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Sara Lebow, Andrew Lipsman, and Max Willens

Reimagining Retail: How retail media networks look different in 2023 and predictions on retail media 2.0

Audio

On today's episode, in our "Retail Me This, Retail Me That" segment, we discuss the current retail media era, the partnerships that make the most sense, and how social media plays a role in this space. Then for "Red-Hot Retail," our analysts give us four spicy predictions about the future of retail media. Join our analyst Sara Lebow as she hosts vice president and analyst Andrew Lipsman and analyst Max Willens.

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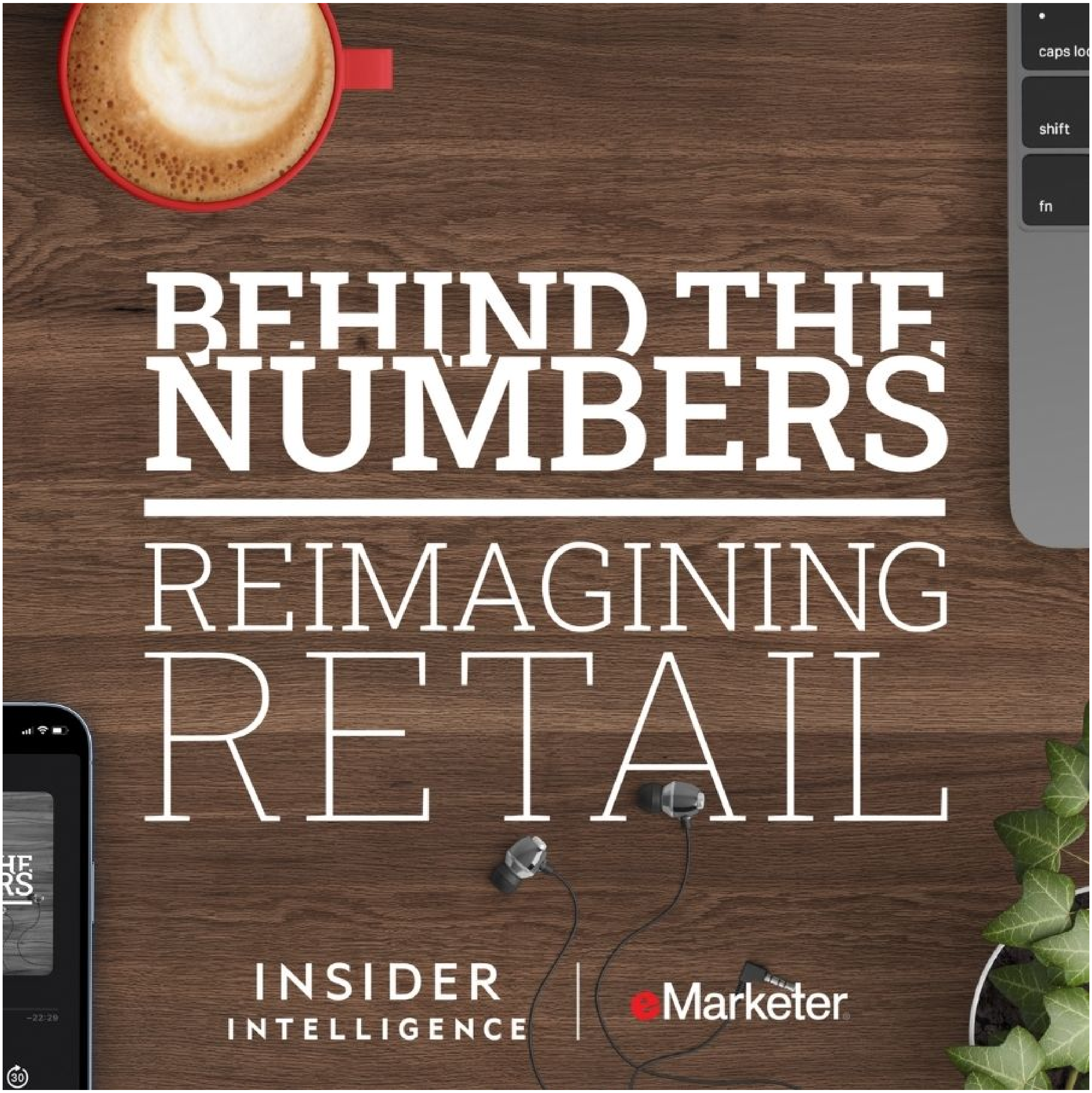

