søciety6

The Art Engine

Business Model Framework, Competitive Analysis & Roadmap

May 11, 2016

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Introduction

Aspirations for Society6.

Any strategy must first outline the goals of the organization. To do otherwise would be like making travel plans without a destination in mind. From our discussions, I've listed three aspirations for Society6 that I hope we can all agree to:

1. Society6 grows at an accelerated rate to reach $500M/year of revenue as fast as possible (within the next ~3 years).

2. Society6 provides the backbone for millions of artists' careers with monetization, tools and support as their careers evolve.

3. Society6 becomes the global source for artwork/artist discovery with millions of satisfied customers supporting independent artists around the world while beautifying their daily lives with our high quality lifestyle products.

These goals may sound grandiose. But we can achieve them with the right strategy.

"Get the Strategy Right and the Execution is Easy."

Venture capitalist Fred Wilson carries this wisdom when reviewing companies to invest in. He comments that if you are working hard, with a talented team, yet growing more slowly that you believe you should – evaluate your strategy to ensure that it is an engine that can deliver the expected results. When the strategy works, and everyone understands it, getting the team to pull in the same direction will deliver growth. After all, we are in this to win. As Lafley and Martin say in their book *Playing to Win*, "If [a company] doesn't seek to win, it is wasting the time of its people and the investments of its capital providers."

This plan will outline how we will win by defining a framework to analyze and understand our business, by reviewing our competition through this same lens, then by laying out a roadmap to position Society6 as the company we aspire to be.
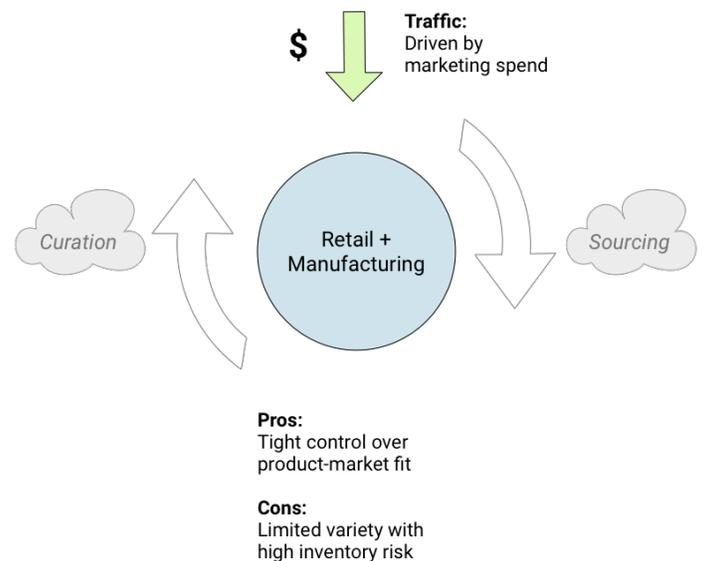
The Internet Scale Framework

A framework to understand our business, our competition, our opportunity.

With our aspirations clearly defined, me must decide how we will achieve our goals by first analyzing our own business. We are an outgrowth of traditional retail but with internet-enabled capabilities – we have a global reach, our on-demand production limits risk and increases product variety, our artists are incentivized to grow our business along with their own career and our content has high propensity for engagement. Each of these factors help build our framework. As we step through the framework, we will see our competition's weaknesses and our opportunities become apparent. Let's get started.

From retail to ecommerce.

To build our framework, lets start by thinking of a traditional retail business. This retailer is in a brick and mortar location. The retailer may or may not manufacture the store's products – either way, the initial activity for the business remains: source and curate the products to sell. That may be by selecting a wholesaler and choosing which products to offer or hiring a designer who will create products for the business to sell. The products need to be desired by the market the business is trying to reach. If successful, the business needs to turn to customer acquisition. Getting more people in the door for its products. Customer growth is largely determined by marketing spend. The extent to which this business can grow is by how successfully the business can drive traffic, then expand the number of physical locations. This model provides tight control of product/market fit but is limited in its ability reach new customers and offer a broad product selection.
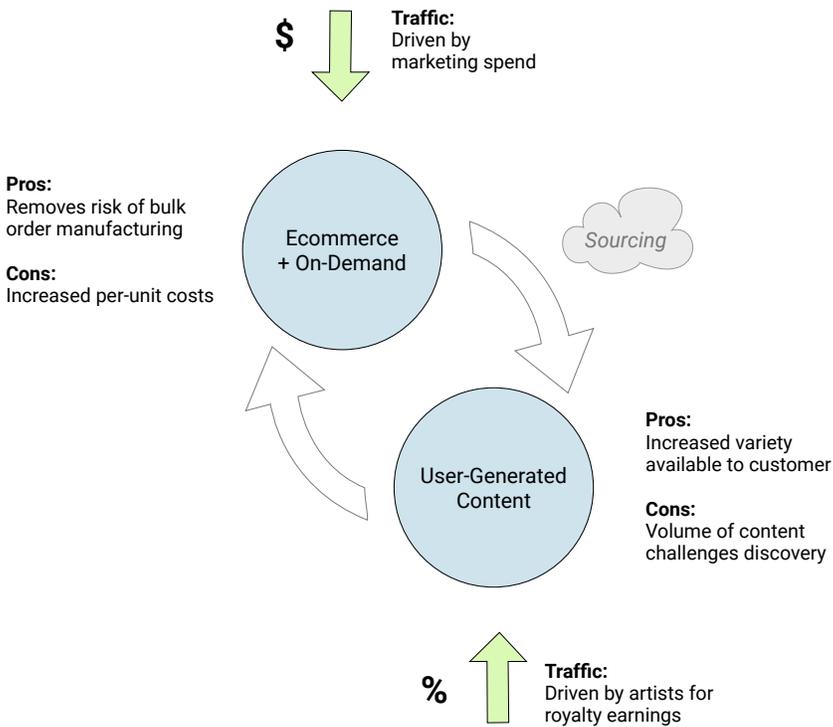
Traffic:
Driven by marketing spend

