BREAKAWAY Q&A

Tom Phillips, Dstillery

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By Orlaith Farrell for Bloomberg

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BACKGROUND

Tom Phillips has been at the helm of Dstillery since October 2009. The Stanford Business School graduate and former Google employee leads a team of 165 people at this ambitious adtech firm in Manhattan.

TOM PHILLIPS, CHIEF EXECUTIVE OFFICER

Tom Phillips has been leading Dstillery since October 2009. During his tenure, Dstillery's revenues have grown by 13 times, with a 90 percent client retention rate. In the last three years, the company has made major moves into mobile and cross-platform media, self-service and API-based delivery of its technology, and an experimental framework for delivering new solutions to marketers and media companies based on its digital intelligence technology.

Before becoming CEO, Tom spent three years at Google, where he oversaw the DoubleClick integration and established the Search & Analytics team to pioneer new uses of Google data for its major advertising clients.

Previously, Tom held several leadership positions in online advertising and media. He was a venture partner at Insight Ventures, CEO of Deja.com (sold to Google and eBay), media chief for Starwave (creators of ESPN.com, NFL.com, ABCnews.com and NBA.com) which was sold to Disney in 1997, and founding publisher of Spy magazine.

Tom holds a BA in Applied Math from Harvard and a MBA from Stanford.

Breakaway Q&A

Bloomberg: Dstillery is considered an "adtech" company**.** Tell us what that means.

Tom Phillips: The basic founding principle of the [business analytics and adtech] industry is that the old ways of doing marketing are rendered obsolete by massive, orders-of-magnitude increases in access to data. The world has so been revolutionized in the last 20 years… it has only been 22 years since we had a worldwide web, and what has happened in that time is just so remarkable, in terms of the access to consumer data. What do people do with their time? What do they like? What are they interested in? What are the behavioral characteristics of individuals and populations? We have access to [data] that was uncontemplated 20 years ago. When we first started, which was eight years ago, tapping into this digital consumer behavior (and our world is United States connected consumers) that population certainly has ballooned, but it has increased by maybe 1.8x, not even 2x. It was big eight years ago, so it's bigger now - it's a lot bigger now, but not an order of magnitude bigger. The amount of data we see has gone from about 1 billion to 70 billion events a day. In eight years. That's just remarkable. So, when you've seen 70 billion things happen, and this is out of the 175 million connected U.S. residents, that's rich. There's a lot you can do with that. So the industry is: how do I use that view of consumers to inform business? It's really that broad. And we've tried to expand our mission beyond, how do I use that view to make advertising work better, to how do I use that view to make marketing better, to how do I use that view to actually have businesses function more effectively? So, that's the way to think about it. Most people talk about "adtech," and so that "adtech" is that data-driven advertising world.

Bloomberg: Where within that ecosystem does your company specifically fit?

Phillips: As we were originally conceived, it was the far end of sophisticated, in terms of data-driven advertising. The vast majority of data-driven adverting is: let's find people who've already indicated they're interested in Pottery Barn, and let's go deliver them ads. It's called re-targeting. It's 70 percent of the picture, even now. It used to be 90 percent of the picture. A lot of adtech is really simplistic: we found an indication that they're interested in my brand, I'm going to go and find them again and deliver ads to them and remind them to come back and buy more.

So what's the more sophisticated level? The more sophisticated level and where we founded this company is: let's use the behaviors we observe that are attached to the Chrome browser on your laptop, that's really how specific it is. So, you do stuff on the Chrome browser, we don't know who you are, we just have an ID number on that Chrome browser. There are behaviors we observe on that Chrome browser, not everything you do but some of what you do; enough that we have a pretty good idea of what's behind that Chrome browser - you. We think that based on those behaviors, you might be a good candidate for Pottery Barn. We've never seen you at Pottery Barn, but we think that you might be a good candidate because you do things that probably indicate you're interested in home furnishings, home goods, have an apartment, like to decorate it, whatever it might be. Finding those signals in behavior sometimes can be really obvious and sometimes is very subtle. Applying advanced data science to find the subtle signals–that's hard to do, and that's the task we took on, early on. Where most of the industry has been, even now–take the obvious signal and run with it–we've been in the: let us find the new audience that you wouldn't have discovered otherwise, that is likely to be a customer based on the subtle, invisible-to-the-naked-eye signals of the big data center. That's where we've lived for eight years.

