

LUXURY GOODS

Digital Frontier: The New Luxury World of 2020

26 MAY 2015

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WHY YOU SHOULD READ THIS REPORT

Online sales are just the tip of the iceberg in digital luxury (c.6% in 2014). Add “digitally driven” in-store sales and the “luxury digital playground” already accounts for c.1/4 of retail revenues and is expanding fast.

Continuing our partnership with ContactLab, we see digital contact to be a key growth driver in this arena. We anticipate that by 2020e 1) luxury brands will know virtually all of their clients by name; 2) separating digital and physical luxury will make no sense 3) the “digital playground” will grow to 50% of sales with pure e-commerce to be 2–3x current levels.

Physical assets will remain key and core – make no mistake. But the development of digital capabilities will be a necessary condition for survival and digital execution will define success or failure for luxury brands.

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The “Digital Luxury Playground” is expanding fast

Online sales are just the tip of the iceberg (c.6% in 2014) in digital luxury. When we add “digitally driven” in-store sales (another c.21% in 2014), we get to more than 1/4 of the total luxury market directly supported by digital last year. “Research online, purchase offline” (ROPO), already at 60% in 2014, is a wake-up call for luxury brands to integrate offline and online operations seamlessly.

Digital contact is the key growth driver of the “Digital Luxury Playground”

We see that: 1) the number of registered and digitally contactable clients continues to rise; 2) digitally contactable clients spend more in-store (+16%); 3) digitally contactable clients lead cross-channel development – and cross-channel clients spend more than in-store-only clients (on average 60% more); 4) cross-channel clients continue to increase the portion of their luxury spend online every year (from 30% in 2011 to 37% in 2014).

We expect an entirely new luxury world by 2020

In fact we anticipate that: 1) **Luxury brands will know virtually all of their clients by name** – registered (45%) + digitally contactable clients via email (41%) will represent almost 90% of all in-store clients; 2) **Separating digital and physical luxury will make no sense** – ROPO will grow to 80%; 3) **Digital execution will define success or failure for luxury brands** – “Digital Playground Sales” will be c.50% of the total, pure e-commerce sales will be 2–3x current levels, and grow to c.12–18%.

The time to act has come (a long time ago)... but has not gone just yet

Saying that an overwhelming portion of growth will come from digital is a wild understatement. A more accurate statement is that the whole luxury industry is finally morphing structurally into “something new” – the same way as, for example, financial services and travel did a long time ago. Physical assets will remain key and core – make no mistake. But the development of digital capabilities will be a necessary condition for survival. We will continue to track this with our “Digital Competitive Map” ([The Digital Competitive Map: The Race is on!](#)).

Key valuation metrics

	Rating	Mkt cap (EURm)	Price (LC)	TP (LC)	Upside	P/E (x)		EV/EBITA (x)	
						15e	16e	15e	16e
Cucinelli	(-)	1,158	17.0	17	0%	35.3	31.2	23.1	20.4
Burberry	(=)	10,574	17.2	20	16%	20.3	18.8	13.8	12.3
Hermès Int.	(=)	36,418	349.7	295	-16%	35.4	32.5	22.1	20.0
Hugo Boss	(+)	7,461	108.1	130	20%	18.4	15.9	13.6	11.6
Kering	(+)	21,306	169.2	220	30%	14.9	13.3	12.7	11.2
Luxottica	(=)	29,223	61.4	57	-7%	30.5	27.1	18.8	16.7
LVMH	(+)	83,217	166.0	180	8%	20.7	18.4	13.6	12.0
Moncler	(=)	4,388	17.6	16	-9%	27.4	24.1	17.9	15.6
Prada	(=)	13,157	44.5	47	6%	22.8	19.6	15.3	12.9
Richemont	(+)	46,534	86.1	96	11%	19.6	17.9	13.9	12.3
Ferragamo	(=)	4,737	28.1	32	14%	26.2	23.2	17.5	15.3
Swatch Group B	(+)	20,866	400.3	500	25%	15.0	13.2	11.1	9.4
Tod's	(-)	2,586	84.5	82	-3%	24.6	21.5	15.7	13.5

* Prices at 20 May 2015

All stock-specific commentary and recommendations in this report are solely based on Exane BNP Paribas Research.

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Digital Frontier: The New Luxury World of 2020

We continue our partnership with ContactLab, the leading e-mail and CRM provider to the luxury industry, to ascertain quantitative hard facts on the magnitude of the digital opportunity for luxury brands, penetration by geography and category, e-commerce and retail synergies. We see increased digital engagement as a major lever for luxury companies to create shareholder value: 1) a support for organic growth; 2) a boost for profit and ROIC and 3) more efficient SG&A through CRM.

The “Digital Luxury Playground” is expanding fast

Online sales are just the tip of the iceberg (c.6% in 2014) in digital luxury. When we add “digitally driven” in-store sales (another c.21% in 2014), we get to more than 1/4 of the total luxury market directly supported by digital last year. “Research online, purchase offline” (ROPO), already at 60% in 2014, is a wake-up call for luxury brands to integrate offline and online operations seamlessly.

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In fact we anticipate that: 1) ***Luxury brands will know virtually all of their clients by name*** – registered (45%) + digitally contactable clients via email (41%) will represent almost 90% of all in-store clients; 2) ***Separating digital and physical luxury will make no sense*** – ROPO will grow to 80%; 3) ***Digital execution will define success or failure for luxury brands*** – “Digital Playground Sales” will be c.50% of the total, pure e-commerce sales will be 2–3x current levels, and grow to c.12–18%.

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The “Digital Luxury Playground” is expanding fast

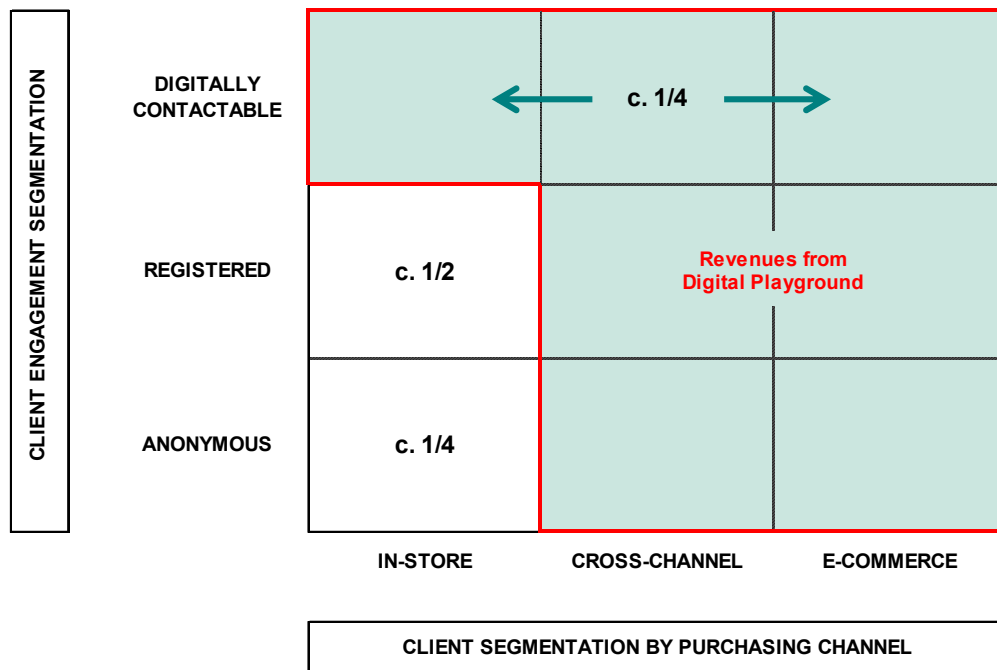
We estimate that direct mono-brand e-commerce operations today represent about 6% of total luxury retail revenues – but pure e-commerce is only one aspect of the digital opportunity.

With consumers increasingly using physical and online brand access interchangeably, we are introducing the concept of the ‘Digital Luxury Playground’. This encompasses, in addition to direct e-commerce, the digital component of in-store revenues, a good proxy of which, we believe, are the in-store revenues generated by digitally contactable clients. We estimate that this ‘digital arena’, as we have defined it, already accounts for at least one-quarter of total luxury retail revenues. We also believe that cross-channel consumers are increasingly becoming the more important contributors, with an average spend significantly higher than that of exclusively in-store customers ([The Cross-Channel Opportunity](#)).

Data shows that about 60% of in-store purchases are preceded by online searches. This should be a wake-up call for luxury brands to integrate seamlessly their off- and online operations. In such a context, future forecasts might need to move beyond linear projections and assume an inflection point. Under our three scenarios (simple linear; multiple linear; S-curve) we estimate that about 50% of total luxury retail revenues will form part of the Digital Playground by 2020.

Figure 1: The ‘Digital Luxury Playground’ – including direct e-commerce revenues and digitally-driven in-store revenues – is expanding fast. It already accounts for c.1/4 of total luxury retail revenues

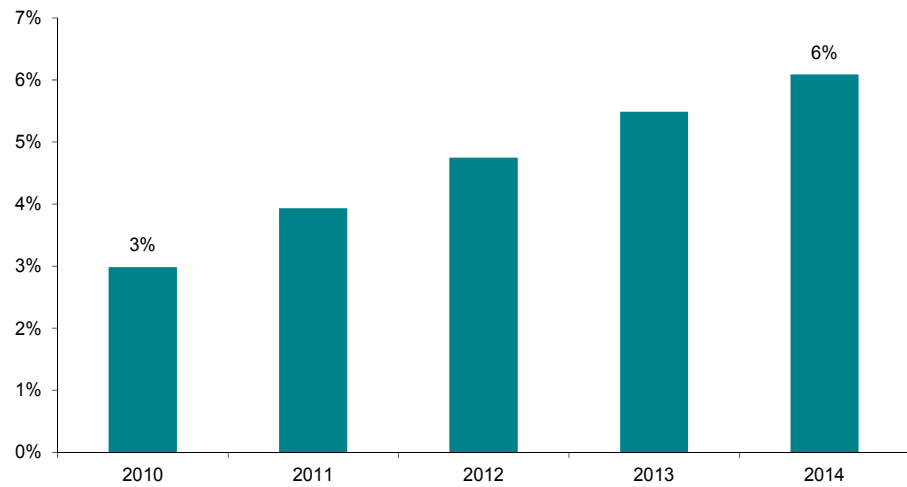
Client Segmentation vs. Level of Engagement (as % worldwide retail revenues, 2014)



Source: ContactLab Analysis

Figure 2: Online sales – which have doubled in penetration in less than five years – are just the tip of the iceberg (c.6% in 2014) in digital luxury

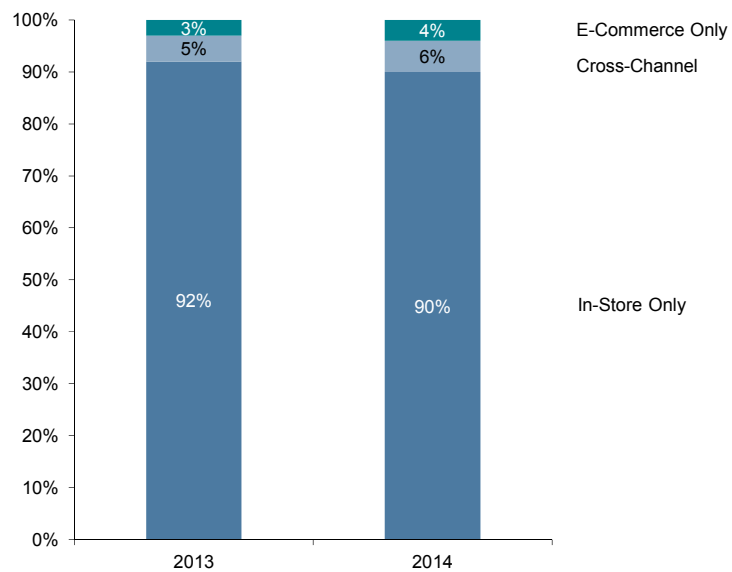
Mono-brand luxury e-commerce revenues (as % total retail revenue)



Source: ContactLab Analysis

Figure 3: E-commerce and cross-channel spend have grown to 10% in 2014 from 8% in 2013