Episode Transcript:

Sara Lebow:

eMarketer and Insider Intelligence's chart of the day newsletter helps leaders quickly understand key trend data so they can communicate insights to their teams and make sound data back decisions. Visit emarketer.com/newsletters and join the thousands of subscribers who rely on our actionable charts. Hello, listeners. Today is Wednesday, June 21st. Welcome to Behind the Numbers, Reimagining Retail, an eMarketer Podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is retail media. First, let's meet today's guests. Joining me for today's episode, we have Principal Analyst, Andrew Lipsman. Welcome back Andrew. It's been a minute.

Andrew Lipsman:

Thanks, Sara. Good to be back.

Sara Lebow:

Good to have you. And joining us for the first time on the Retail podcast is Senior Analyst, Max Willens. Hey, Max.

Max Willens:

Thanks for having me.

Sara Lebow:

Thanks for being here. Let's get started with our first segment, news and reviews, where I give the news and our guests tell me their reviews. Today's story is a June 13th story from Marketing Week titled, trust in supermarkets falls to nine-year low as consumers feel ripped off. This data is UK specific, but I'd imagine we're seeing something similar in the US. Consumers feel grocery stores are charging more money for less. The story uses the term, greedflation to describe grocery stores' continued profits amid a cost of living crisis in the UK. So Andrew, your review of this story in 60 seconds is?

Andrew Lipsman:

Well, it makes a lot of sense, in the sense that customers are very price-sensitive and they love to grumble about the price of anything going up. The take that they've had on the economy amidst inflation has been that it's like the sky is falling and it's like, actually, most economic indicators in the consumer economy are pretty good except for that one thing, but they're very, very unhappy. In this case, I actually think they're somewhat justified because major retailers, particularly grocery retailers and a lot of CPG brands have actually been seeing their profits increase quite a bit. So I wouldn't say it is to their benefit and they probably are raising prices a little bit higher because they can get away with it in this environment.

Sara Lebow:

It's anecdotal, but it's something that you see go up. You're buying groceries every week, you see that number go up.

Andrew Lipsman:

Yep. That's why they shrink boxes, by the way, of cereal because consumers are a lot more sensitive to price than they are to size and quantity.

Sara Lebow:

The Cheez-It box is so much smaller right now, and I am sensitive to it. Max, your review of this story in 60 seconds is?

Max Willens:

I was going to lead with my outrage at the smaller size of the box of Honey Nut Cheerios in my pantry right now. I agree with everything that Andrew said, and I think that what's interesting is the fact that so many of these CPG executives have been saying the quiet part loud, if you listen to the earnings calls of a number of prominent ones, they have talked about how the broader macroeconomic discussion of inflation has provided cover for them to raise their prices and some of it has been warranted, but some of it is just finding an opportunistic chance to add some cushion to their margins, and consumers aren't dumb. In fact, I see, periodically, clips of, on TikTok and other social media, people discussing their outrage at the fact that brands are choosing to do this. So I'd say there's a lot of justified upset among consumers here.

Sara Lebow:

Yeah, absolutely a frustrating topic. Less of a frustrating topic. It's time for our next segment, Retail Me This, Retail Me That, where we discuss an interesting retail topic. Today's topic is retail media. It's been a minute since we checked in on retail media. Those retailer-owned ad channels like Amazon search results and Kroger's in-store advertising, retail media ad spend will pass $45 billion this year in the US according to our forecast. Not only is growth nearly at

20% year-over-year, but it's actually accelerating. So Andrew, how would you sum up the current era for retail media?