Three years ago, we added the capability to associate devices. So now we can take your behaviors that you show in your Chrome browser and associate that Chrome browser with the Mozilla browser you use on the same machine, which otherwise is not associated, and associate both of those with your iPhone.

Bloomberg: Where's the line for privacy?

Phillips: The line is not attaching all that to a person who has an address and a name. It's all anonymous. You are represented as a code in our systems, and your devices are represented as codes in our systems. We capture behaviors, and we send ads, and we try to make them relevant. That's all we do. We never try to get to your identity.

Bloomberg: What does the adtech industry look like at the moment?

Phillips: Chaotic. But think about strategies for investing. How many investment companies are there in the United States? What if you tried to plot them on a sheet—what would it look like? It would be a lot worse than adtech. There is consolidation in the industry, and there will be waves. There will be consolidation, then there will be new avenues to pursue, and they'll generate all kinds of new activity, and then there will be consolidation again. The financial industry is far more mature and doesn't go through those cycles with the same amplitude, but goes through cycles as well. Different strategies for figuring out how to make money in investments has fostered thousands of companies, tens of thousands of companies. So, the idea that adtech is overpopulated with hundreds of companies, maybe a couple of thousand companies, you could make an argument that it's not at all overpopulated. There's lots of different ways to try to make marketing work better, just like there are lots of different ways to try and make investing work better.

Bloomberg: So you don't have concerns that the space is oversaturated or the companies that are in there publicly are overvalued?

Tom Phillips: Public companies are in the toilet right now. I certainly wouldn't make a case that they're over-valued. I could make a case that they're under-valued.

Bloomberg: And in the space, you think there's enough space for all of you guys?

Phillips: One perspective is: there aren't that many companies in what is a massive, trillion-dollar field. There are new ideas to be had for how to apply data science against new data sets and, by the way, new data sets emerging all the time and those generate new opportunities as well, so that's one perspective. Another perspective is–I'll use the financial world–because Goldman Sachs exists, should there be opportunities for little mono-strategy investment companies? You could make a case that Goldman could do anything that [they] can do, but Goldman is focused on what Goldman is focused on and there are other opportunities out there. So, there's certainly arguments made that because Google and Facebook are so dominant in the media realm, and Amazon is so dominant in the commerce realm, and Apple and Google are so dominant in the platform realm, and maybe Amazon will get there, that there's no opportunity for anyone else, but it's just not true. It's never been true. There's other opportunity.

Bloomberg: Do you then view yourself as a competitor to Google, with their infinite data?

Phillips: Mostly not. Mostly, they're a supplier to us. We have a very cordial business relationship. Are they trying to do specifically what we do? You know, we're finding opportunities that look really interesting to us but are probably not that interesting for Google. They're probably not big enough. For instance, I mentioned the out-of-home one, we think that the combination of our platform and our technology is a really good, high fidelity, efficient way to define the value of out-of-home media. Would that even ripple at Google? I don't think so.

Bloomberg: Can you give me specifics on other opportunities that are coming your way that Google wouldn't be interested in?

Phillips: We think that there is a terrific opportunity to tie the terrestrial sales of high-frequency goods back to digital advertising. It's a big opportunity for us [that] we think can change the way packaged goods are marketed by creating the framework for running digital ads effectively in real time. Real time overstates it a little bit—it's days not months, let's just put it that way. We can measure the impact, via digital advertising, the impact of different messaging and how it affects in-store sales for supermarket goods and packaged goods. That's really cool. And we've used our existing adtech framework to go and execute on that. That's another opportunity that, for Google, they'd look at that and say: too hard to get to scale, we can't process that. But for us, it's a huge opportunity. There's millions of dollars there. It's a big deal for us.

Bloomberg: Let's talk about the company specifically then. How many people are employed here?