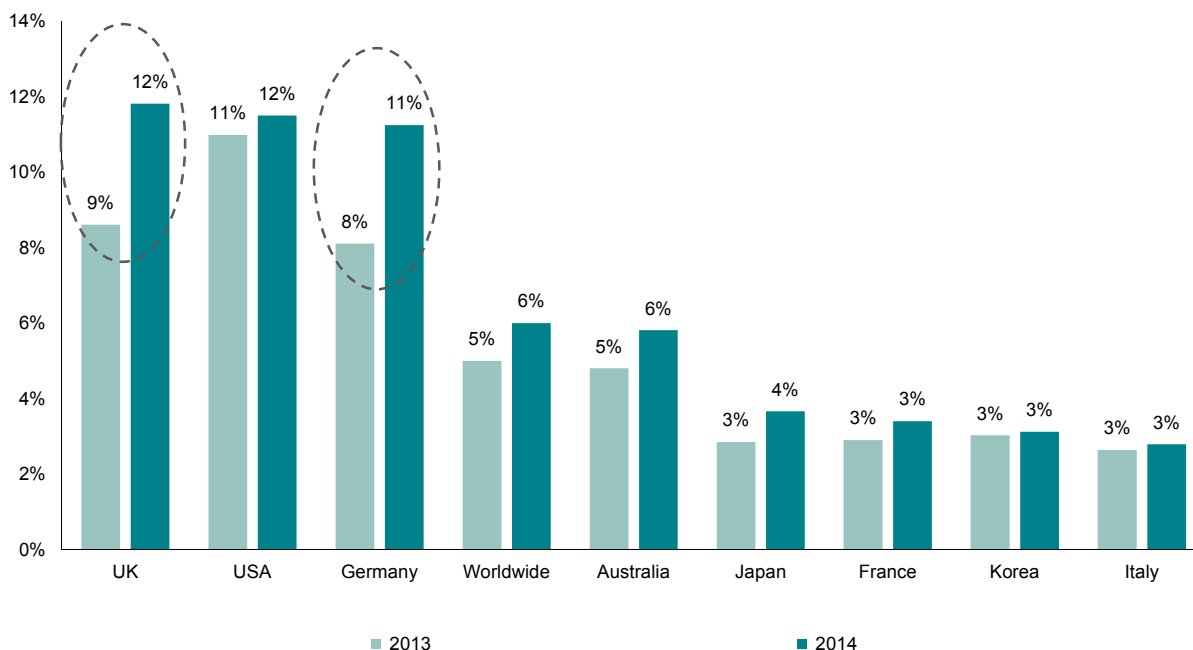
Client Mix by Purchasing Channel (% retail revenues, worldwide, 2013-14)



Source: ContactLab Analysis based on a panel of five global players

Figure 4: A significant acceleration in e-commerce penetration in 2014 – notably in the UK and Germany (1/2)

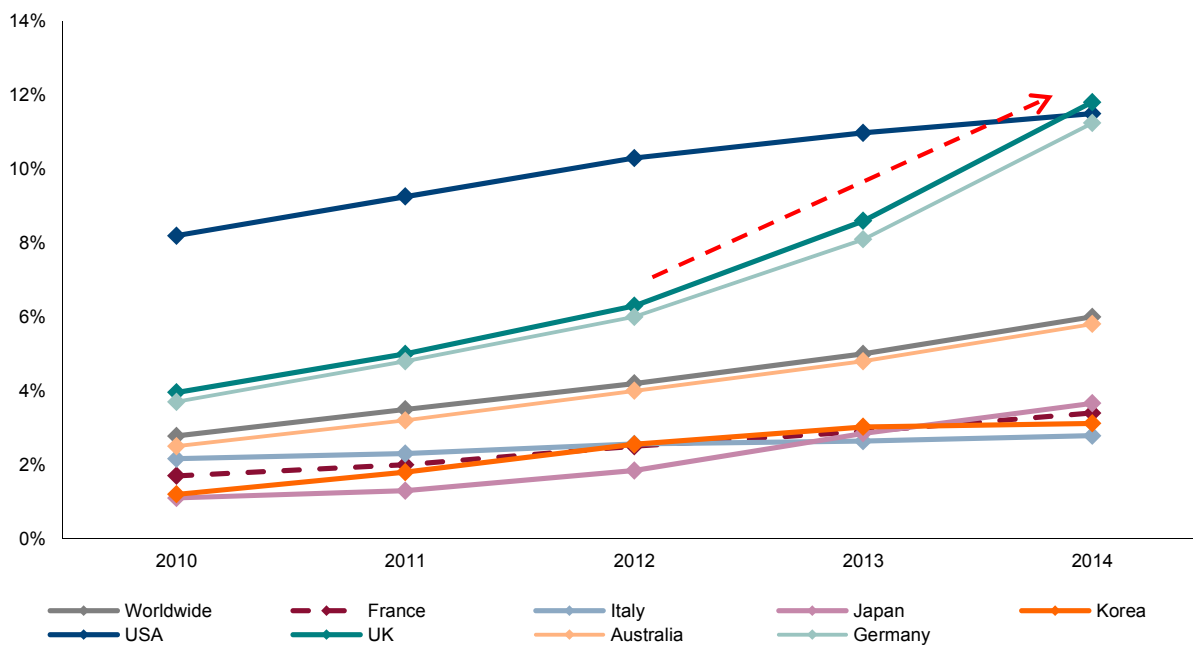
Mono-brand e-commerce retail penetration by country (% , 2014 vs. 2013)



Source: ContactLab Analysis based on a panel of five global players

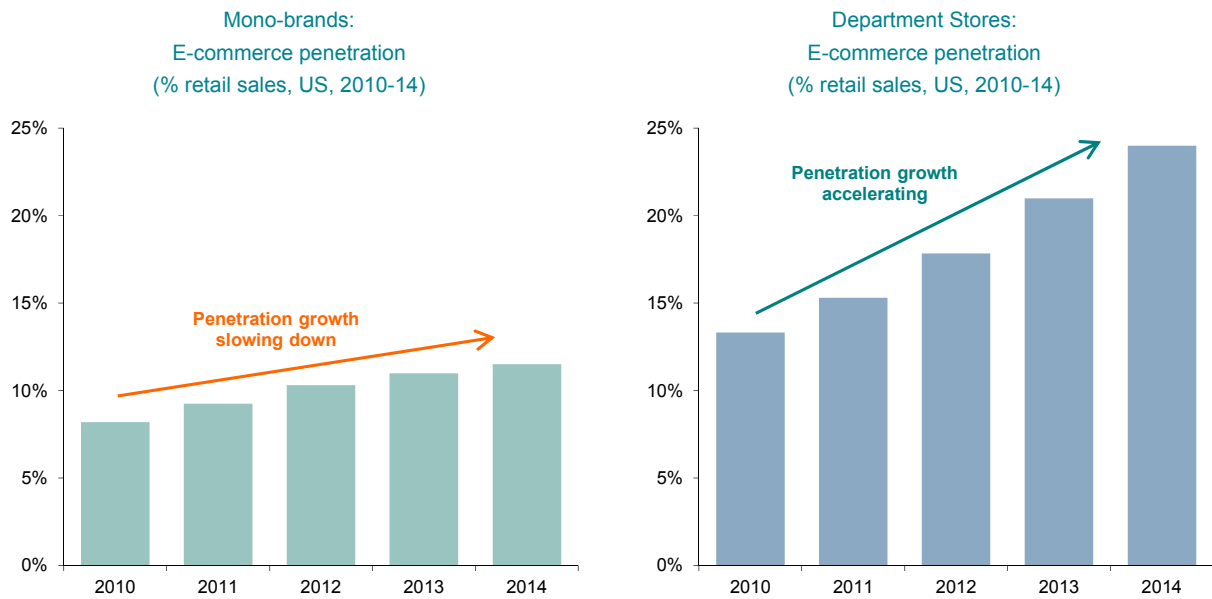
Figure 5: A significant acceleration in e-commerce penetration in 2014 – notably in the UK and Germany (2/2)

Mono-brand e-commerce retail penetration by country (% , 2010-14)



Source: ContactLab Analysis based on a panel of five global players

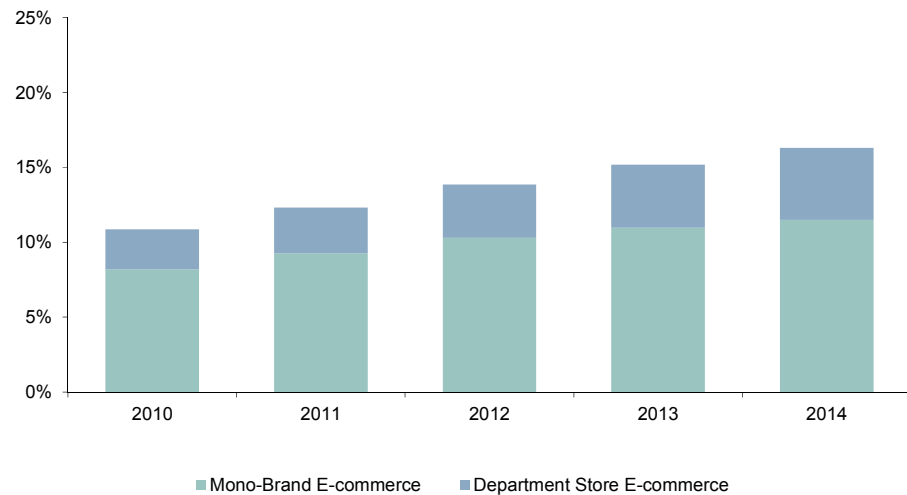
Figure 6: US e-commerce penetration has continued to grow steadily when luxury department stores are brought into the equation (1/2)



Source: ContactLab Analysis

Figure 7: US e-commerce penetration has continued to grow steadily when luxury department stores are brought into the equation (2/2)

Combined e-commerce penetration – mono-brand + department stores (% , US, 2010-14)

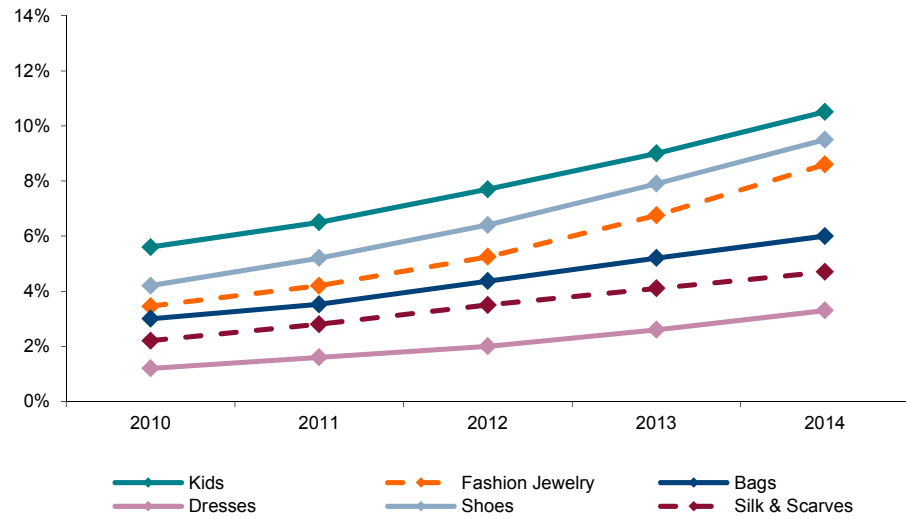


Hypothesis: 20% of mono-brand sales via department stores

Source: ContactLab Analysis

Figure 8: E-commerce penetration remains highest in the Kids category. Shoes and Fashion Jewelry have grown rapidly