Andrew Lipsman:

Well, it's, I think, a really interesting and dynamic time. We are transitioning, I would say, from the retail media 1.0 era into the retail media 2.0 era. So the 1.0 era is, basically, search ads, sponsored product ads on an e-commerce website. Amazon has dominated this space to the tune of 75 or 80% of the market, and that is mostly what got us to this $45 billion mark. And it's not done yet. We're going to see a lot more search ad revenue coming in through other retailers in the coming years. But as we transition to the 2.0 era, it's about moving up the funnel and into the store. Up the funnel means display, video and streaming TV ads, as well as in-store ads, and then into the store means starting to account for the other 85% of retail sales that are occurring in store and not online. So the opportunity gets much bigger, but realizing the opportunity also gets a lot more complex, and there are a lot more players who get to play in it. So I think this is a very interesting and fun time, is that 2.0 era starts to emerge.

Sara Lebow:

I get excited every time we talk about this. So 1.0 is like when I search leggings on Amazon and I get an ad for leggings, and then 2.0 is when I get those ads in something that I'm watching on Amazon Freevee.

Andrew Lipsman:

Exactly right. And the searching on Amazon, that's the easy money. We had a playbook for this. It's called Google, and it's basically taking that Google ad and putting it on steroids because it's in a place where people are already shopping and buying. So it's going to work really well.

Sara Lebow:

So next year, retail media ad spend will be $10 billion higher than it was this year, at around 55 billion, Max, keeping the monster growth in mind for this year and how that's accelerating, how does 2023 look different from 2022 for retail media, both online and in store?

Max Willens:

Well, I think that the points that Andrew made earlier are really important when you think about the growth from 22 to 23. So I think that in making this transition, we are seeing a teensy bit of growing pain and adjustment in the space. So to your point, we're looking at monster growth, but I think what's really interesting, so I worked on a forecast report on retail media which published about a month ago, and one of the things that really leaped out at me was when I compared the forecast that we had done in the spring of 22 to the forecast that we did in the spring of 23. We actually revised our growth projections for this year down by about 12%. And some of that was macroeconomic, but I think a lot of it is because this is a space that, at the moment, is evolving really, really fast.

So just going from 22 to 23, you had companies like TikTok, Meta, Pinterest, Roku, all either jumping into retail media for the first time or deepening their involvement in it, and as the number of channels where you can activate retail data and media dollars has grown, it's created a lot of confusion for advertisers and it's all confusion that they'll sort out in time, but I think we're right at the beginning of this period where retail media can mean a lot of things to an advertiser, and so they're going to have to invest some time and sweat and energy in figuring out how to make sense of it all.

Particularly when you think about how difficult it is to measure and compare the effectiveness of one retail media network to another. And that's really important because one of the other things that you see at the moment is a lot of advertisers, because they see how effective it is to buy sponsored search on an Amazon or a Walmart, are expanding their investment. So the typical advertiser will be in five or six different RMNs, and if you're looking at that and you've maybe invested a million dollars in all of them, it's really hard to decide, okay, but this one is actually driving better results, so next year they get 1.2 million or 1.5. So as all that stuff gets cleared out, we'll see spending accelerate still further, which is what our forecast shows.

Andrew Lipsman:

Max raises a great point, though, about the pain points are starting to really emerge and become pronounced or and standardization for exactly the reasons that Max is mentioning are the case. I mean, you have to spend across five, six retail media networks. It's hard to do, to begin with, but then also, you want to make sure that you're allocating correctly based on the performance, but you might get a ROAS or return on ad spend metric from each of the five or six RMNs that you are buying across. And the definition that's being used could be different for every one of them, different attribution windows and all sorts of different mechanics, in terms of how it's calculated. So you can't make those allocations like you need to. So an issue, standardization, a year ago, was not being talked about at all and it has quickly risen up to being maybe the number one issue being talked about from brands in the context of retail media.