$

Curation — Retail + Manufacturing — Sourcing

Pros:
Tight control over product-market fit

Cons:
Limited variety with high inventory risk

Ecommerce raises the growth ceiling. It does this by, essentially, placing stores in *every* location. No longer is physical expansion required. Also, when the physical presence requirement is removed, it expands the number of products that can be sold thanks to fulfillment warehouses. But those warehouses increase cost and risk — and marketing spend is still required to drive traffic.

On-demand has low risk, massive choice.

But now technology has enabled on-demand manufacturing capabilities that change the math on business growth. The introduction of POD has brought two primary benefits:

1. Unlimited inventory both from an in-stock perspective and a variety perspective.

2. Reduced risk since there are no upfront fees for bulk ordered products that may never sell.

$

Traffic:
Driven by
marketing spend

Pros:
Removes risk of bulk
order manufacturing

Cons:
Increased per-unit costs

Ecommerce
+ On-Demand

Sourcing

Pros:
Increased variety
available to customer

Cons:
Volume of content
challenges discovery

User-Generated
Content

%

Traffic:
Driven by artists for
royalty earnings

The downsides to POD are that the costs are higher per unit and the business still needs to source and curate its supply of products.

Internet enabled POD presents an additional benefit of removing the sourcing responsibilities from the business by opening to outside product designers via the internet. Utilizing user generated content can lessen the costs related to product development. Now, instead of hiring a designer to create products, designers worldwide can produce products in exchange for royalties. Since no royalties are paid until an items sells, it dramatically lowers risk. Additionally, since the content producers are rewarded for sales, there is an incentive structure to encourage customer acquisition activities at scale larger than our own.

All is not perfect however. As this model expands, it encounters a new difficulty – curation. Now that sourcing is open, the volume of content can be difficult to manage. There are two approaches being tried in the marketplace: closed and open.
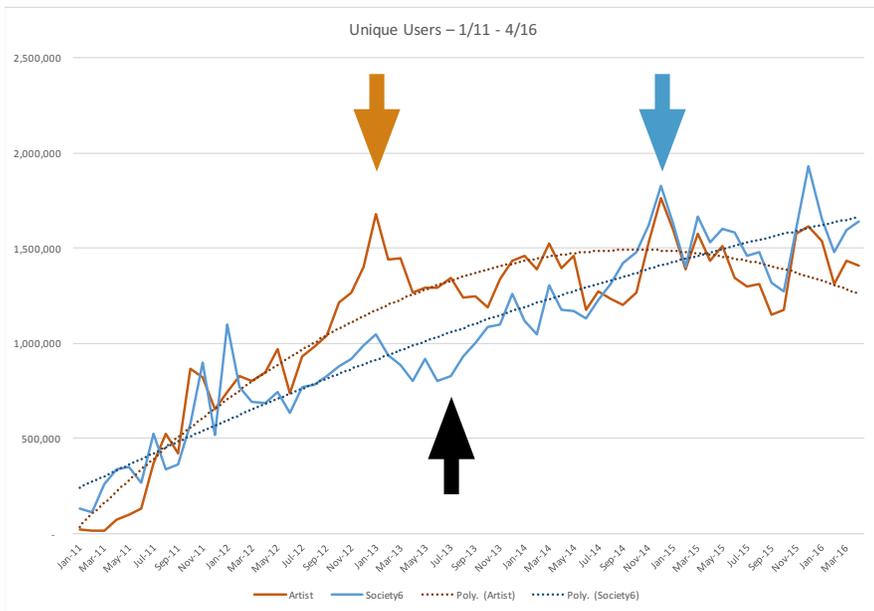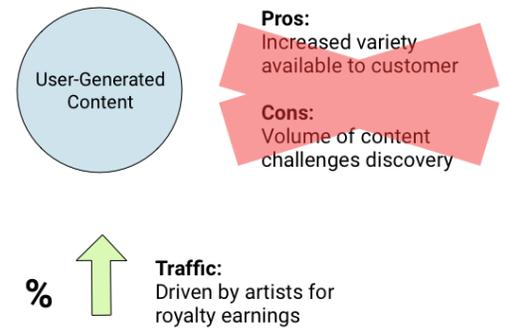
A closed market – like those offered by Juniqe, Curioos, Deny Designs, Nuvango and many more – keep the sourcing limited and selective to make curation take of itself. Simply put, when you have only 200 artists that have been hand selected for quality and brand fit you are naturally going to have very high quality content without curating each piece. This model offers more control – fixed pricing (optimized for customers), hidden royalty structures (pay more valuable artists more) and a high quality catalog of products (on-brand and likely to sell). This is a tempting model. In fact, Nuvango converted from an open market to a closed market in late 2015. They announced the change in September and enacted it in October. This is a real world experiment:
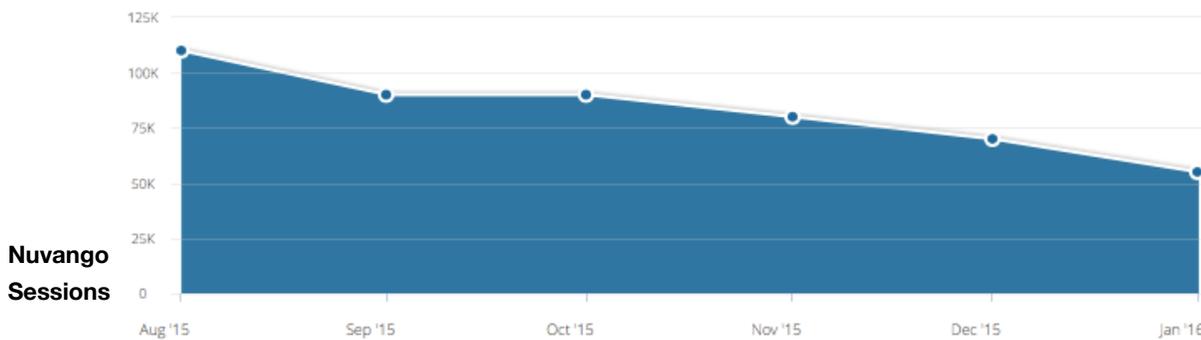
**Nuvango
Sessions**