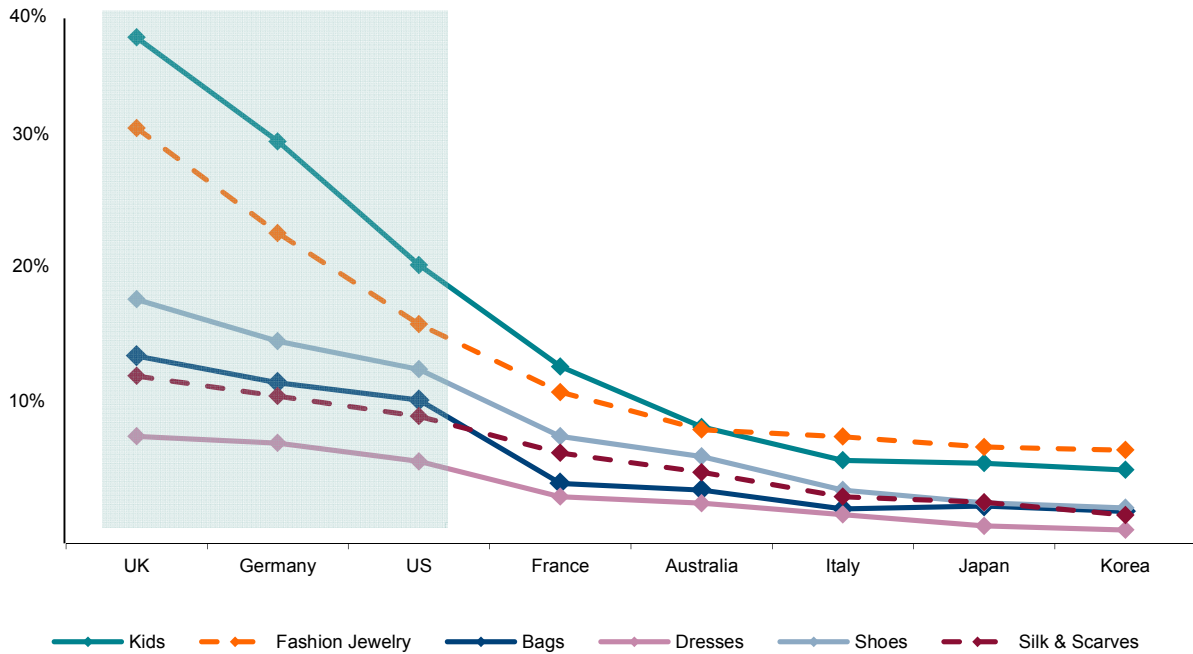
E-commerce penetration by product category (% , worldwide, 2010–14)



Source: ContactLab Analysis based on a panel of five global players

Figure 9: Anglo-Saxon countries systematically show higher e-commerce penetration in all categories. In the UK, e-commerce accounts for close to 40% of Kids sales and c.30% of Fashion Jewelry sales

E-commerce Penetration by Product Category and Country (% , 2014)



Source: ContactLab Analysis based on a panel of five global players

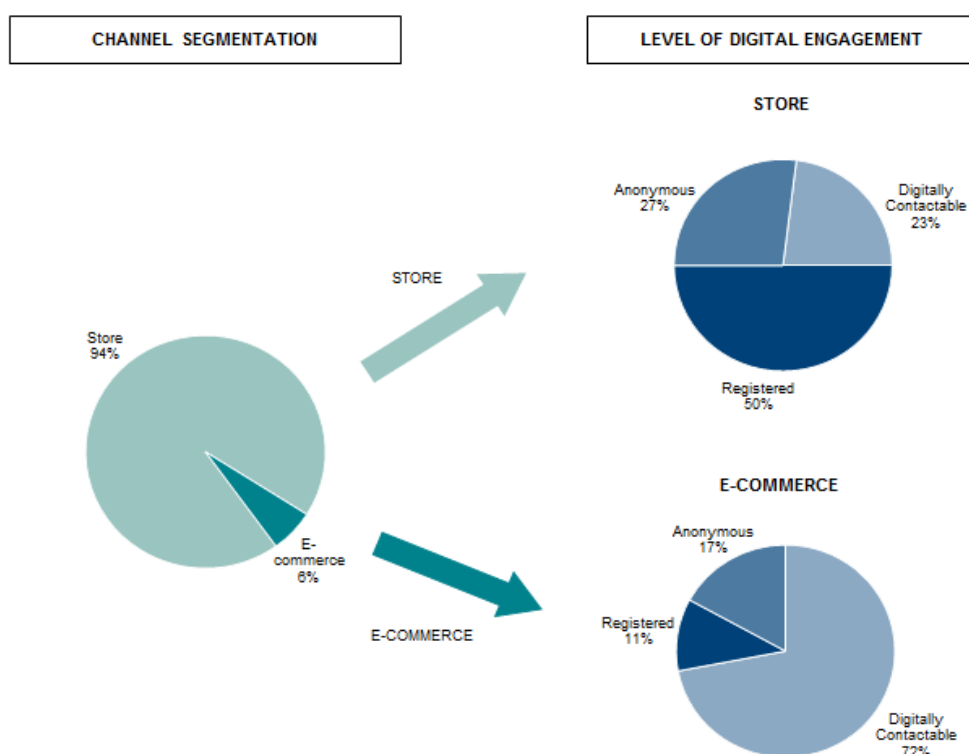
Digital contact is the key growth driver of the “Digital Luxury Playground”

In fact we see that:

- 1) The number of registered and digitally contactable clients continues to rise;
- 2) Digitally contactable clients spend more in-store (+16%);
- 3) Digitally contactable clients lead cross-channel development – and cross-channel clients spend more than in-store only clients (on average 60% more);
- 4) Cross-channel clients continue to increase the portion of their luxury spend online every year (from 30% in 2011 to 37% in 2014).

Figure 10: Digitally-contactable clients account for 23% of total in-store revenues

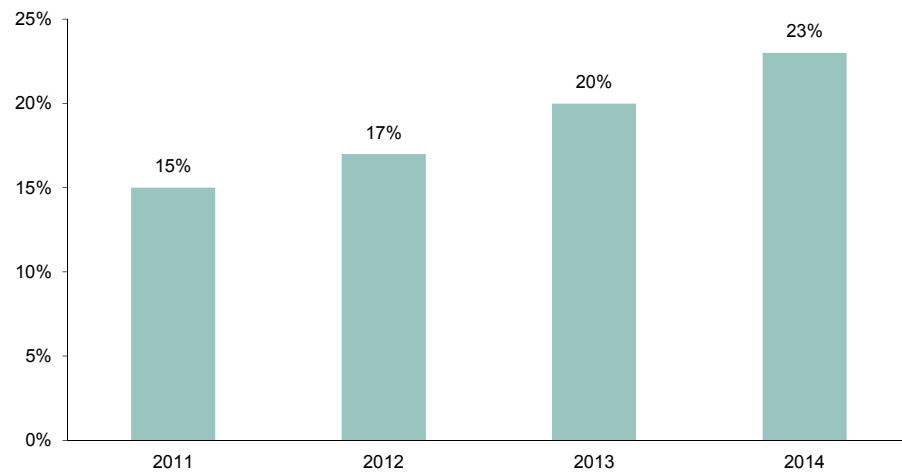
Client Segmentation: Channel vs. Level of Engagement (% Retail Revenues, 2014)



Source: ContactLab Analysis based on a panel of five global players

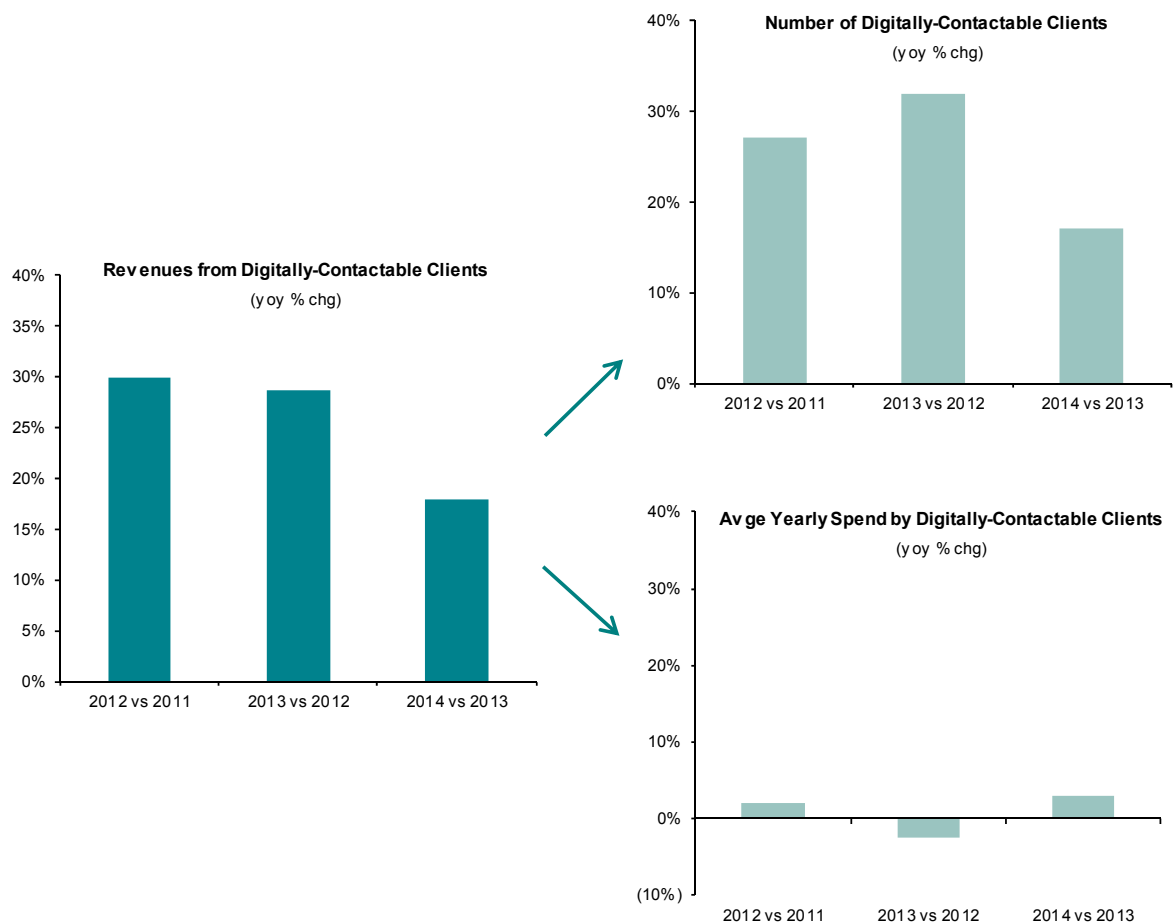
Figure 11: In-store revenues from digitally contactable clients continue to rise: 23% in 2014 vs. 15% in 2011

Revenues from In-Store Digitally Contactable Clients (% In-Store Revenues, Worldwide)



Source: ContactLab Analysis based on a panel of five global players

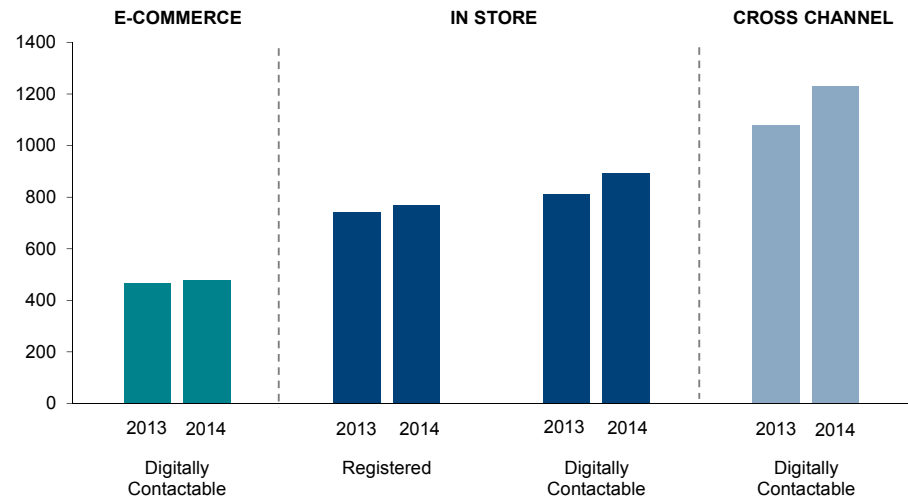
Figure 12: The number of registered and digitally contactable clients continues to rise



Source: ContactLab Analysis based on a panel of five global players

Figure 13: Digitally contactable clients spend more in-store (+16%) (1/2)