Sara Lebow:

Yeah. I mean, standardization was a huge issue when social media was taking off. Is retail media going to do a better job at resolving that than the Metas and Snaps of the world and Twitters of the world did?

Max Willens:

Well, I think in some ways, they're better positioned and worse positioned to do better. So on the one hand, because they are so close to the transaction, there is, potentially, if executed well, a way to draw a line that's very clean and make the case that the spending in one place led to an outcome in another. The problem or the challenge is the relationship between the ad buyer and seller is a lot more complicated. If I am an advertiser and I invest a big pile of money in an ad campaign with a web publisher and they promise me this kind of return and this kind of brand lift, and it doesn't deliver, then I can pick up the phone and call the publisher's chief revenue officer and scream at him for an hour and demand my money back or just say, I'm never working with you again unless you make concessions.

But if I'm an advertiser in a retail media network, I probably also have my product on that retailer's store shelves. I probably also have them in their circulars, and so I don't want to call and scream at them because they really play a pivotal role in the relationship that I have with my consumers. And so that level of complexity is, I think, going to have a big, big role in determining how this gets sorted out.

Andrew Lipsman:

And this is why you increasingly hear brands start to talk about this as a tax. The relationship is starting to get a little bit more adversarial, personally, and I can say this looking at it from the outside and not being on either side of the table, I think there's really a big win-win in retail media over the long run here for both retailers and brands. But because of these dynamics that Max is mentioning, it is starting to become more of a zero-sum game and I don't think that's necessarily productive.

Sara Lebow:

It's a delicate relationship. I think we're also seeing a lot of somewhat delicate partnerships. Retail media really hinges on partnerships right now. Albertsons partnered with Omnicom, Walmart joined forces with Roku, TikTok and Snap, Lowe's and Yahoo have a deal. I want to hear from both of you about a partnership that really stands out to each of you. Andrew, you go first.

Andrew Lipsman:

Well, and this is one way. So taking that retailer's first party data and connecting it to upper funnel media environments is a way to start to break free of some of these dynamics that we were just talking about. So one of the retail media networks that I've been hearing a lot about recently, very consistently is Dollar General Media Network. Now, they don't have a big e-commerce business at all, so they almost didn't participate in the 1.0 era. I always thought that they would become a big player, and they probably still will, in in-store retail media because they have a massive footprint and a lot of surfaces, potentially, that they could monetize in the store.

But it's the audience play. It's the fact, right now, that they partnered with Meta to basically take Dollar General's first party data on 90 million customers and then connect it into Meta's media, which is still the biggest source of digital ad inventory out there for upper funnel media. And I think the partnership makes a lot of sense. It's obvious and brands really like it because of the unique audience. It's not just the scale, but it's harder to reach customers often from lower income and or rural communities that can just be a little bit more difficult to reach otherwise. So very, very valuable audience at scale. And so it seems to be bearing fruit, and brands are responding to it.

Sara Lebow:

Absolutely. I mean, Dollar General's play is serving underserved customers, but those consumers are still on Facebook and Instagram.

Andrew Lipsman:

Exactly.

Sara Lebow:

So it definitely makes sense. Max, what's an example of a retail media partnership that stands out to you?

Max Willens:

So there's two. I mean, the one that really leaps out at me is Pinterest working with Amazon and allowing Amazon to sell its inventory through its pipes. I can talk more about that if you like. But the other one that really leaps out at me is Kroger and Disney and their advertising units working together. And I find this so fascinating because I think that the interplay between CTV and retail media ad spending is going to be very complex, and I'm really, really fascinated to see how it shakes out. So if you look at the expected growth of CTV and retail media, we're expecting that retail media is going to amount to a double-digit percentage of CTV ad spending and it's going to do so pretty quickly, but you flip it over and CTV will basically amount to just a single digit percentage of retail media ad spending.