It's a death spiral (from an already small base). Why would this happen? The key reason is that the artists and designers, regardless of if they sold much, lost their incentive and stopped talking about Nuvango. In aggregate that impact is substantial. Nuvango made a strategic decision. From the announcement: **"The biggest [challenge] is providing adequate exposure for all of the artists on our platform while maintaining a curated experience for our customers. Despite our best efforts, we're not satisfied with the service we are currently providing to our artists."** They could not solve the discovery problem.

So Nuvango gave up the huge product variety and only got the inventory risk benefits of POD. But along with it they migrated traffic generation from artists to the business itself – which means more marketing spend to compensate for the missing organic reach. This also means less SEO traffic due to limited content. It appears Nuvango underestimated the amount of traffic derived from their artist base. They opted to decrease traffic and product variety since they couldn't solve discovery.

As an open market, along with Redbubble, we embrace the breadth of content from an unfiltered lineup of artists. Along with it, we benefit from the artist traffic and the massive variety that serves customers and our SEO channel. But artists have a choice in open market providers. When you look at our historic user growth data, you can see that we made an unspoken pivot in focus at time of acquisition.

Pros:
Increased variety available to customer

Cons:
Volume of content challenges discovery

% Traffic: Driven by artists for royalty earnings

Unique Users – 1/11 - 4/16

This is unique users since the beginning of Society6's rapid growth period in early 2011; we see that artist traffic reached a peak in 2 years (orange arrow) that wasn't eclipsed by Society6 traffic for an additional 2 years (blue arrow). Initial growth and the reason for the Demand Media acquisition was because of the potential seen in that early free organic growth; the S6 founders did not spend any marketing dollars. After the acquisition in mid-2013 (black arrow) we put an emphasis behind paid marketing along with mobile and commerce features. These were absolutely needed to grow a business bigger than three people. But now the marketing spend is needing to grow to reach more people, most important commerce features have been implemented and artists are not sending traffic like they used to.