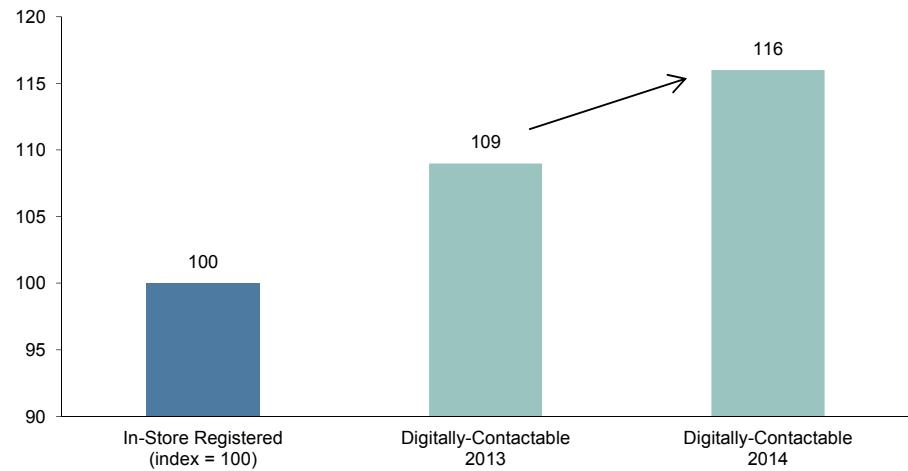
Client yearly average spending (EUR, worldwide, 2013-14)



Source: ContactLab Analysis based on a panel of five global players

Figure 14: Digitally contactable clients spend more in-store (+16%) (2/2)

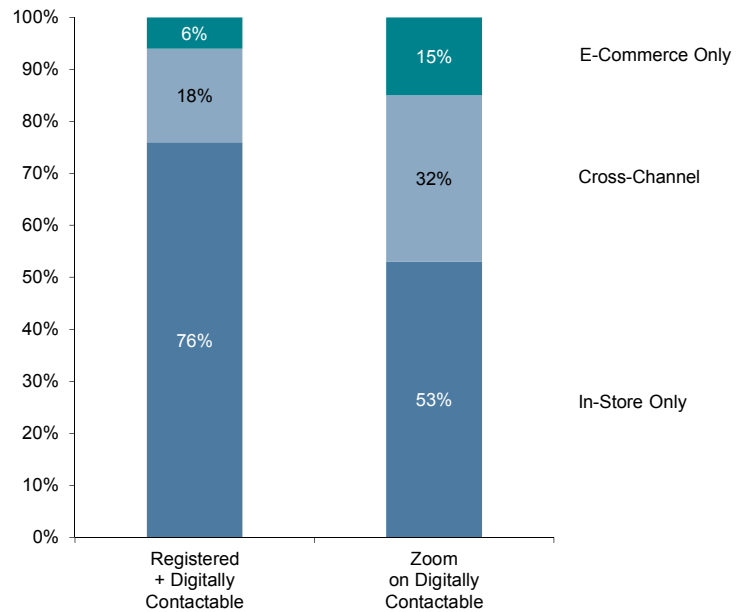
Client yearly average in-store spending (worldwide, 2013-14)



Source: ContactLab Analysis based on a panel of five global players

Figure 15: Digitally-contactable clients lead cross-channel development ...

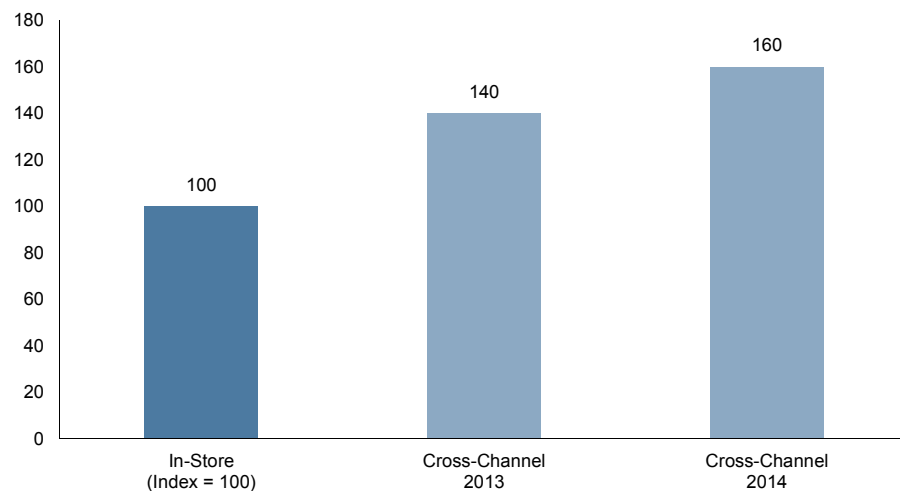
Yearly client spending by channel mix (% , USA, 2014)



Source: ContactLab Analysis based on a panel of five global players

Figure 16: ... and cross-channel clients spend more than in-store only clients (on average 60% more)

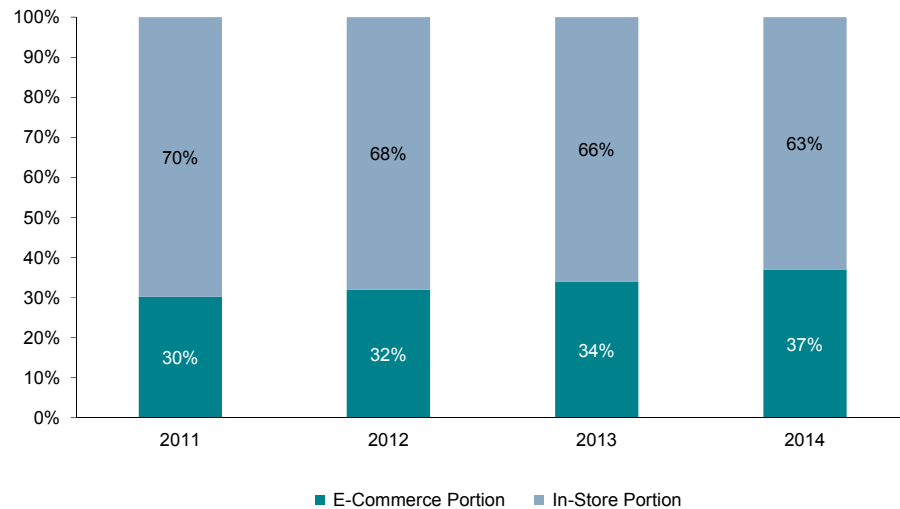
Client yearly average in-store spending (worldwide, 2013-14): Cross-Channel vs. In-Store



Source: ContactLab Analysis based on a panel of five global players

Figure 17: Cross-channel clients continue to increase the portion of their luxury spend online every year (from 30% in 2011 to 37% in 2014)

Cross-Channel Clients: E-Commerce vs. In-Store Purchases (% Revenues, Worldwide, 2011–14)



Source: ContactLab Analysis based on a panel of five global players

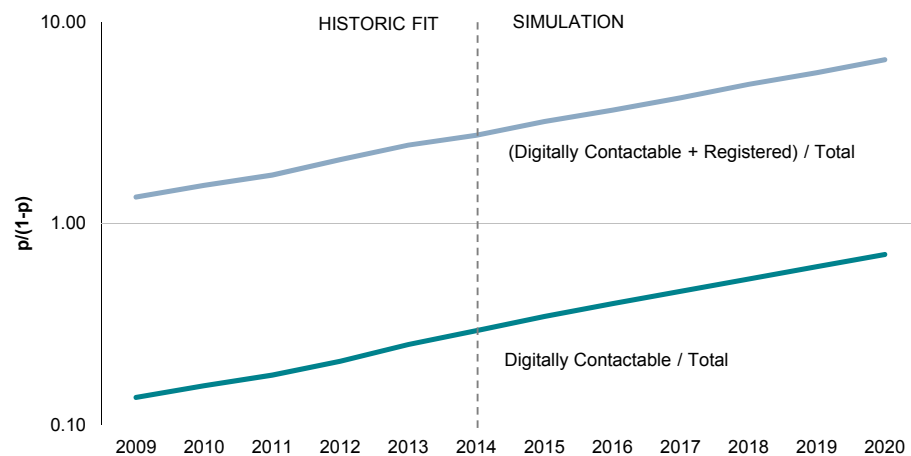
We expect an entirely new luxury world by 2020

In fact we anticipate that:

- 1) Luxury brands will know virtually all of their clients by name – registered (45%) + digitally contactable clients via email (41%) will represent almost 90% of all in-store clients;
- 2) Separating digital and physical luxury will make no sense – ROPO (research online, purchase offline) will grow to 80%;
- 3) Digital execution will define success or failure for luxury brands – “Digital Playground Sales” will be c.50% of the total, pure e-commerce sales will be 2–3x current levels, and grow to c.12-18%.

Figure 18: Luxury brands will know virtually all of their clients by name ...

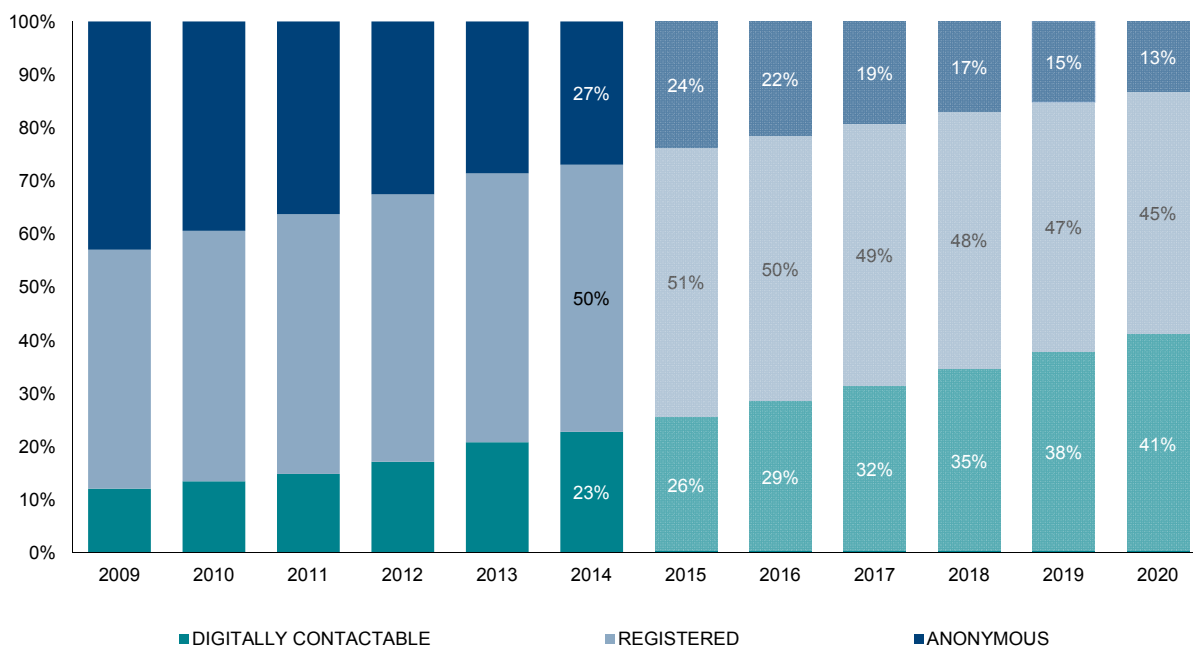
Client Revenues: S-Curve Simulation (log scale, worldwide, 2009–2020e)



Source: ContactLab Simulation

Figure 19: ... registered (45%) + digitally contactable clients via email (41%) will represent almost 90% of all in-store clients