And I just think that, that imbalances potentially has really huge implications. As far as this particular partnership though, what it amounts to is basically a path... Really, the path for CTV in here is going to be with grocers and giving CPG brands a chance to really explore upper funnel opportunities and also other categories with low e-com penetration rates.

Sara Lebow:

I want to make sure I'm getting that stat you just mentioned right, so you're saying that a huge portion of CTV dollars will come from retail media, but not a ton of retail media dollars are actually going to CTV.

Max Willens:

That's correct. And that's largely because of something that Andrew alluded to earlier, which is just that the bedrock of retail media ad spending, at the moment, is sponsored search, which is just going to continue to grow so healthily over the coming years that it will prevent CTV's share of retail from growing too much bigger because it has this added cushion.

Andrew Lipsman:

Well, I mean, I think this is the beginning of something that's really transformative to advertising and marketing because it's TV ads, which CPGs have always lived on those, but TV ads have always lacked measurability and we're getting to a point now where we're going to be able to bring in closed loop measurement to these TV-like ads. And the biggest constraint right now is inventory. We're starting to ramp up a lot more ads supported inventory, but it's going to take some time for that transition to streaming TV to continue and for more ad inventory to become available. So it's just going to take some time. I think we have it under a billion dollars this year, but something like over 5 billion by 2027, a nice number, but not game changing, but what happens after that? It's probably going to hit a bit more of a hockey stick and transform the way that we think of TV advertising, particularly, in the CPG sector.

Sara Lebow:

Yeah, absolutely. It's painting a very complex woven net here. We're expecting retail media spend to make up a fifth of US digital media ad spend by the end of 2026. That's huge for such a young market, and I think that, that CTV potential definitely has a lot to do with that. There's one last thing I want to touch on before we move on to some predictions, which is how social networks play a role within retail media. We have social network ad spend in the US forecasted to grow really slowly this year, just above 3%, but social networks are definitely intrinsically tied into retail media ad spend. Max, can you tell me more about this?

Max Willens:

I mean, I think that starting with the anemic growth and social is really important. I mean, social was this rocket ship for most of the past decade, and a big reason for it was they had a lot of easy paths to healthy incremental growth. So there was this constant trend of more people joining more social networks and spending more time with them, and that really crested or peaked in 2020 when we were all trapped in our houses and in front of our phone screens and basically had nothing else to do. But after that pandemic lifted or the fever of that broke, a lot of people, it seems, have gotten to the point of saying, I think I've got enough social in my life. And it's not that they're deleting the apps, but the amount of time spent with them is not growing.

If you look at some related forecasts we've done, the time spent among existing users of every social network in the US is either flat or going down except for TikTok, but that means people are basically not spending more time with Snapchat or Instagram or Facebook. And so that significantly presses down on the growth opportunities for Meta and Pinterest and all the rest of them. And that's changing their attitude toward partnering with players like retail media networks. And I think that this comes at a moment, too, when retail media networks, as Andrew alluded to earlier, are in really desperate need of offsite supply and proven formats and channels. And so that's a big easy win right there. And then also, too, the retailers, in many cases, have the kind of engineering capability and appetite to plug into something like Meta's conversion API, and so that allows for much more, as you say, closed loop measurement and an easy path to tying all this spending together, which is something that's increasingly important as we move on.

Andrew Lipsman:

And Meta and social, one last point here, they had the closed loop measurement apparatus and I was totally knee-capped by Apple's ATT initiative. So they lost a lot of that signal or targeting and measurement, and this is one way to help plug that gap. And it's the closed loop to me to the history of digital advertising that brings dollars online. I find the right audiences, I put money in and I get efficient returns out of it, and I can keep investing until I stop getting those returns. And that got lost for a while with Meta and social and retail media is providing it. Really, the relationship makes sense, one has the inventory, the other's got the data, it probably makes sense that they come together now.

Max Willens:

100%.