Our early artist focus spurred incredible growth. To date, artists have driven 8M more users than S6. Justin Cooper was fond of saying that 'it's all about the artist' – and for good reason since they generated all the early traffic. If artists drove as much traffic in Dec 2015 as they did in Dec 2014, unique users would have been up 2.6% instead of down 1.6%. Imagine if we restarted that early growth rate! Plus the graph above attributes SEO traffic to S6 – if it were attributed to artists, S6 traffic has yet to catch up:
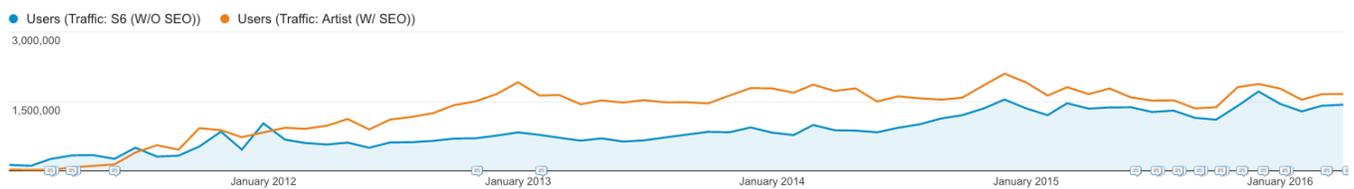
Now, as the POD space has advanced, artists are able to select the platform that offers the best tools and largest revenue opportunity. Here we are looked at more as a software provider and are compared as such. We need to do better at acquiring and retaining artists because they can drive more new users than Society6. But doubling or tripling our artist base still leaves us with the very real discovery/curation problem – but big problems often lead to big opportunities…
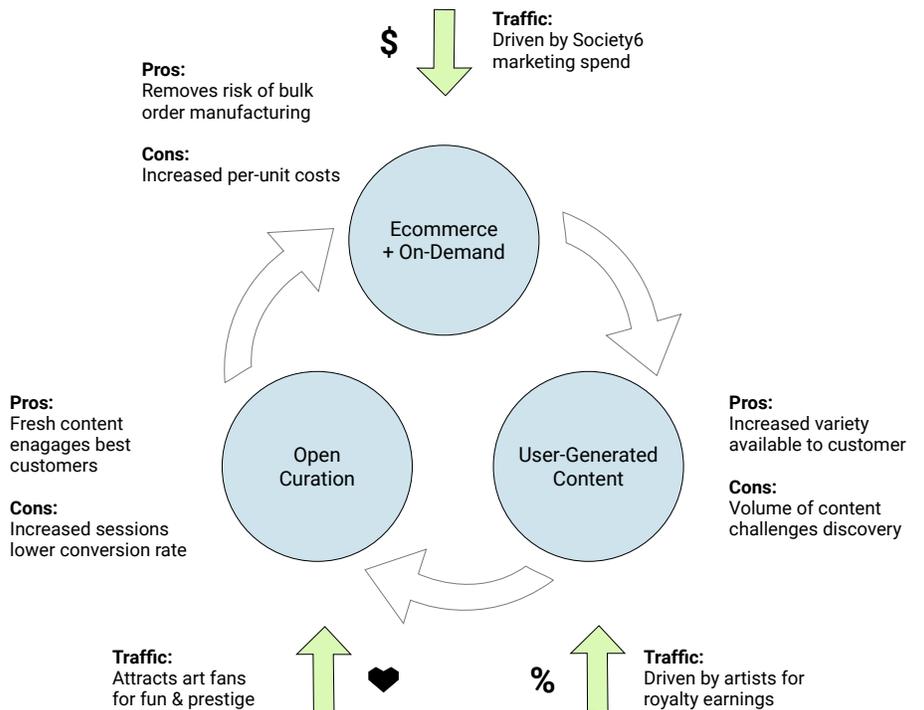
Drive traffic like a media business.

The answer to the curation and discovery problem is similar to the sourcing problem: outsource it, and benefit from the scale it brings. Curation at our size means that we need a lot of eyes reviewing content to help the best content surface. Luckily, that is a proven model in an sector adjacent, art networking, by Behance and DeviantArt. As an added benefit, these users aren't just valuable for their willingness to review content – they are also our best customers. For the first 4 months of 2016, our members represent just 2.5% of users but they represent a staggering 25% of revenue! They have a 5.3% conversion rate versus 1.09% for guests. Members' revenue per user is 12x that of guests. Members are more likely to buy, spend more per visit and come back more often. These people are our best customers and also provide value to the site that enriches the experience for everyone else.

Site Search Status	Users	Number of Sessions per User	Revenue per User	% New Sessions	Per Session Value	Sessions	Ecommerce Conversion Rate	Transactions	Average Order Value	Revenue
User Type - Guests	10,893,651 % of Total: 96.67% (11,269,395)	1.50 % of Total: 80.65% (1.85)	$0.92 % of Total: 65.72% ($1.40)	60.73% Avg for View: 50.87% (19.39%)	$0.62 Avg for View: $0.76 (-18.50%)	17,056,272 % of Total: 81.60% (20,902,389)	1.09% Avg for View: 1.31% (-16.73%)	186,541 % of Total: 67.95% (274,526)	$56.30 Avg for View: $57.53 (-2.13%)	$10,502,481.07 % of Total: 66.50% ($15,793,202.78)
User Type - Members	281,877 % of Total: 2.50% (11,269,395)	3.25 % of Total: 174.95% (1.85)	$10.88 % of Total: 776.67% ($1.40)	11.64% Avg for View: 50.87% (-77.12%)	$3.35 Avg for View: $0.76 (343.93%)	1,188,200 % of Total: 5.68% (20,902,389)	5.31% Avg for View: 1.31% (304.13%)	63,066 % of Total: 22.97% (274,526)	$63.19 Avg for View: $57.53 (9.85%)	$3,985,432.47 % of Total: 25.24% ($15,793,202.78)
User Type - Artists (Verified)	230,148 % of Total: 2.04% (11,269,395)	9.43 % of Total: 508.34% (1.85)	$4.65 % of Total: 332.01% ($1.40)	5.16% Avg for View: 50.87% (-89.85%)	$0.49 Avg for View: $0.76 (-34.69%)	2,620,575 % of Total: 12.54% (20,902,389)	0.92% Avg for View: 1.31% (-29.76%)	24,174 % of Total: 8.81% (274,526)	$53.50 Avg for View: $57.53 (-7.01%)	$1,293,188.60 % of Total: 8.19% ($15,793,202.78)

With artwork, we offer a content type that is particularly suitable to websites and apps thanks to it being frequently refreshed, varied in content and style and available for purchase. It feeds 'the stream' which is the primary paradigm on mobile. Art is a market ideally suited for scale. To better attract and capture these users, we need to engage them. They judge where to spend their time by the quality of the experience. Currently, our experience for art discovery is poor and we have work to do. Note that this is not about building "community" which seems to be a loaded word that can be seen as opposition to "revenue generating" projects. Rather, view this component as audience engagement. Much like a bookstore has book readings to get its most valuable customers back in the store, we need engaging functionality that will continue to bring art fans back to discover new work, connect with artists and buy products.