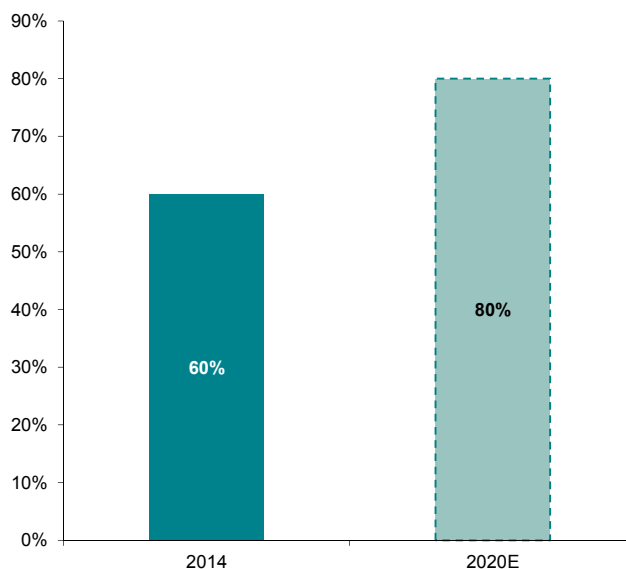
Client revenues by level of engagement: s-curve simulation (% total in-store revenue, worldwide, 2009-2020E)



Source: ContactLab Simulation

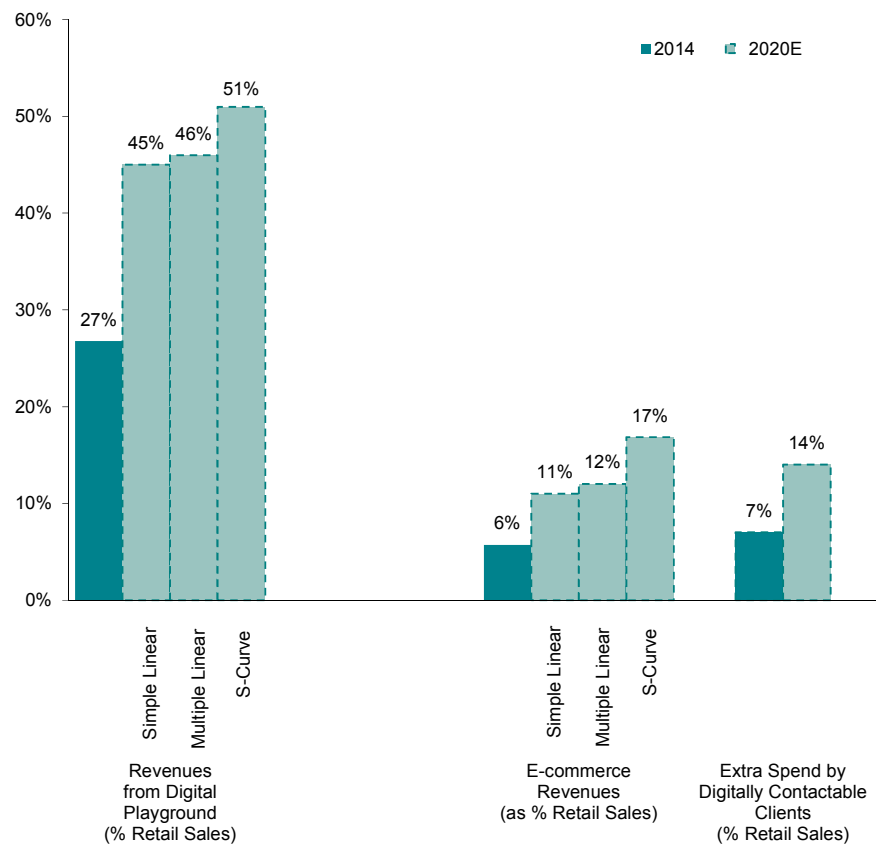
Figure 20: Separating digital and physical luxury will make no sense – ROPO (research online, purchase offline) will grow to 80%

ROPO (research online, purchase offline) as a % of in-store revenues



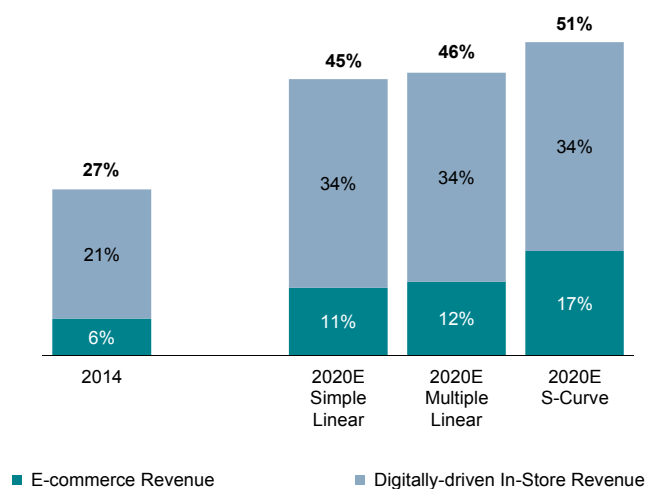
Source: Industry interviews

Figure 21: “Digital Playground” sales will be c.50% of total luxury retail revenues (1/2)
Luxury Digital Vision – 2020e



Source: ContactLab Simulation, Exane BNP Paribas estimates

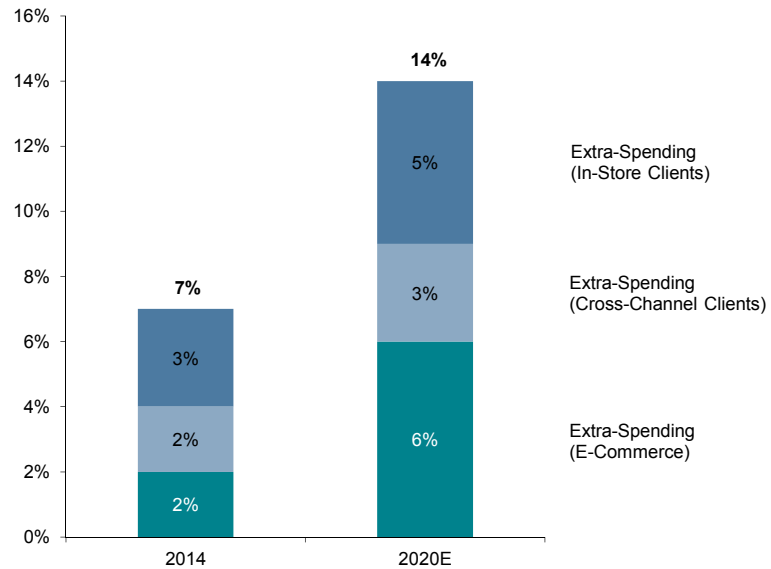
Figure 22: “Digital Playground” sales will be c.50% of total luxury retail revenues (2/2)
Revenues from Digital Playground (% total worldwide retail revenues, 2014–20e)



Source: ContactLab Simulation

Figure 23: Extra spend by digitally-contactable clients (via email) – in virtue of their higher spending power – will account for c.14% of luxury total retail revenues

Extra Revenues generated by Digital Clients (% Total Retail Revenues, 2014-20E)



Source: ContactLab Simulation

The time to act has come (a long time ago)... but has not gone just yet

Saying that an overwhelming portion of growth will come from digital is a wild understatement. A more accurate statement is that the whole luxury industry is finally morphing structurally into “something new” – the same way as, for example, financial services and travel did a long time ago. Physical assets will remain key and core – make no mistake. But the development of digital capabilities will be a necessary condition for survival. We will continue to track this with our “Digital Competitive Map” ([The Digital Competitive Map: January 2015 - The Race is on!](#)).

2020E Luxury e-commerce vision: three methodologies

We have shaped our 2020e 'luxury e-commerce' vision using three methodologies – two methodologies based on a linear regression (simple and multiple) and a methodology based on a Gaussian curve (S-curve).

Under the first two methodologies, we assume that a straight-line relationship exists between variables. In our simple linear simulation (Methodology 1), we have started from analysing the evolution of luxury e-commerce penetration rates over time, extrapolating the trend and projecting it over the forecast period.

The limit of Methodology 1 is that it is based on the assumption that only one variable is explanatory, whereas more than one variable might instead contribute in determining the dependent variable, i.e. luxury e-commerce penetration rates in the different countries we have examined.

We have therefore introduced Methodology 2. This is based on a multiple linear regression to encompass more than one independent variable: 1) the internet penetration rate in each country – defined as the percentage of individuals using internet (direct); 2) the penetration of luxury physical POS in each country – calculated as the number of POS per million of inhabitants (indirect) and 3) the online presence of luxury brands with direct mono-brand e-stores in each market – calculated as the number of brands having a mono-brand e-store within a sample of 30 brands (direct). We have found a 71% R² in the relationship linking the three variables and the luxury e-commerce penetration rate in each country.

The limits of Methodologies 1 and 2 is that they both assume a linear relationship between variables and fail to capture any inflection point in the evolution of a variable. Hence, the introduction of Methodology 3 – based on a mathematical model known as S-curve or logistic curve.

S-curves start with modest growth (described as the 'lower asymptote') to then experience a rapid acceleration as the slope arches upwards until it reaches maximum growth. Beyond this inflection point, growth tapers down – the mature stage of the S-curve, called the 'upper asymptote'. S-curves are typically used in statistics to explain behavioural changes. Flatter curves indicate slow changes in behaviour, whereas more pronounced S-curves suggest faster changes. The limit in our analysis is that S-curves are based on an idea of substitution (S-curve frameworks are indeed useful to describe substitution dynamics and are often used to describe the adoption of new technologies) – notably when the curve is very arched.

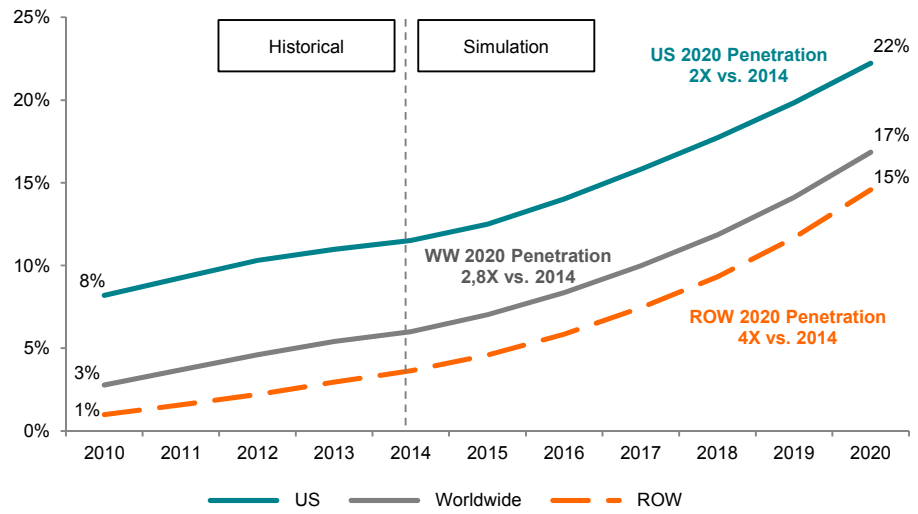
Figure 24: According to our simulations, luxury e-commerce penetration could double to triple by 2020e
E-commerce (as % total retail revenue)

	2010	2014	2020		
E-commerce %			Simple Linear	Multiple Linear	S-Curve
USA	8%	12%	17%	13%	22%
ROW	1%	4%	8%	12%	15%
Worldwide	3%	6%	11%	12%	17%

Source: ContactLab Simulations, Exane BNP Paribas estimates

Figure 25: Under our S-curve simulations, we forecast luxury e-commerce penetration to get to 17% by 2020e (1/2)