Phillips: 165, which is small in the adtech realm, or maybe it is medium sized. There are lots of much bigger companies. I've lived in this venture capital realm for over 30 years and, for better or worse, I'm never going to get over my skis again. I've done it, I've been there. We've raised just shy of $50 million over time. The temptation when you raise $20 million or $40 million, when you raise a big chunk of money, it's; let's go! And you go and hire all kinds of people, and then you have to scale back, and you're burning through cash, and it's horrible–I don't have the stomach for it. And there are people who have made a lot of money doing that, don't get me wrong, getting way out ahead of themselves. It's just not the way we've ever operated. We've always lived within our means; we've raised capital, but we've lived within our means and basically have a real business, and it supports itself.

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Bloomberg: What are the plans for scaling now, with that cautious outlook in mind?

Phillips: Well, the business is going through a transition, so this is a really interesting time. After years of talk about this, it's really finally happening; that the big agencies, particularly the big media agencies within the holding companies, are in an effort to make themselves long-term relevant, bringing all campaign management in-house. They are essentially saying to us: we want to train our teams to be media traders, not media planners and buyers, and take out some of the friction that comes in the old media buying system and do it all ourselves. And our response is: fabulous, let us provide you with the tools to use our technology, but use it yourselves. So that transition, [which] we've been talking about since 2011, is finally really happening in 2016. That's how TradeDesk is about to go public, and it's really made hay in the last two years, really emerged as the preferred platform for the bulk of what those media agencies are buying now. Which is what we call "spray and pray," which is just buy all comers, and re-targeting, which is buy the customers you've seen before. The combination of those two is a massive amount of spending and a huge amount of that is going through the TradeDesk right now. On the strength of that, they're going public. So, we are now another platform for finding audience, and we've sort of restructured ourselves to be the technology provider, not the manager of campaigns. That's one big transition. The other is, we started in earnest, about 15 months ago, pursuing a set of data analytics services that will turn into a SaaS (software-as-a-service) product.

The way I like to think of it, SaaS is a dashboard: I'm trying to get some business objectives, I need a tool to make it happen. My SaaS provider gives me a dashboard, loads the software on my machine, and I operate it, and it ties into the database of the supplier and maybe some other databases, and it enables me to do my job better. If that job is buying advertising, for my brand or my client's brand, that's one. If that job is providing business intelligence that informs product decisions and marketing decisions and fundamental business decisions, I need a dashboard to do that. So, we're in the process of creating that platform. We got really good at building these dashboards and now we're doing that with our first true SaaS product. Though we've been operating that service agreement as a predecessor to that SaaS product as—what I like to call, 'the man behind the curtain mode'—for the past 6 months. We have our own analysts; we get requests, our partner company or our customer, they come to us, they say, 'we're trying to solve this problem for this marketer, can you provide analytics to do it?' We say yes, and we charge them for that on a subscription basis. That will morph into a SaaS delivery, where they no longer email us and ask for something. They just do it themselves, and we're the software provider allowing them to do that. So, there's a whole bunch of flavors of business intelligence that we've discovered we're really good at based on all of the infrastructure we've built around our data science and our marketing services. That's the new growth engine for the business: platform, data analytics. In the industry, you'll hear the theme of platform all across the industry. Everyone wants to get there because that's where the business is moving. Data analytics is pretty rare; we talk to lots of marketers, lots of media companies and businesses about our data analytic solutions, and there's very little contention out there. There's a lot of green field.

Bloomberg: Can we talk briefly about mobile ad fraud?

Phillips: There are all kinds of deception and pollution out there. The first one that finally got a lot of attention in the last two years—for years, we were a voice crying in the wilderness about it—is browser bot-dot-based fraud. So bots taking control of browsers, infiltrating machines and loading instances of browsers that human beings don't see, and then sending content and ads into those instances that the human being doesn't see because it's behind your loaded browser and taking credit for delivery of ads. And you would say, well that doesn't do any good because the ads don't get seen, so they can't have impact. Not true. Because the way advertising effectiveness is measured primarily in the industry is a conversion of that happens. I count backwards and find the last exposure of the ad that happened before the conversion event, and I give that credit for the conversion event to that last ad. That's called last-touch attribution. Well, if you're a smart data scientist and ethically challenged, you can build a really good system for predicting when conversion is going to happen and delivering ads at will because it doesn't require the user to do anything into that instance to the browser that's not seen. So just keep hammering away–I know that person appears to be somebody who is going to be buying a travel package sometime soon, they've shown an indication of that. So, I'm going to take a travel ad… and I'm just going to hammer ads into that invisible browser and thereby maximize my chances of getting credit for the eventual conversion. One of our data scientists was the first to discover it [the bot infiltration] -- it was already out there, there were probably other people discovering it at the same time, but he discovered it, and I gave speeches about it, trying to convince the industry to get behind reforms that would root out this stuff. We took dramatic action to cut bot traffic out of our inventory, and it just hammered our advertising business because the bots were performing so brilliantly. [In] the last two years, the industry has finally got religion on it. A lot of it has been cleaned up, but there's still a lot of bot technology out there.