This forms the last piece of our framework. Open curation brings fresh content to our best customers to keep them coming back. The potential scale is huge. The downside risk is that we bring more visits but less buyers. Based on current member metrics, it's possible the opposite is true.
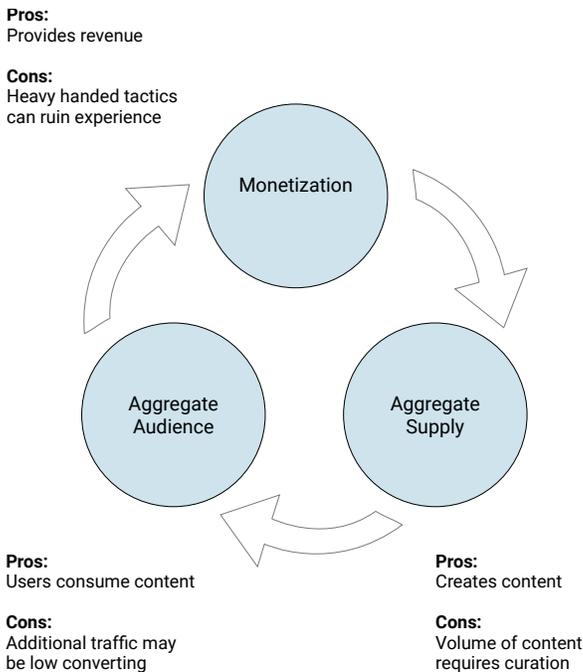
When we look at the the art network space, we see very large numbers so I tried to assume the worst case. If we are able to attract just 1% of DeviantArt's traffic, and it converts at our lowest rate of 1% and the average order value is our lowest at $50, we

Pros:
Removes risk of bulk order manufacturing

Cons:
Increased per-unit costs

Traffic:
Driven by Society6 marketing spend

Ecommerce + On-Demand

Pros:
Increased variety available to customer

Cons:
Volume of content challenges discovery

User-Generated Content

Traffic:
Driven by artists for royalty earnings

Pros:
Fresh content enagages best customers

Cons:
Increased sessions lower conversion rate

Open Curation

Traffic:
Attracts art fans for fun & prestige

still generate an additional $3M/year in revenue. Imagine if we can get a larger share or convert at a higher rate. If we had traffic of DeviantArt's, we would generate a billion dollars in revenue each year. And DeviantArt is weak now. Their traffic peaked in 2013 at nearly 60M uniques and over 150M sessions per month. There is an appetite for an art network for discovery and connection, and our monetization strategy provides the right incentives. We just need to flesh our our feature set to improve the experience and we'll attract hordes of art fans across all different art styles, mediums and themes and sell them lifestyle products to better express their unique personalities. Owning this audience creates an strong competitive advantage that is difficult to disrupt.

Our framework is a three-legged stool.

When a system relies on three pieces to function it is typically referred to as a three-legged stool since a two-legged stool cannot stand on its own. Our framework has three interdependent pieces that feed on each other. To scale our business, all three pieces need to be functioning in harmony. When you step back from our specific business and generalize the legs of the framework, you will see it's a framework utilized by **all** scale internet businesses. Some businesses aggregate the supply first (Google) which allows them to aggregate audience, while others aggregate users first (Uber) which allows them to aggregate supply. This framework is the only way to scale to a dominant global platform; the rewards are enormous revenue and a natural monopoly due to network effects. Let's look at our framework in a broader sense.

Pros:
Provides revenue

Cons:
Heavy handed tactics
can ruin experience

Pros:
Users consume content

Cons:
Additional traffic may
be low converting

Pros:
Creates content

Cons:
Volume of content
requires curation

Leg #1: Monetization.