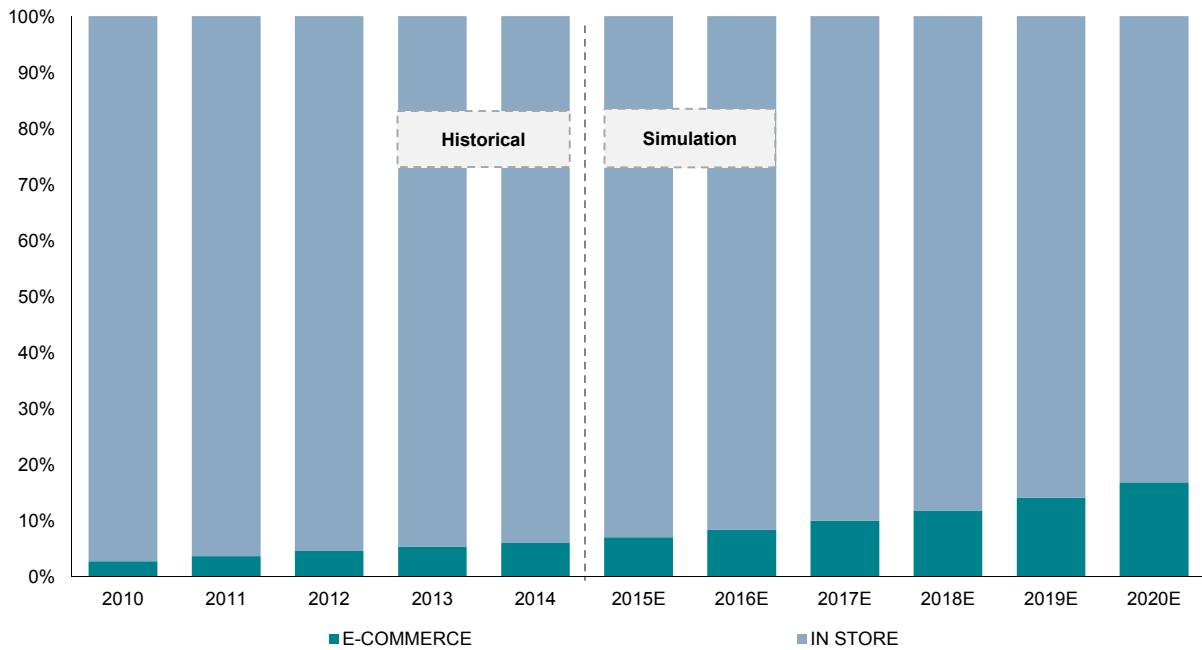
E-commerce Penetration: S-Curve Simulation (% , 2010-20E)



Source: ContactLab Simulation

Figure 26: Under our S-curve simulations, we forecast luxury e-commerce penetration to get to 17% by 2020e (2/2)

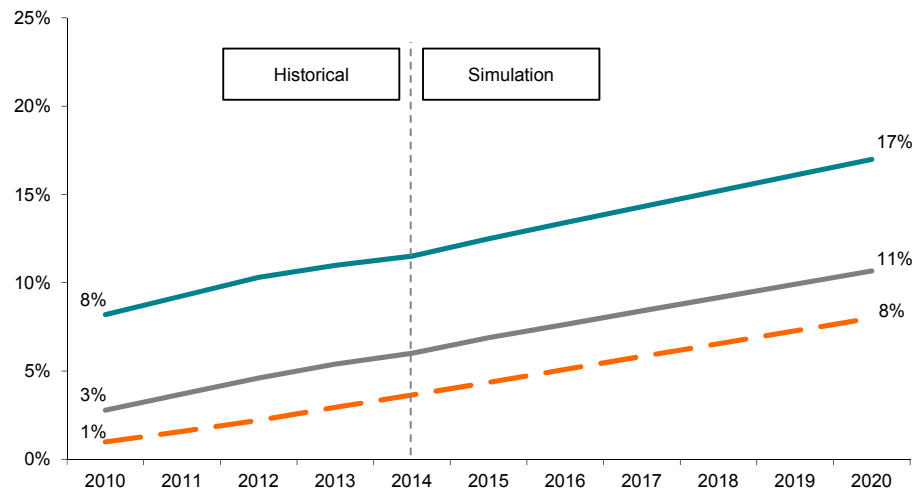
S-Curve Revenue Simulation (% Retail Revenues, Worldwide, 2010-20)



Source: ContactLab Simulation

Figure 27: Our simple linear projection indicates a slower e-commerce development. Under this methodology, we forecast that luxury e-commerce penetration will get to 11% by 2020e

E-commerce Penetration: Simple Linear Projection (% , 2010-20E)



Source: ContactLab Analysis

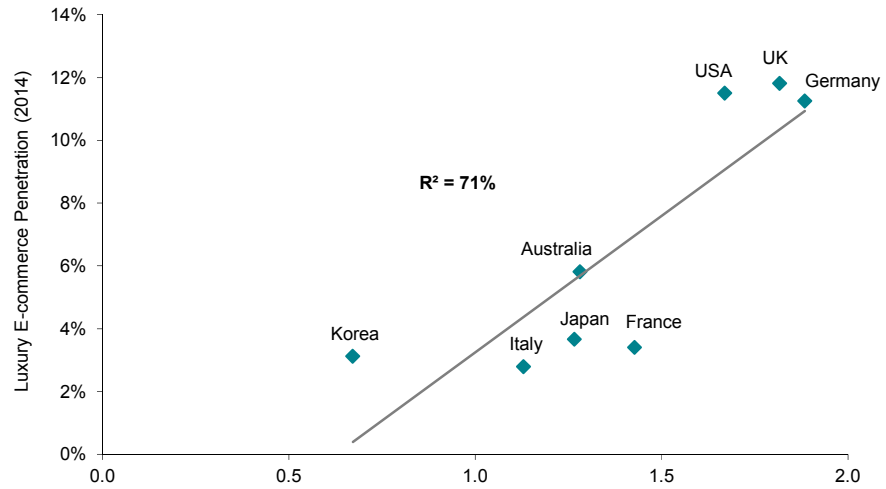
Figure 28: Our multiple linear regression is based on three variables: 2 direct variables (internet penetration & online brand presence) and 1 indirect variable (luxury physical POS penetration)

	Internet Penetration	Luxury POS Penetration	Online Brand Presence	Luxury E-commerce Penetration
UK	90%	3.1	80%	12%
USA	84%	4.3	87%	12%
Germany	84%	1.6	80%	11%
Australia	83%	4.0	47%	6%
Japan	86%	7.1	73%	4%
France	82%	5.6	80%	3%
Korea	85%	9.3	40%	3%
Italy	58%	5.1	80%	3%
Coefficient	1.5	-1.0	1.0	

NB. 1) Internet penetration is defined as the % of individuals using internet in each country; 2) luxury POS penetration is calculated as the number of physical POS per million of inhabitants; 3) online brand presence is defined as the number of mono-brand luxury e-stores in each country out of the 30 luxury brands we have analysed.

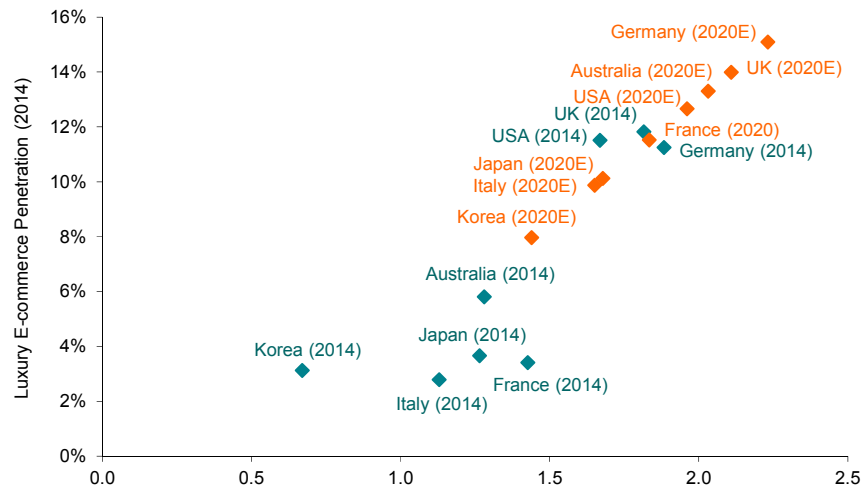
Source: Exane BNP Paribas

Figure 29: We find a R2 of 71% between these three variables and the rates of luxury e-commerce penetration in each market



Source: Exane BNP Paribas

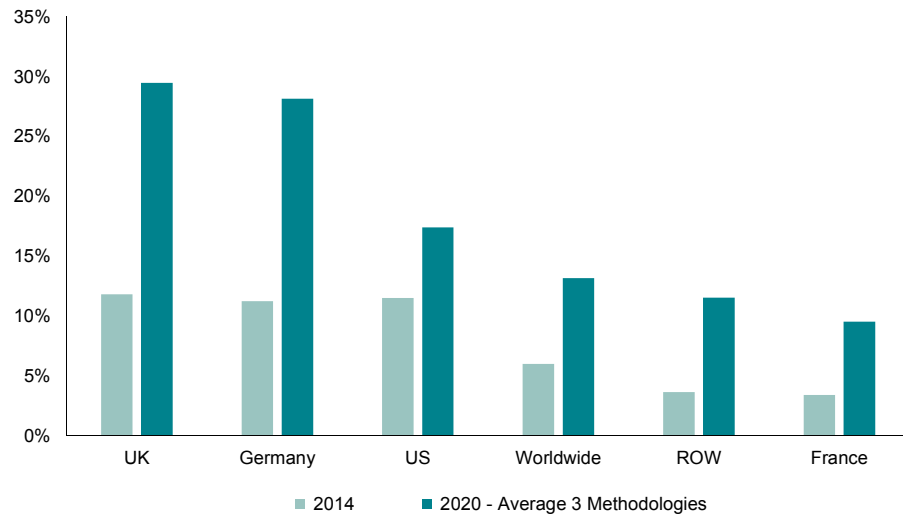
Figure 30: We use this relationship to project luxury e-commerce penetration rates to 2020e



Source: Exane BNP Paribas

Figure 31: Luxury e-commerce penetration: our 2020e vision by major market

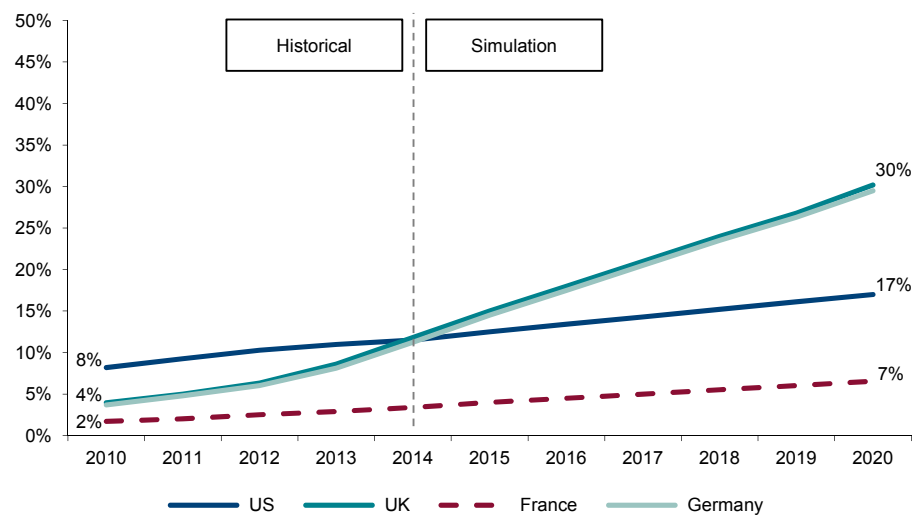
E-commerce Penetration: 2020e Vision (average: simple linear; multiple linear; S-curve)



Source: ContactLab Simulation, Exane BNP Paribas estimates

Figure 32: Under our simple linear regression, the UK and Germany are expected to diverge from the US, reaching a 30% e-commerce penetration rate by 2020e

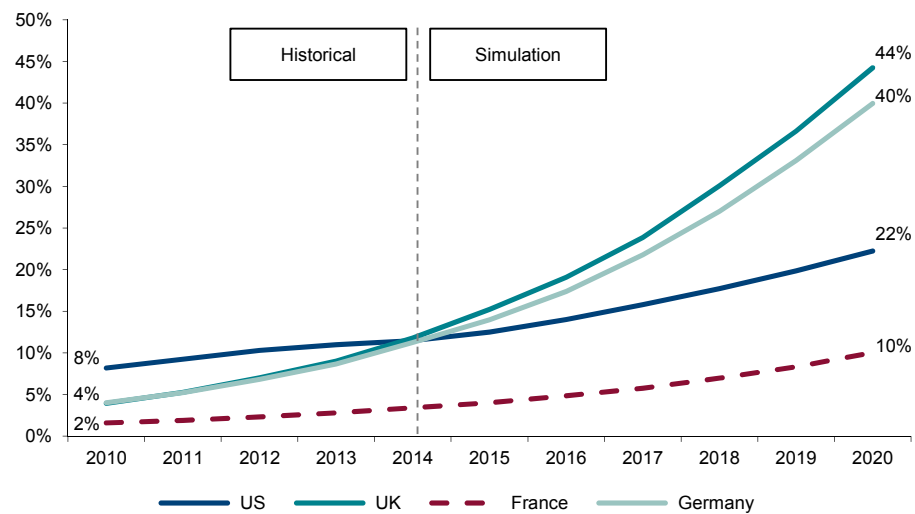
E-commerce Penetration by key Countries: Simple Linear Projection (% , 2010–20e)