Bloomberg [Bloomberg | How Facebook Beats Ad Fraud]

Bloomberg: What are the challenges, if any, that you see coming down the line for the industry?

Phillips: Data quality is a cat and mouse game. It will always be an issue. If there's money to be made, there will be people trying to cheat the system. One way it happens in mobile is, the mobile advertising inventory that gets exposed for bidding is sort of two tiered: there's mobile advertising avails that have a location attached to them, and there's mobile advertising avails that don't have a location attached to them. The location-specific mobile, because so much of buying specifically in mobile is location dependent, when you attach a location the value of the inventory doubles or more. So, everyone who is creating applications and pushing their inventory out into the exchanges to be bid on is motivated to attach a location, even when they don't have permission, and even when they don't have it. You know from using apps on your phone, sometimes it registers right, and sometimes it doesn't come through right. Even though you've given permission for Uber to get you at your location, sometimes it doesn't get you right, right away. Even though you've given permission for Google Maps, sometimes it doesn't get you right away. So, in the ad-support realm, you're talking about a whole other tier, not nearly as high-end as Google Maps and Uber. We find that fully 60 percent of the ad inventory that comes to us with a location attached has a spurious location. It's not a real location. And we have a whole battery of techniques for rooting that out. So, in the data-quality front and the inventory-quality front, there's always a new battle. And one of the things that distinguishes us a company is our discipline and rigor when it comes to getting rid of the pollution. There's so many different flavors of it, but it's all pollution, and it's the reason that the data analytics business that I talked about is even an available opportunity to us. Because if you're just running ads, accepting the pollution is usually to your benefit. You get better scale and better perceived ad performance, even though it's not real. But if you're trying to provide high-fidelity business intelligence, and you don't rule out the pollution, you end up with mush. You're going to end up with nothing to show, no signal.

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BREAKAWAY Q&A WITH TOM PHILLIPS, DSTILLERY

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Bloomberg: What are you doing as a CEO to hire and retain exceptional talent?

Phillips: It's a good question. One, we're in New York, not in the Valley. That helps. It's really hard in the Valley. It's just so frenzied, and I'm talking about tech talent. Google goes to great lengths obviously; they make it really comfortable. And we pay at market, which is steep in New York. Google pays above market. But the finance industry pays above market too, so we do have that competition here in New York. So, we pay at market, which, again, that's rich. In comparison of what you pay here and what you pay in India is 3:1. That's a whole other matter. Having a team resident here, we have judged to be hugely beneficial. So, we have a culture of–some of the themes are borrowed from Google–taking care of people, making them very comfortable, giving them a lot to latitude, letting them define what they work on. Giving them the variety of: I may be working on this this month, and something new next month, and something new again the following month. That applies to the developers and the data scientists and the product people. That's the engine and that's what really drives the technology. It's creating a culture where they feel empowered, they feel like: I can define how I go about my business, I have input into what are the objectives we are trying to achieve. It's a very flat organization. There's access to everybody, access to the CTO, the CEO. We have nice benefits; it's a nice place to work, I like coming here every day. And I'm surrounded by really, really smart people. And I would say that the developers feel that way. The developers have a very keen sense of who my intellectual peer is, and I'm not going to suffer fools on that front, and we are very good at not keeping mediocre talent. We hire somebody and they're not keeping up, we are quick to put them on a program and move them out if they're not succeeding. That's key. I would say data scientists are even more sensitive to that. It's such a collaborative, experimental realm. So, we have 30 developers, 15 data scientists. Our data scientists here, to a person, could make more money elsewhere, they're so much in demand. But they stay here because they really want to be with really smart people. They don't want to be with people who waste their time.

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