The process of converting traffic to revenue, whether that be through ecommerce sales, transaction fees, advertising, or freemium services. The type of monetization needs to marry harmoniously to the business or else it will lower the quality of the experience and lose traffic over time. With ecommerce sales we benefit from revenue sharing with artists which rewards them in a way that Instagram advertising does not.
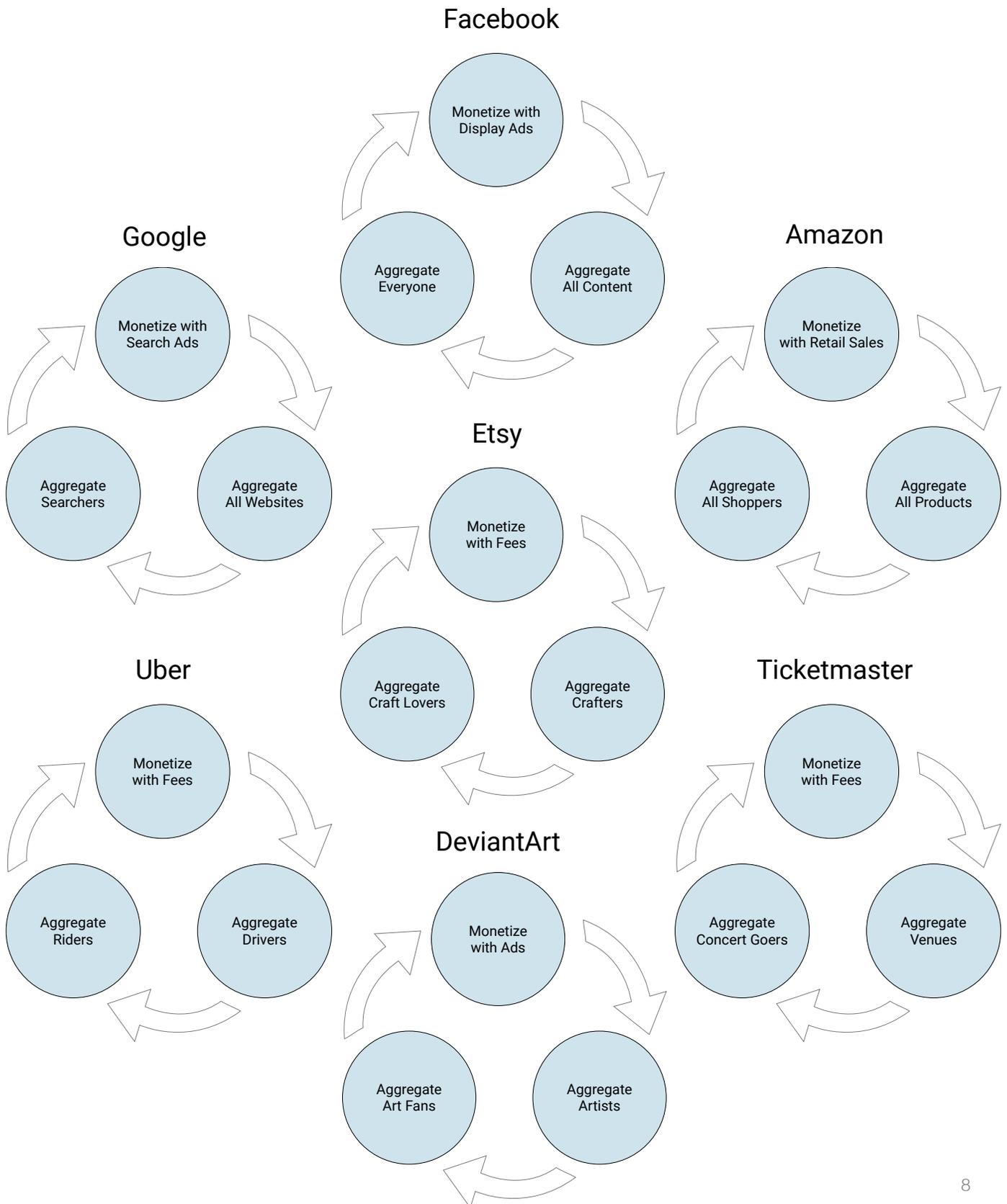
Leg #2: Aggregate supply.

User generated content sites benefit from aggregating all interested content creators. With art, it is not necessarily something everyone can do so our pool of creators is not as large as that of Facebook or Instagram. We are more like Youtube in that there are more content consumers than creators. Our incentive structure encourages artists to share their work and generate referral traffic. Our goal is to aggregate every artist worldwide. We want them all.

Leg #3: Aggregate audience.

The last leg is the aggregating audience for the supply you serve. Our content is ideal because it generates its own revenue rather than requiring an ad click. This produces a friendly environment for audience engagement since our purposes are aligned – help the user find the best content and amazing products. The audience for art is huge and could dwarf our other traffic sources. Our goal is to aggregate every art fan worldwide. This audience provide a nearly unbreakable competitive advantage. That's huge.

Internet Scale Framework Examples

Facebook

- Monetize with Display Ads
- Aggregate All Content
- Aggregate Everyone

Google

- Monetize with Search Ads
- Aggregate All Websites
- Aggregate Searchers

Amazon

- Monetize with Retail Sales
- Aggregate All Products
- Aggregate All Shoppers

Etsy

- Monetize with Fees
- Aggregate Crafters
- Aggregate Craft Lovers

Uber

- Monetize with Fees
- Aggregate Drivers
- Aggregate Riders

DeviantArt

- Monetize with Ads
- Aggregate Artists
- Aggregate Art Fans

Ticketmaster

- Monetize with Fees
- Aggregate Venues
- Aggregate Concert Goers

The Polar Ice Cap
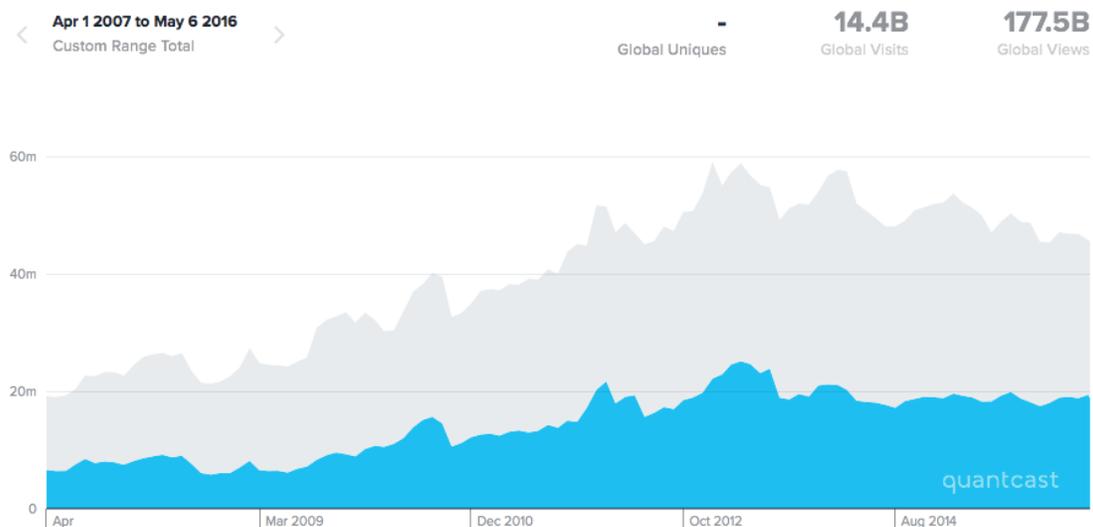
What is DeviantArt?