Sara Lebow:

I think closed loop is a great topic to close off this second segment. Let's keep moving into our third segment, red-hot retail. This is our guests' opportunity to give us their very specific and, potentially, risky predictions on a topic. The predictions can be mild, medium, spicy or extra hot. The higher the spice level, the riskier the prediction. Our guests will tell me what spice level to expect and then share their prediction. Today, Andrew and Max are sharing four predictions for the future of retail media. Max, why don't you go first by giving me a spice level and a prediction?

Max Willens:

Sure. I'm going to kick things off with something mild to me, even your spice sensitive grandmother would be comfortable eating, and that's that retail media ad spending will surpass linear TV ad spending before it figures its measurement situation out. And I say that partly because our own forecast shows that retail media will exceed linear TV in 2025, which is pretty soon. But also just because the onsite spending opportunities are robust enough and plentiful enough that I think that things will just get there on their own in the next couple of years. One of the things that we haven't talked about much but also figures into why retail media is growing so fast is that there's already scaled buyer, seller relationships in place.

So when Meta or Google first started building out their ad businesses, obviously, it was different eras of digital, but one of the things that they had to do was they had to attract hundreds, then thousands, then millions of advertisers onto their platforms. And thanks to the marketplace that Amazon and Walmart operate, thanks to the business partnerships that lots of grocers have with CPG brands, those relationships exist already. They maybe not fit together as perfectly as they should be to get business started that day, but they're close enough, and so I think that that's something that we're going to see happen pretty quickly.

Sara Lebow:

Yeah. Although those relationships existing, I think also feeds back into what Andrew was saying about retail media being something like a tax for CPG brands.

Max Willens:

100%.

Sara Lebow:

I still agree with this prediction, agree, it's pretty mild. Thank you for sharing it. Andrew, why don't you give us another spice level and another prediction.

Andrew Lipsman:

I'm going to start off with mild also, maybe banana pepper-

Sara Lebow:

Yum.

Andrew Lipsman:

... level.

Sara Lebow:

Good.

Andrew Lipsman:

This is that Shopify, I believe, is going to make a much bigger splash by evolving their retail media network into more of an ad network. So let me give you some background first. So Shopify, to me, is the one player out there where I just look at them and I say, who should be a much bigger player among RMNs that is not, and it's Shopify. I mean, they represent over 10% of e-commerce sales, would be second only to Amazon, and they just have Shopify audiences as their product and they're not really making a lot of noise about it either. And it's basically using that transaction data to plug into Facebook and Google to reach audiences. They started to make some moves more recently around the Shop app to make it more of a shopping destination.

We talked about how the 1.0 retail media money was search ads. They haven't been a player in search ads. And I think that that's the path that they're going down, is to try and start to build out a marketplace so that they can have much more detailed shopping and buying behavior data, maybe increase scale. I'm not exactly sure what they're trying to do with all of it, but I just feel like there's something coming. So when I think about the back half of the year, who's going to take it up a level in their RMN offering, I keep thinking about and looking at Shopify.

Sara Lebow:

Yeah. I mean, my wheels have been spinning on this one, and definitely feel free to correct me if you disagree on this, but a lot of YouTubers and content creators sell stuff via Shopify or partner with Shopify. I wonder what sort of potential there would be between Shopify and something as big as YouTube here.

Andrew Lipsman:

Yep, there's something going on. Shopify mixes really well with the social commerce space, social environments, YouTube creators, influencers, all these things. It's like, it is a unique spot in e-commerce. And they just haven't pulled the pieces together yet, but there's something there. So I'm curious to see what it's going to be. I have to think they're up to something.

Sara Lebow:

Very solid banana pepper level prediction. Let's see if we can turn up the heat a bit. Max, why don't you tell me your next spice level, your next prediction?

