U.S. has also threatened additional tariffs on E.U. imports, adding to the deleterious effects trade wars have had on markets.

These events are challenging CEOs to rethink their supply chains and where to manufacture their products. Automakers, in particular, have warned that additional tariffs will lead to cutbacks in U.S. production and domestic loss of jobs. Iconic motorcycle brand **Harley-Davidson** stated it would shift some production jobs overseas due to new costs imposed by tariffs. **Tesla** unveiled plans to build a factory in China a decision made with increasing sales to Chinese consumers in mind and hastened by tariffs that will saddle American-built Teslas with a steep markup in China.

## So, What's Next?

Automation, responsible for the reduced number of workers needed on production floors and rising labor costs in other parts of the globe, has incentivized some companies to move jobs back to the U.S. **Apple, General Motors, Boeing** and **Ford** are a few of those contributing to this trend, called reshoring.

The impact of tariffs on reshoring efforts will be worth watching. A likely outcome is for American-made products to be more competitive at home, but less competitive in key markets like China, creating an additional consideration for CEOs when contemplating new capital investments in their businesses. And if the math proves unfavorable, it will only galvanize the need for business leaders to speak out on this key political issue.

Most important to consider is what the U.S. ultimately needs to do to remain competitive on the global stage. In The New York Times, tech writer **Farhad Manjoo** argues that aggressive investment by the U.S. government in key technologies like AI—rather than additional tariffs—is what is most needed to counter China's growing economic and geopolitical influence. "If the United States is worried that the Chinese will win the future because they're actually spending money to win the future, why aren't we doing the same?"

**SIX**

# THE SUBSCRIPTION ECONOMY

**In April,** we wrote how more businesses are empowered to go direct-to-consumer via digital subscriptions. Subscriptions are hot because they enable the collection of valuable data and regular auto-renewals keep the money flowing.

**Since then,** there's been plenty more subscription news across media and retail. In June, we published a piece with our partners at **Ceros** on the rise of the subscription economy. Here are the most notable subscription stories from the past quarter:

## Media

Strong Subscriber Growth: **Amazon Prime** passed the 100 million subscribers mark (and raised its price, to boot). **Netflix** added 7.4 million subscribers globally in Q1 and another 5.15 million in Q2. That second figure missed the company's projections, but brought its total subscriber base to around 125 million. **Apple Music** now has more than 50 million subscribers, as the service continues to zero in on **Spotify** and its 71 million subscribers.

Amazon, a TV Distributor?: Amazon's Prime Video Channels allow users to sign up for OTT offerings from more than 160 channels, including **HBO, Showtime, Starz** and **CBS.** A study by The Diffusion Group found that Amazon is responsible for the sale of 55 percent of all direct-to-consumer video subscriptions. While more conservative estimates peg that figure at 25 to 45 percent, it's nonetheless a significant sign of Amazon's influence in the OTT space. Now, **Apple** will offer a similar service by selling TV streaming subscriptions directly through its TV app. **Roku** has plans to launch a comparable marketplace of its own.

**Facebook** began testing a feature allowing managers of closed groups to charge users anywhere from $4.99 to $29.99 a month for access to exclusive content.

**MoviePass** exceeded the three million subscriber mark, and may hit five million subscribers by the end of the year—provided it can remain in business, that is, as serious questions have arisen over the company's financial viability. Whether MoviePass itself survives, the model it trail-blazed for movie theater subscriptions is likely here to stay. Theater chain **AMC** launched its own subscription service in June, letting moviegoers see up to three movies a week for a monthly fee of $19.95.

Facing declines in sales of comics and graphic novels, comic book publishers are turning to digital subscriptions as a way to drive more engagement with fans. That includes an August beta launch of a streaming service from **DC,** which will offer access to titles in the DC library, as well as new original series.

## Retail

**Stitch Fix,** a clothing subscription box service, has become one of the biggest success stories among retail subscriptions. Revenues from its latest reported quarter were up 29 percent from the year before, and the company saw a bump in its stock price following the launch of a kids-focused offering. Having successfully integrated AI into its operations, the company is now using algorithms to predict customers' future shopping habits. Next, Amazon will look to mimic that success with a subscription clothing box of its own.