Source: ContactLab Simulation

Figure 33: Our S-curve simulation suggests a more pronounced inflection point for both the UK and Germany, with e-commerce penetration in the two countries to go beyond 40% by 2020e

E-commerce penetration by key countries: S-curve simulation (% , 2010-20e)



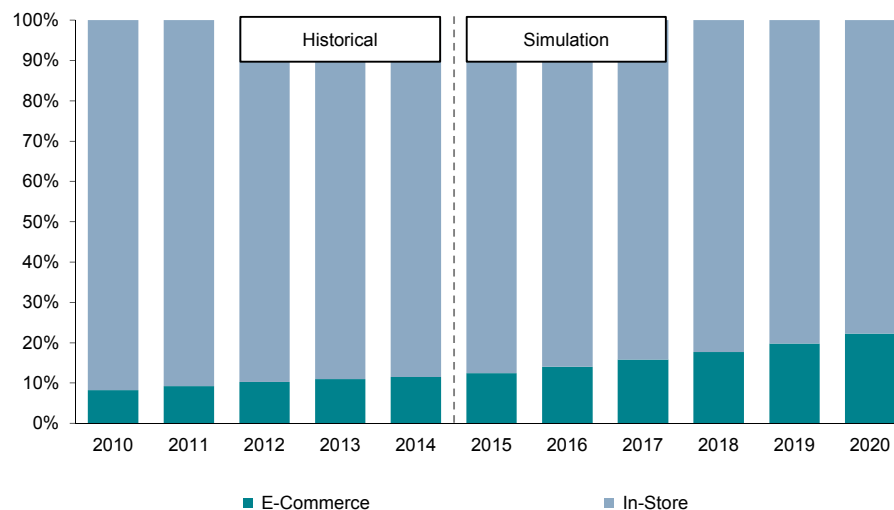
Source: ContactLab Simulation

Appendix - Simulations

US

Figure 34: E-commerce penetration to double in the US market by 2020e

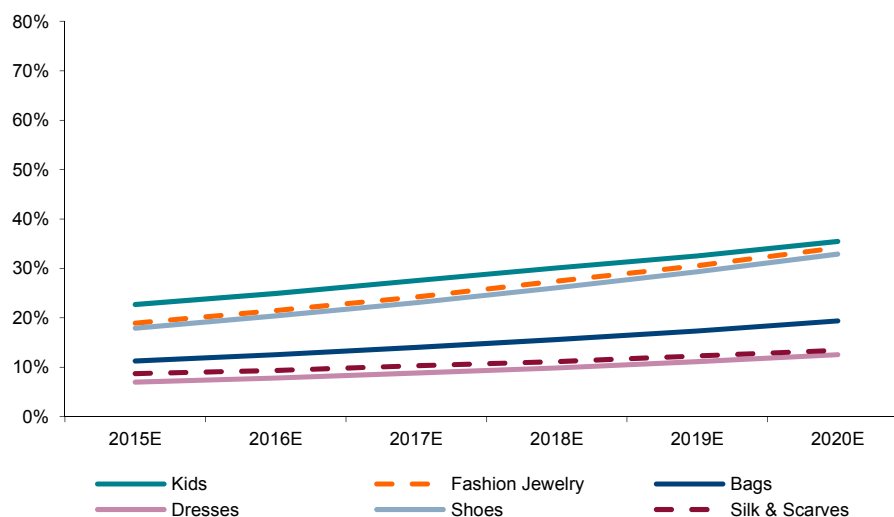
US: e-commerce penetration (as % retail revenues) – S-curve revenue simulation



Source: ContactLab Simulation

Figure 35: Fashion jewelry, kids and shoes to get to c.30% by 2020e (1/2)

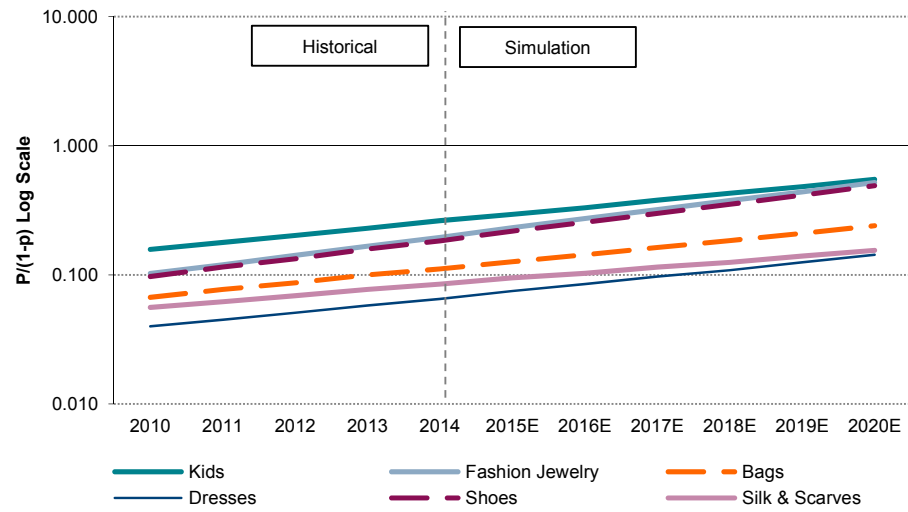
US: E-commerce S-curve simulation by product category (% , 2015-20e)



Source: ContactLab Simulation

Figure 36: Fashion jewellery, kids and shoes to get to c.30% by 2020e (2/2)

US: E-commerce S-curve simulation by product category (ratio online / offline; log scale)

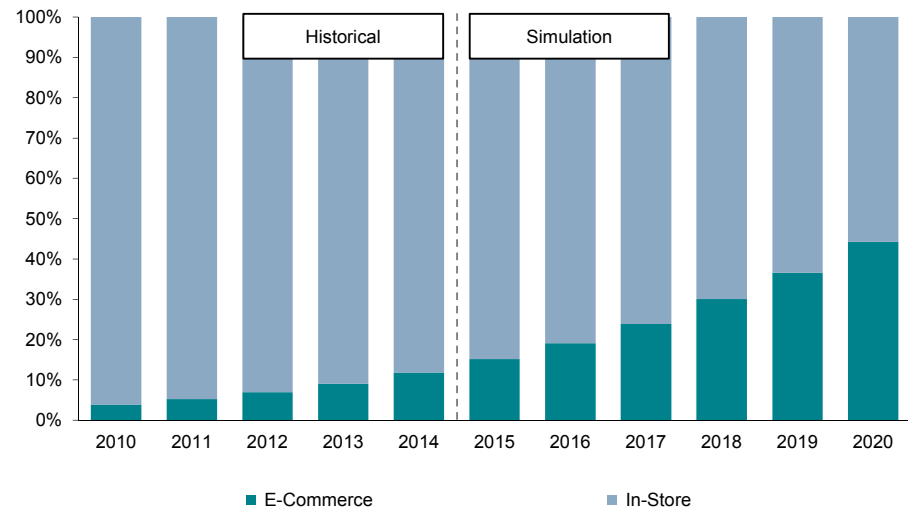


Source: ContactLab Simulation

UK

Figure 37: E-commerce penetration in the UK to get to 40% by 2020E in our S-curve simulations

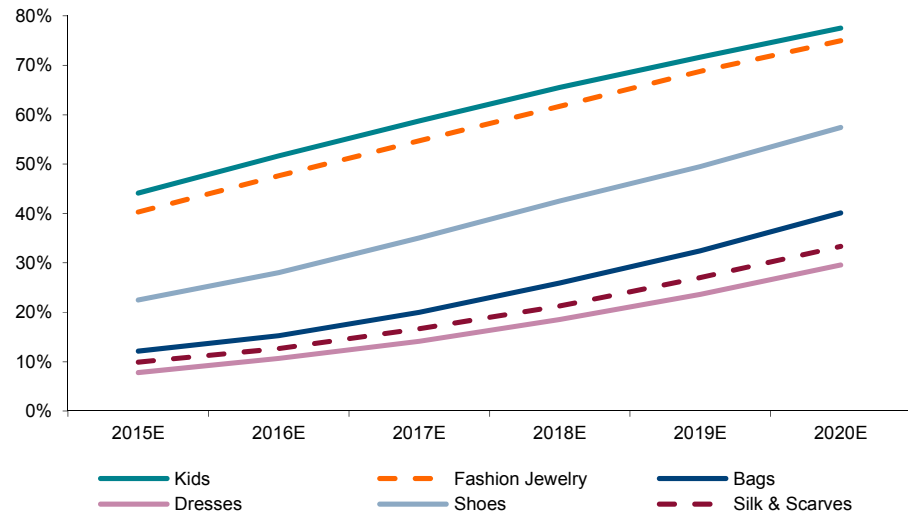
UK: E-commerce penetration (as % retail revenues) – S-curve revenue simulation



Source: ContactLab Simulation

Figure 38: Kids and fashion jewelry are the two fastest growing categories online in the UK, their e-commerce penetration rate expected to get to c.70% by 2020E (1/2)

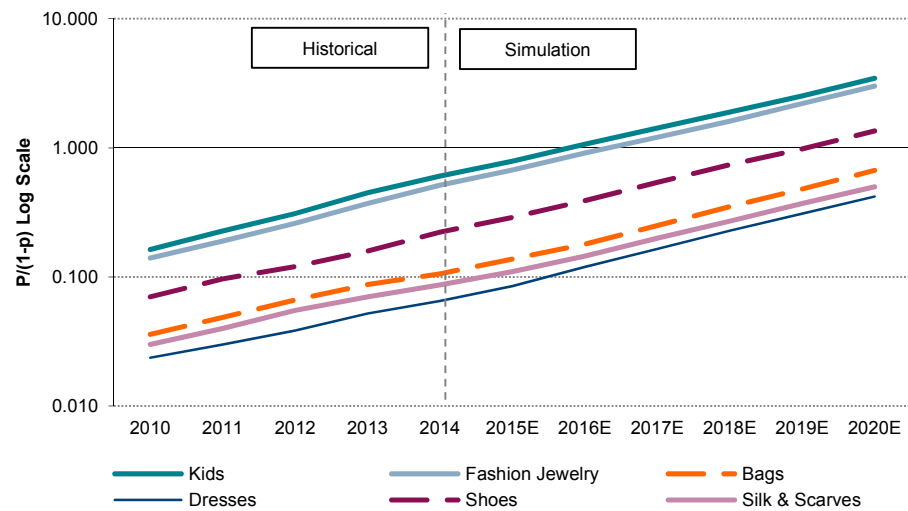
UK: E-commerce S-curve simulation by product category (% , 2015-20e)



Source: ContactLab Simulation

Figure 39: Kids and fashion jewelry are the two fastest growing categories online in the UK, their e-commerce penetration rate expected to get to c.70% by 2020E (2/2)

UK: E-commerce S-curve simulation by product category (ratio online / offline; log scale)

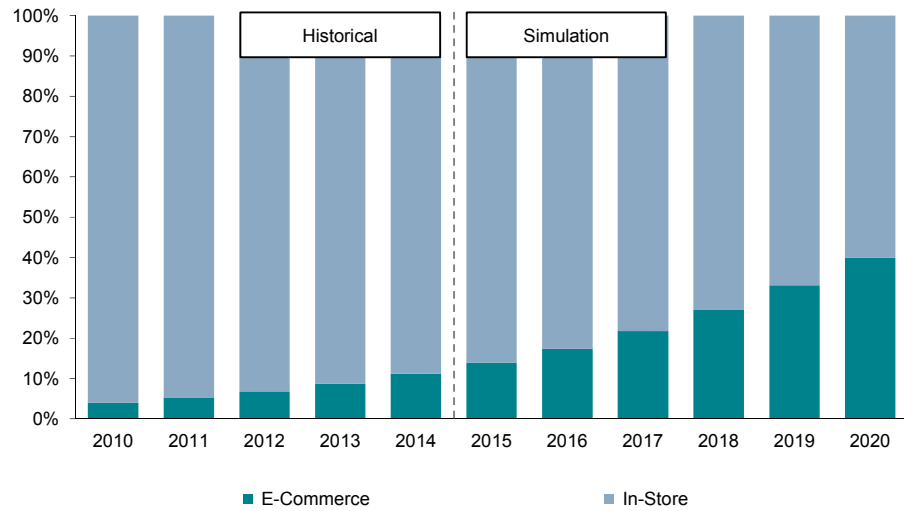


Source: ContactLab Simulation

Germany

Figure 40: E-commerce penetration in Germany to get to 40% by 2020e in our S-curve simulations