To understand the value of an art network, look no further than DeviantArt. Here's an overview from their About DeviantArt page:

> Founded in August 2000, DeviantArt is the largest online social network for artists and art enthusiasts, and a platform for emerging and established artists to exhibit, promote, and share their works with an enthusiastic, art-centric community. We have over 38 million registered members and attract over 65 million unique visitors per month. Our members — knowns as deviants — upload over 160,000 original art works every day, everything from painting and sculpture to digital art, pixel art, films, and anime.

DeviantArt is currently the 89th most visited site in the world. It's massive. Think of it as the polar ice cap – it is where most of the online art community is encased. It has nearly 20 times the monthly uniques that Society6 receives. But, amazingly, it offers not much more than art community. Its UGC component is limited to basic image posting. It monetizes its content mostly through advertising along with a new half-hearted attempt at POD product sales. Their site design is a clear relic of the early 2000s. It's confusing to use. It's not welcoming. And now its users are starting to drift away. This is a recent comment I read on DeviantArt, after complaining that "The site itself has become unwieldy, not easy to use", the poster goes on to say "I use Society 6 (super quality of stuff) and Etsy. Society 6 has some lesser known and some well known artists on it from here that have purchased some things from. They, also, have the ability for the artist in question to have made into shirts, bags, leggings, laptop covers, phone cases and even comforters! Which, I love because if I REALLY like a piece I WANT to have it for all." These are cracks in the ice.

The polar ice cap is melting.

Without a doubt, DeviantArt's biggest asset is momentum. It has 16 years of artwork and community bonds. Network effects are strong and create long-lasting value. But DeviantArt has peaked. The 65M monthly unique visitors quoted above was the high point in 2013, by 2015 it had dropped to around 50M. This is still a massive number. And as that traffic melts away, it will seek a new home to "exhibit, promote, and share" artwork. When the sea levels rise, we'll be ready to welcome aboard these art fans.

Apr 1 2007 to May 6 2016 Custom Range Total	Global Uniques -	Global Visits 14.4B	Global Views 177.5B

Incentives Steer Our Business

Artwork is fundamental.

The entire plan rests on the idea that artwork is our primary focus. Artwork is an ideal media type for consumption and it keeps our mission broad and inclusive of all styles of work. Compare this to Redbubble that wants to be an art site – they produce a ton of artist focused content on their blog and they repeatedly says that they put artists first – but in reality they are a t-shirt company. Their investor deck revealed that 68% of their revenue is from apparel. Thanks to fully artist-set pricing, they have lost control of their direction. We need to use incentives to push our business in the correct direction to reach our aspirations.

Artwork is unique and should be priced like it.

All artwork products (including art prints, framed prints, canvases, metal prints, etc.) will be priced by the artist. For these products, Society6's job is to produce the highest quality products that faithfully represent the art. Our work should be of the highest quality yet go unnoticed. Artist-set pricing puts art products on a higher level than our other products. This serves the purpose of rewarding quality artwork rather than simplistic shirt or mug designs, which also supplies better content for our engagement channel. Talent can be compensated appropriately with more popular artists maintaining higher royalty rates. We should always treat art as uniquely special.

Commodity products are priced to sell.

From an incentive perspective, our other products should all be treated equally. We want to maximize unit volume rather than let artists try to maximize revenue per unit. This is designed to align our incentives with those of the artist – everyone needs to be focussed on units sold. Reviewing artist Eugenia Loli's pricing for her drop shipped orders fulfilled by Society6, it's easy to see scenarios where her revenue is up (due to higher unit markup) but produces less revenue for Society6 (due to lower unit volume).

Royalties provide leverage.

Society6-set pricing allows royalty rates to be managed behind the scenes. We can do anything we want to encourage the best outcomes. We can raise the rates for top artists should they threaten to leave the platform. We can reward top sellers. Or what if the costs for a product shifts – S6 can adjust the price as needed. We can even incentivize certain product types. Remember that apparel is 68% of Redbubble's business? What if we set our royalties to 20% or 30% for the summer to spur artists to upload and market their best t-shirt designs? We would bolster a weak part of our business while targeting Redbubble's achilles heel. And Redbubble would have no response because they let artists set the markup. This leverage provides us with incredible opportunity.

Keeping two classes of products helps us achieve our goals by keeping artwork the primary product with artists incentivized to create high quality content and other products being priced for optimal sales while using royalties to power strategic actions.

A Map from Here to There

The roadmap.