In an improvement to the old car leasing model, brands including **Volvo, Cadillac** and **Porsche** are offering monthly subscription services for select vehicles. Drivers can subscribe to Care by Volvo for $600 a month to access the company's new XC40 SUV, along with maintenance and insurance. **Fair** is a young car-subscription company in Santa Monica, California, that enables consumers to use a car for however long they desire and then exchange it for another when they get bored with the one they have.

Competing with automakers and public transit for commuter miles are apps for bike and scooter sharing, like **Lime** and **Bird.** Unlike New York's **Citi Bike** program, there are no designated spots for vehicle returns—once done, members can leave them anywhere. This added aspect of convenience has drawn consternation from some cities. San Francisco placed a temporary ban on shared electric scooters after some residents complained the devices were cluttering sidewalks.

## So, What's Next?

*More services, more chaos:* There will continue to be more subscription media options, if likely not real savings, for consumers. All these disparate charges for streaming services, along with the cost of high-speed internet, add up to more than what we had been paying for our cable bundles. We'll also see more content due to increased spending from tech giants like Apple (which announced a content partnership with **Oprah Winfrey** in June), Facebook and, of course, Netflix. The goal is to drive eyeballs to these companies' services by producing hit content. For consumers, this means more content clutter to navigate, as well as angst over where to direct their attention and dollars.

*The Great Rebundling:* Our projection at ZEITGUIDE is still that we should see more buddying up among subscription services as a way to stand out and offer more for less to consumers. We call this the "great rebundling." We have already seen this with such offerings as **Hulu** with Spotify or **Comcast** with Netflix. Brands will also pair more of their own services together into a single offering for clients. Next year, Apple plans to offer a subscription combining its News with a "Netflix for magazines" type service. It is rumored that Apple will then bundle this news service with Apple Music and original video content as part of an all-encompassing, Prime-like bundle.

*Phygital Subscriptions:* Perhaps, we'll see more pairing of the best physical products and services with digital media and tech to create what we at ZEITGUIDE call phygital experiences. Think Amazon Prime, a membership providing you with free shipping, deep discounts and access to their OTT streaming service. Might your Volvo subscription soon come with a Disney OTT subscription, free monthly vehicle checkups and discounts at your nearest gas station?

**SEVEN**

# BATTLEGROUND INDIA

**In April,** there was much to cover in the increasingly intense battle between **Amazon** and **Walmart.** As noted earlier, the salvos between the two have continued, with Amazon outbidding Walmart to buy PillPack, an online pharmacy startup, arming Amazon with more data on consumers' health needs as it continues to expand into the health care and prescription drug space.

**Since then,** the war between the two companies has become particularly intense on one key front: India.

Indian ecommerce outfit **Flipkart** approved a sale of 75 percent of the company to Walmart for $15 billion, rebuffing long-running acquisition efforts by Amazon. Amazon actually trails Flipkart in market share in India, giving Walmart a leg up in the country.

Amazon, which already earmarked $5.5 billion toward growing its business in India, announced in June it would up that investment by an additional $2 billion. So far, the company has taken steps to address the unique needs and challenges of this market, including creating a special credit operation for Indians without bank accounts, an app meant to run better on the cheaper phones that are more prevalent in the country and products aimed to appeal specifically to shoppers in different regions of India.

## So, What's Next?

Both Walmart and Amazon are challenged in India by the family-run stores, called *kiranas,* which abound on every street. With personalized services like instant delivery and interest-free credit—services that giants like Walmart and Amazon are unable, or unwilling, to provide—these one-stop shops control around 90 percent of the country's $700 billion retail market. Each shop has a unique understanding of—and relationship with—its neighborhood, giving them an edge over global competitors fighting for a foothold in the country. For Walmart and Amazon to succeed, they'll need to find a way to replicate the unique, localized offerings that kiranas provide.

The fight for India's streaming video market is also escalating. Beginning in 2016, both Amazon and **Netflix** launched video services in the country, but these have struggled against local competition. **Hotstar,** a streaming video subscription service from Indian media company **Star Media,** has over 150 million active users in India, giving it about 70 percent of the country's on-demand streaming services market. That lead has been built on Hotstar's extensive programming in regional languages, rights to popular local sports like cricket and lower prices compared to Netflix and Amazon.