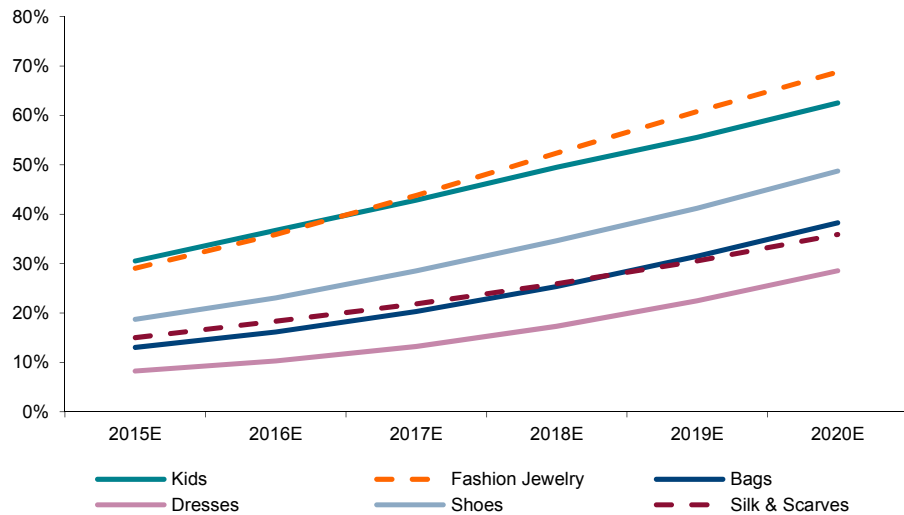
Germany: E-commerce penetration (as % retail revenues) – S-curve revenue simulation



Source: ContactLab Simulation

Figure 41: Kids and fashion jewelry are the two fastest growing categories online in Germany, their e-commerce penetration rate expected to get to c.60% by 2020e (1/2)

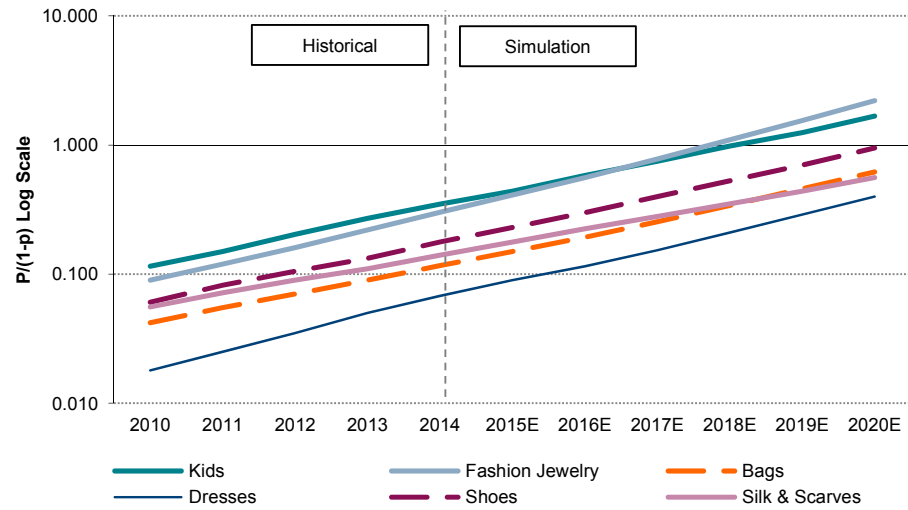
Germany: E-commerce S-curve simulation by product category (% , 2015-2020e)



Source: ContactLab Simulation

Figure 42: Kids and fashion jewelry are the two fastest growing categories online in Germany, their e-commerce penetration rate expected to get to c.60-70% by 2020e (2/2)

Germany: E-commerce S-curve simulation by product category (ratio online / offline; log scale)

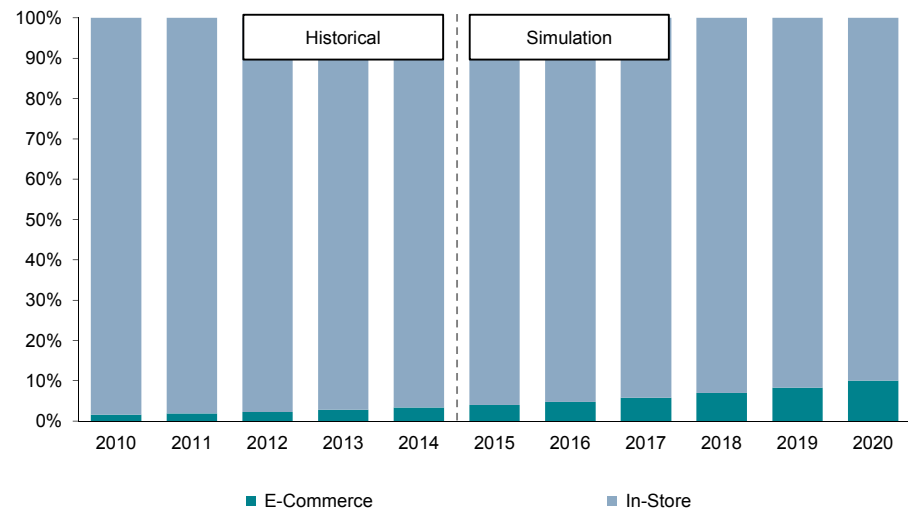


Source: ContactLab Simulation

France

Figure 43: E-commerce penetration in France to triple by 2020e to 10% (from current 3%)

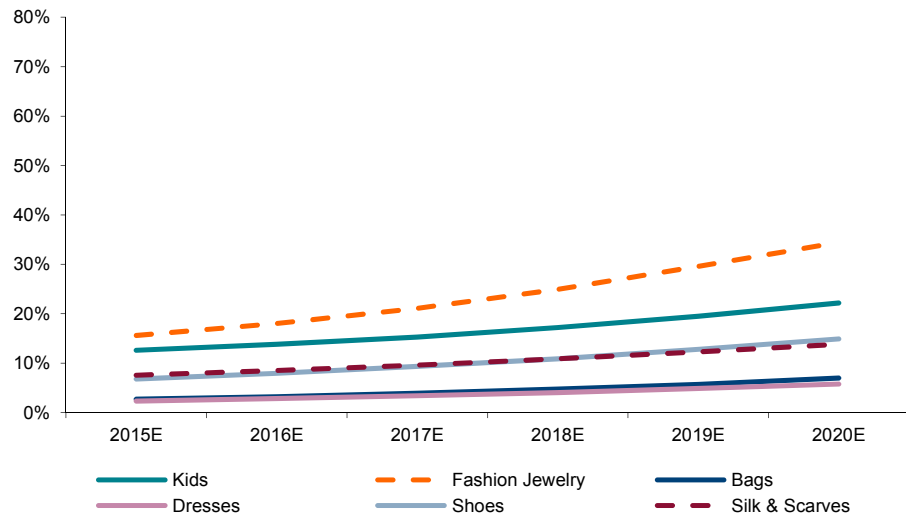
France: E-commerce penetration (as % retail revenues) – S-curve revenue simulation



Source: ContactLab Simulation

Figure 44: Online fashion jewelry growing at a fast rate in France, its e-commerce penetration rate expected to get to c.30% by 2020E (1/2)

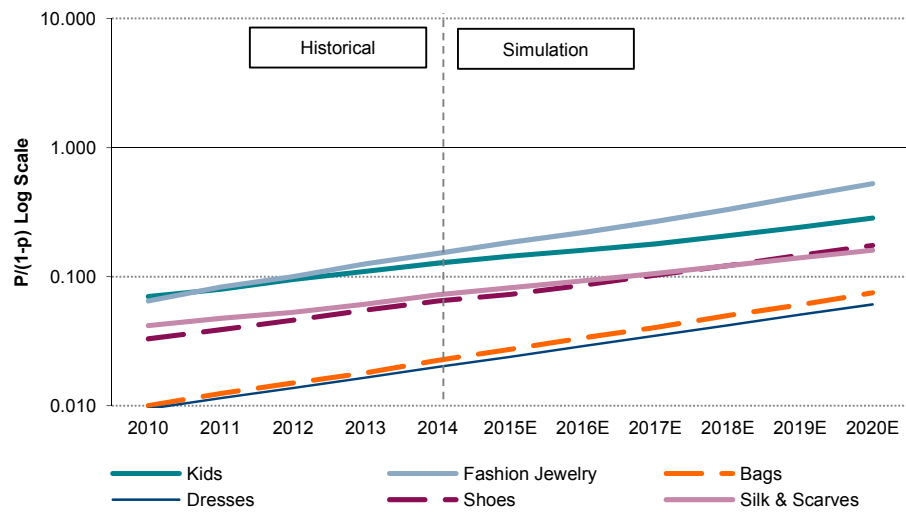
France: E-commerce S-curve simulation by product category (%; 2015-20e)



Source: ContactLab Simulation

Figure 45: Online fashion jewelry growing at a fast rate in France, its e-commerce penetration rate expected to get to c.30% by 2020e (2/2)

France: E-commerce S-curve simulation by product category (ratio online / offline; log scale)



Source: ContactLab Simulation

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- A capital partnership uniting the strength of BNP Paribas with the independence of Exane.

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For further information, log on to our website at www.exane.com

ContactLab – presentation

ContactLab is a market leader in digital direct marketing products and services and a strategic partner for enterprise clients who wish to manage a customer engagement model on a global scale.

With offices in Milan, Paris and Munich, over 1000 customers, 15 years of experience and more than 130 specialists, ContactLab provides comprehensive solutions to enable top clients and brands to meet and exceed their business objectives through sophisticated CRM programs with their customers and prospects.

ContactLab is exclusively dedicated to the Enterprise segment with strong focus and expertise in the luxury industry, supporting leading brands worldwide in multiple languages, with a special tang towards Asian markets - in particular China - and emerging markets.

Over the years, ContactLab has expanded its offering by including added value services to its leading technological platform for outbound messaging enabling the uptake of digital marketing as a user-centric strategic tool for business growth.

ContactLab's solutions are based on a triple player approach:

- Technology: focusing on digital direct multichannel messaging with a solid platform developed in-house since 2001, offering the highest level of security, scalability and deliverability.
- Agency: a full range of added value marketing services covering customer life-cycle engagement, from the definition of the data capture strategy, to the creative concept, to project execution, to the analysis of email impact on the bottom-line.
- Business Strategy Consulting: a proven set of capabilities including digital audit and strategy, Top Management Tableau de Bord, customer segmentation and data mining on complex databases, interpolating email shipments with e-commerce and retail transactions.

The ContactLab offering also includes Market Research products and services with a dedicated team aiming to identify behavioural trends by applying the CAWI methodology. ContactLab produces and publishes multi-country reports on European digital behaviours on a regular basis.

ContactLab has also created and developed NewsletterMonitor, a freeware internet application for competitive benchmarking, to monitor, track, analyze and compare over 4 million emails sent by more than 15,000 brands over the last 7 years.

ContactLab was founded by Massimo Fubini, an internet industry veteran and an opinion leader in the New Media and Digital Direct Marketing arena since 1995. He gained experience in Internet security in the mid-nineties, working for the military. He contributed to the network security rules for the Italian public administration. He has been a member of the Technical Committee at Audiweb - AssoComunicazione web sector for 7 years. He is a recognized keynote speaker on direct marketing and privacy topics.

For more information visit our website www.contactlab.com and www.newslettermonitor.com.

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