Max Willens:

I've got something spicy for you, and that's that Amazon will acquire Pinterest. This was something that I first started thinking about when Pinterest and Amazon announced that Amazon would be able to sell Pinterest's ad inventory through their pipes. And it just seems like something that, like I said, it's spicy. It's not a fair comp play or anything, but Amazon has been trying for years to build a social layer to its product. Everyone probably remembers Amazon's spark and how little traction that got and their attempts at adding a social component to the livestream shopping, which hasn't really worked either. So instead of trying to build something, why not buy a huge source of offsite supply and a scaled laboratory where they can figure out how social and search can work together more effectively? It seems pretty sensible to me, but I'm not the one working in their investment division.

Sara Lebow:

Pinterest accounts for over 2 billion in US ad revenues right now. They make up more than 3% of US social ad revenues in the US. Not a small number. Would an Amazon acquisition of Pinterest ever be allowed to go through?

Max Willens:

That's a good question. Lina Kahn is definitely someone who scrutinizes these kinds of deals much more closely than her predecessors did. But I think you could argue that it wouldn't introduce any kind of anti-competitive dynamic into either marketplace. So I don't think it would necessarily get blocked by any regulators.

Andrew Lipsman:

There's no market share dominance at play here, and Amazon has acquired MGM, which is a content company. So as long as the player is not big enough, I agree, it's a partnership that makes a lot of sense because Pinterest drives a lot of value in terms of moving people through the funnel and then they never get credit for it because you don't get people to convert. Amazon can help them convert and give them the measurement apparatus. I think it makes a lot of sense.

Sara Lebow:

Pinterest CEO, Bill Ready, if you're listening to this podcast, we have some ideas for you, Andrew, why don't you give us our final spice level, our final prediction?

Andrew Lipsman:

Last one, also spicy, ghost pepper, we'll call it. And I made this prediction on a webinar a week or so ago, but it's that I see a lot of potential for Microsoft to acquire Instacart. Microsoft has been moving into a lot of different areas in advertising and retail media is one of them. How they're playing today, they acquired PromoteIQ to provide some tech for retailers, and they've also just been doing a lot of stuff on the store digitization front, which is where a lot of in-store retail media will play out in the future. I think it's a great place for Microsoft to play. The other player who wants to do this is Amazon, but no retailer wants to start forking over their data to Amazon in terms of what they're doing in store. So Microsoft has the credibility as a more agnostic player.

Instacart, their strategy has shifted towards connected stores and providing store digitization if a very strong retail media business already, that they're only going to continue to evolve, and their valuation has also suffered quite a bit over the last couple of years, and they've been trying to exit and can't quite find that window. I think the tenor is starting to change a little bit, and I do think there's a bit of more positive trajectory where they can IPO, but if somebody comes along with deep pockets and a really nice offer, they would also take that too. And I just think that it would make a lot of sense. One last detail here is that Instacart just announced a new capability to use OpenAI for search and integrating it into their experience so that people can basically come up with personalized recipes for them. So the fact that they have common partners with OpenAI also makes me think that there is potential for synergy there.

Sara Lebow:

Yeah, that relationship is already there to some extent?

Andrew Lipsman:

Yeah.

Sara Lebow:

Microsoft has a $10 billion US ad footprint. Instacart is closer to $1 billion. Amazon already set up a playbook for acquiring a grocery company in the US. Microsoft would just be following that, but in this retail media 2.0 era.

Andrew Lipsman:

Yep. But importantly, not a retailer itself, so Microsoft wouldn't be competing. It would be a platform that enables the ecosystem of retailers.

Sara Lebow:

Yeah. And continue having that identity as a tech company. All right, well, that is all we have time for today. Per subscribers can read more about retail media and Max's recent retail media report on our website at insiderintelligence.com. Thank you for joining me today, Andrew.

Andrew Lipsman:

Thanks, Sara.

Sara Lebow:

And thanks for being here, Max.

Max Willens:

I enjoyed it. Thanks for having me.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at behindthenumbers_podcast. Thank you to our listeners and to Victoria who edits the podcast and still owes me an autograph from her dog, Chester. We'll be back next Wednesday with another episode of Reimagining Retail, an eMarketer Podcast. And tomorrow, you can join Marcus for another episode of the Behind the Numbers daily.