Hotstar's parent company, Star Media, is a subsidiary in kind of **21st Century Fox.** That ownership will pass to **Disney** upon the successful completion of a Disney-Fox deal, giving Disney, already set to launch its own streaming competitor to Netflix and Amazon in the U.S., control of the leading streaming service in India.

**EIGHT**

# ZEITBITES

### Deep Fakes

We first discussed the emergence of deep fakes, the use of artificial intelligence for ultra-realistic fake videos that make it possible to create visual “evidence” of events that never transpired, in our Q2 briefing. (An early application of this tech has been the practice of superimposing the faces of celebrities into sex videos.) Since then, a report from the **Center for a New American Security** has cited these videos as a contributor to what they’ve termed “the end of truth.” Combatting this will require an additional level of scrutiny for every type of media we encounter. Or, to update a popular phrase, “Don’t believe everything you read, hear and see online.”

### Private Label Pits Amazon Against Brands

Despite a slow start due to site errors, **Amazon** managed its best day of shopping ever during Prime Day in July. The company capitalized on the day to push its tech devices, like the **Echo,** which has been losing market share to the **Google Home** and **Apple HomePod.**

Prime Day also helped to promote Amazon's growing roster of over 100 private-label brands, ranging from basics like batteries to specialty items like women's intimates. The concept of a private label is nothing new, but Amazon's ability to shape what consumers see first on the platform takes this strategy to a new level. That makes things a little awkward for name brands selling their goods on the platform. A product that sells well may quickly find itself contending with Amazon-branded facsimiles, which earn top billing on search results. Users who ask Alexa to order generic products are more often prompted to buy from an Amazon brand.

As a result, more brands have been motivated to forgo selling on Amazon in favor of doing business directly through their own websites. Aiding them are platforms that facilitate setting up an online store, like **Shopify,** as well as improvements to social shopping features such as the ones found on **Instagram.** Apparel retailers, in particular, are enjoying success with this strategy, thanks to the greater cache Instagram has with fashion-minded shoppers when compared with Amazon.

## AR & MR

**Facebook** launched an augmented reality (AR) feature for its Messenger app that gives shoppers the ability to see how that new pair of glasses will look on them or how that new car looks parked in their driveway before they buy. Sephora, one of the first brands to partner with Facebook on the feature, will use this capability to allow users to virtually see how cosmetics will look on their faces. This announcement is another step in how AR is reshaping the mobile experience, from shopping to gaming.

**Magic Leap** has long been working on tech that makes it possible to superimpose virtual objects into the real world around you, earning immense amounts of funding ($2 billion and counting) and hype. At long last, the much ballyhooed Magic Leap One is slated to come out later in 2018, with AT&T as its exclusive wireless distributor in the U.S. This device is expected to reset the bar for mixed-reality (MR) tech (MR improves on AR by adding a dimension of depth to virtual objects through a headset) and become the next must-have consumer gadget.

## CBD

The growing use—and legality—of marijuana products to treat medical issues and to relieve pain and anxiety has led to cannabidiol (CBD), a chemical derived from hemp and marijuana plants, to explode in popularity. That is in part because, unlike tetrahydrocannabinol (THC), the other key chemical in weed, CBD does not have a psychoactive effect, but has been shown to provide the anti-inflammatory, anti-anxiety and pain relief benefits many consumers are seeking.

Not surprisingly, products containing CBD, including oil droplets, coffee, tonics, beer, edibles and even dog treats, are becoming increasingly widespread. In 2017, total sales of CBD products in the U.S. added up to over $350 million. That figure has been projected to eclipse $1 billion by 2020.

While CBD has endured a hazy legal status to this point, a more open legal environment is likely on the way thanks to a bipartisan farm bill passed in the U.S. Senate in June. With a provision to legalize the growing, processing and sale of hemp and hemp-derived products, the bill promises to grow business for a lot more than just CBD. The Congressional Research Service found that the "global market for hemp consists of more than 25,000 products."