To build the roadmap, it really comes down to the biggest opportunities for each leg of our stool. Projects have been prioritized according to the size of the opportunity crossed with any limitations or order of operations that needs to be followed. Projects that most effectively help us grow traffic or quality of experience were the focus.

Monetization: Checkout, Integrations, SEO, Shopping Experience, Service.

Much of the low-hanging fruit has been picked for our monetization pillar. We are now building toward best-in-class with our second generation checkout funnels and SEO best practices. We are extending our reach through partners and referring sites. We are integrating with dropship partners. We will improve the service experience in time for holiday shopping. Coming after is cross sell and up sell support powered by the commerce engine. We will continue to optimize conversion rate but the wins are becoming harder to capture. Our conversion rate at 1.5% may seem low, but you must consider that a segment of our traffic is artists uploading new work and checking their sales performance. Artist traffic is our lowest converting and pulls down the site averages. As a UGC site, our conversion rate will never be a direct comparison to a simple ecommerce business. We are working to develop a secondary measure that removes traffic from non-shopping pages to create a more comparable metric to other retailers.

Roadmap	Status	Target
Mobile Checkout	In Progress	Summer 2016
Shopify Partners	In Progress	Summer 2016
Affiliates & Referrals	In Progress	Summer 2016
Multi-Currency Support	In Progress	Summer 2016
SEO Best Practices	In Progress	Summer 2016
Landing Page System	Waiting	Summer 2016
Shipping Module	Waiting	Late Summer 2016
Homepage Redesign	Waiting	Fall 2016
Product Page Redesign	Waiting	Fall 2016
Self Service Funnels	Waiting	Fall 2016
Cross Sell & Up Sell	Commerce Engine	Late 2016 / Early 2017

Supply: Upload, Artist Shop, Reporting, Marketing Tools.

As we pivoted away from an artist focus to a marketing/commerce focus, we have let our artist tools fall far behind. Artists compare the features and opportunity we offer against our competitors – primarily Redbubble. Let's start with a score card comparison with our primary competitor. Here'e how we stack up:

Its clear that we have a ways to go but let's review in more detail. Redbubble has a powerful upload system that includes more advanced features than our new system will include at launch. Version 1 of the Artist Studio will put us back in the game but require additional development to be the best toolset in our space. For reporting, we offer as close to nothing as possible. It does not help artists learn what techniques are effective for them or help them make sense of their performance. Redbubble mostly relies on Google Analytics integration and offers basic reporting beyond that. Neither company is providing effective marketing tools. Redbubble's artist profiles are particularly bad while the in-development redesign for S6 will bring much better presentation and features. Discoverability is a challenge for both sites – Redbubble has better search, Society6 has better discovery feeds. Royalties are much better at RB and are a sore spot for our artists. To be competitive, we will need to address this or our artist growth initiatives will operate below full capacity.

Feature Comparison	Society6	Redbubble
Easy & Powerful Upload	D (B + Soon)	A
Reporting	D	B
Marketing Tools	D	C
Artist Profile / Shop	B – (A – Soon)	C
Discoverability	B	B
Royalties	C (C + Soon)	A
Overall Grade	C – / C + Soon	B

Roadmap	Status	Target
Artist Studio V1	In Progress	Summer 2016
Artist Shop Redesign	In Progress	Late Summer 2016
Reporting V1	Waiting	Fall 2016
Onboarding & Info	Waiting	Winter 2017
Marketing Tools	Waiting	2017
Storefronts	Waiting	2017

Roadmap	Status	Target
Site-wide Notifications	Waiting	Fall 2016
Discovery Tools	Waiting	Winter 2017
Communications	Waiting	Winter 2017

Audience: Notifications, Discovery, Communications.

Our best customers want to engage with art on a regular basis. We just need to provide them the tools to do so. There are really just three primary features that need to be in place: full notifications with @username mention support, discovery tools such as the ability to view the new feed or find content created years ago, and finally sharing functionality through new communications tools so members can recommend products to each other and share off-platform. With these three features in place, Society6 will start to attract more members, curate a higher volume of content so the best work is seen by shoppers of all types and lead to more artwork shared off-site.

We've reached a size that we can advance in multiple areas simultaneously. Our features engineering team is split into sub-teams for monetization (commerce) and supply (artist tools). As we add more engineers we will dedicate a couple to the Audience (network) team. All three pillars need to advance for us to rapidly expand the size of Society and allow us to achieve our goals. As shown above, failing to do so will result in more burden placed on Society6 directly as the primary source of traffic. That is slow and expensive growth. Our success is tied to how large of an art discovery platform we can become.

Conclusion

Internet scale is achievable.

Society6 has as much potential as any internet-scale business. The key is following a strategic framework that allows us to sidestep the limitations of the lesser models our competitors use and embrace the scale that can come from an open platform and engaged user base. Using the same model of monetizing an audience absorbed with user generated content (that has driven the success of every major internet player from Google to Facebook to Etsy) will allow Society6 to achieve its full potential. Our art engine will allow Society6 to become a global Art Market, a place for new talent to be discovered, for emerging artists to begin profiting from their work and for established artists to build brands of their own. In the future, every artist will need a site that offers these features. By capturing this opportunity we are likely to form a natural monopoly as network effects derived from the volume of content and the engagement of art fans form an incredible barrier to entry – a moat – that keeps competitors from getting a foothold. And our revenues will grow faster than they ever have before.

Now we begin to capture our opportunity.