**Hip-hop**

In January, we noted how hip-hop and R&B had surpassed rock as the most listened-to genres of music. Responding to this popularity, brands that once avoided associating with hip-hop acts are now eager to partner and collaborate with its top artists. Previously, there was an existing misguided belief that hip-hop had the potential to tarnish high-end labels. These days, however, luxury brands such as **Louis Vuitton, Saint Laurent** and **Marc Jacobs** are increasingly featuring hip-hop stars in their advertising campaigns, while others, like **Versace** and **JW Anderson,** are collaborating with artists like **2 Chainz** and **A$AP Rocky.** "Fashion brands have woken up to the reality that hip-hop has replaced Hollywood as the most powerful force in global entertainment culture," writes Christopher Morency in the Business of Fashion.

### Medical Punk

Body modification methods like tattoos and piercings seem quaint compared to the new trend of grinding. This subculture, which The New York Times' Alice Hines calls "medical punk," is an amateur fringe of the biohacking movement whose members endeavors to make their bodies and brains run better with the help of biotech implants. Grinders, who meet yearly at an event called Grindfest (because who doesn't have their own conference these days?), perform their own amateur surgeries to implant magnets and radio-frequency identification chips within their bodies. Shocking, grotesque and often dangerous, do these grinders presage more mainstream, tech-driven body modification to come?

### Games as a Service

**Epic Games' Fortnite** is now the most successful execution to date of games as a service, whereby players can download the game for free, and then pay for upgrades like unique skills and character outfits. This now-popular business model has paid immense dividends for game makers. Fortnite, where players are thrown into a 100-person "battle royale" with the goal of being the last person standing at the end, has been earning over $300 million a month in sales and is the most-viewed game on live streaming platforms like **Twitch.** Epic also hosted a successful Fortnite Pro-Am in June that pitted top players against celebs for $3 million in charity prize money, a precursor to a likely Fortnite World Cup in 2019 meant to capitalize on a growing market for esports.

## The Threat of Toxic Fandom

We've long written on the importance of superconsumers, the small, dedicated fraction of customers that can be responsible for most of a business' sales. The internet has amplified these consumers' voices, handing new power—and gravitas—to the ones who are the most passionate and engaged. But this power can be taken to a dark extreme. Toxic fandom has emerged as a way to describe when fans direct their vitriol at creators, celebrities or others who disagree with them on the creative direction of the properties they love. In some cases, this has escalated to death or rape threats, as well as publishing personal information about someone online to embarrass or harass them (called "doxxing"). "It can get tricky for some folks, who hold their fandoms so tightly they fuse with personal identity," write Erin Carson and Morgan Little on CNET. "Any change can feel like a personal affront."

**NINE**

# HITS & MISSES

## HBO vs. Netflix

**Netflix** led the pack in 2018 Emmy nominations, edging out **HBO** 112 to 108, making this the first time in 18 years that HBO has not led all networks in nominations. Of course, Netflix is also far outpacing the competition when it comes to production. The service has more than 700 new or exclusive TV shows, made possible by a projected content bill for 2018 approaching $13 billion. For comparison, HBO spent around $2.5 billion on content in 2017.

HBO's response to Netflix's torrid spending in the past has been to talk up the superiority of its programming. "More is not better, only better is better," said CEO **Richard Plepler** last fall. To HBO's point, Netflix is open about quality of programming not being its top priority. Instead, it puts its focuses into “hours per subscriber per month.”

“Watch time has a (much) stronger impact on retention than quality,” writes Matthew Ball in Redef. “That’s why series get dragged out longer even when it waters down the quality of each episode.”

Ramping up “time spent” was a major motivator for **Disney’s** acquisition of **Fox.** The larger Disney’s portfolio, the more it can offer on its coming OTT service. That should mean viewers tuning in and staying tuned in for longer.

Now, with new bosses following the **AT&T-Time Warner** merger, could HBO face pressure to think more like Netflix? “We need hours a day,” new **WarnerMedia** CEO **John Stankey** told HBO employees. “It’s not hours a week, and it’s not hours a month. We need hours a day.”

A shift in strategy could pose a challenge for HBO: how to increase its output of content without sacrificing the quality of programming it has worked decades to be known for. But Netflix has proven there’s logic to offering critically-adored series side by side with less well-received shows. It means the service has the content to match whatever viewers are in the mood for, whether that’s an award-winning series, or some guilty-pleasure viewing.

## MOVING FORWARD

We'll be back again in October with more insight into how business and culture continue to transform throughout the year. Stay up to speed with us until then by continuing to read our weekly newsletters.

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