Larger retailers are beginning to act more like digital media companies by leveraging their web traffic and first-party customer data into ad businesses. This eMarketer Report features analysis of the emerging space of digital retail media and key players in the market.
Dear eMarketer Reader,

eMarketer is pleased to make this report, *Retail Media Networks: How Retailers Are Building Digital Ad Businesses*, available to our readers.

This report is a great example of eMarketer data and insights that look at the emerging space of digital retail media and key players in the market.

We invite you to learn more about eMarketer’s approach to research and why we are considered the industry standard by the world’s leading brands, media companies and agencies.

We thank you for your interest in our report and Merkle for making it possible to offer it to you today.

Best Regards,

*Nancy Taffera-Santos*

Nancy Taffera-Santos  
SVP, Media Solutions & Strategy, eMarketer
In a competitive landscape, retailers are looking beyond their core business for profits—and digital advertising offers a potential path to growth. Following in the footsteps of Amazon’s fast-growing ad business, retailers like Walmart, Target, eBay and Kroger are getting into the game by monetizing online traffic and exploring ways to use their first-party data for targeted offsite advertising.

Why are retailers looking to develop digital ad businesses?

In the age of price transparency, many retailers are finding topline growth and margins harder to come by. Building out advertising as a secondary revenue stream promises incremental growth coupled with an attractive margin profile that can improve retailers’ financial prospects.

What are the most critical assets needed to develop a viable retail media business?

Companies best positioned to monetize their customer base through advertising will have both quantity and quality of first-party customer data, heavy online traffic volume, an advertising tech stack and an organizational commitment to the business.

What are the advantages and disadvantages of retail media compared with other forms of digital advertising?

Retail businesses hold a theoretical advantage over the Facebooks and Googles of the world because of their first-party customer purchase data. However, by coming late to digital advertising, most retailers currently lack the expertise and technology infrastructure to stand up their own retail media networks.

What are the leading digital advertising formats for retail media?

Sponsored product advertising is currently the most prevalent because it’s high-value for advertisers and easier to monetize for retailers. Brand-building display and video ad formats are now gaining prominence.

Where are online retail media budgets coming from?

Currently, most budgets moving into online retail media come from existing digital ad budgets, but more marketers are considering whether to use funds from shopper marketing budgets.

KEY STAT: Of US media buyers advertising on ecommerce sites, 90% do so on Amazon, far outpacing second-tier players Walmart, eBay, Target and Kroger.

Ecommerce Sites on Which US Media Buyers Advertise, March 2019

<table>
<thead>
<tr>
<th>Ecommerce Site</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
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<td>Kroger</td>
<td>8%</td>
</tr>
</tbody>
</table>

Note: n=71; *respondents are primarily based in the US
Source: Digiday Research, “Target wants to build a media business to rival Amazon,” May 3, 2019
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CONTENTS

2 Retail Media Networks 2019: How Retailers Are Building Digital Ad Businesses
3 Overview
6 Advantages and Disadvantages of Retail Media Networks
9 Building Blocks of a Retail Media Business
12 Retail Media Ad Formats
14 Key Takeaways
15 eMarketer Interviews
15 Editorial and Production Contributors

WHAT’S IN THIS REPORT? This report includes analysis of the emerging space of digital retail media and key players in the market.
OVERVIEW

At a 2018 shareholder meeting, Walmart CEO Doug McMillon touted the company’s ambitions to become a major player in digital advertising. A longtime pioneer in retail media, and one of the earliest retailers to monetize its online traffic, Walmart’s digital ad publishing potential was understood by McMillon. But he acknowledged the need to accelerate its progress. “Our data has never been monetized, and we have a tiny ad business,” he admitted. “It could be bigger.”

This comment heralded what was to come, as the company quickly embarked on a more deliberate and aggressive strategy to build its digital ad business. The impetus was clear: Walmart’s top competitor, Amazon, has become a major force in the digital ad market by building its advertising arm into a fast-growing, hugely profitable supplemental revenue stream.

Fueled by valuable first-party purchase data and software that forged a tight link between ad exposure and sales, Amazon is now the No. 3 player in digital advertising behind Google and Facebook. Walmart has the chance to begin mounting its own challenge to the duopoly, given its wealth of customer data and longstanding partnerships with brands and manufacturers.

For more on our latest ad revenue forecast for Amazon, please refer to the following article: “Why Amazon Is About to Upend the $70 Billion TV Ad Market.”

Walmart made a series of bold moves in early 2019. In February, Ad Age reported that Walmart would be bringing back in-house its online ad sales and research operations, previously managed by WPP-owned online retail media agency Triad since 2004. On the heels of this news, Walmart announced in April its intent to acquire ad tech firm Polymorph Labs to round out its ad technology stack.

“To my understanding, Triad and Walmart were the first to ever do any further monetization of their ecommerce property, and that was in the earliest phases,” said Sherry Smith, CEO of Triad. “The online advertising at that time was more about driving in-store traffic. ... There were ad units, but they were not IAB-standard—they were self-made, self-titled ad units.”

Despite this deep partnership, Walmart’s decision to sunset the relationship appears to be more about the desire to control its own destiny and align internal resources to capitalize on the opportunity.

Carving out even a 1% share of the US digital ad market translates to more than $1.29 billion in revenues, and it’s clear that digital retail media—also known as ecommerce advertising—has a strong tailwind at the moment. According to research from performance marketing agency Kenshoo, spending on ecommerce channel advertising worldwide in Q2 2019 was up 66% year over year, while posting similarly strong growth in impressions (up 59%) and clicks (up 57%).

<table>
<thead>
<tr>
<th>Ecommerce Ad Performance Metric Growth Worldwide, Q2 2019</th>
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<tbody>
<tr>
<td>% change vs. Q2 2018</td>
</tr>
<tr>
<td>Spending</td>
</tr>
<tr>
<td>Impressions</td>
</tr>
<tr>
<td>Clicks</td>
</tr>
</tbody>
</table>

Note: represents activity on the Kenshoo platform, broader industry metrics may vary

The market is now gaining momentum because advertisers have a means of highlighting their brand close to the point of sale, just like they do in physical stores. “The idea of being able to give brands an opportunity to spend money where their products are sold, from an ecommerce perspective, is very attractive,” said Sean Cheyney, vice president of global business development at Triad.
Though the promise of digital retail media is clear to marketers, the reality has rarely approached its potential. “For the longest time, advertisers were unable to connect their advertising directly to shopping behavior,” said Scott Kelliher, head of brand advertising and partnerships at eBay. “Over time, with the invention of digital and search, advertisers have gotten closer and closer to actual transactions and understanding the way consumers really shop.”

Digital advertising advancements by market leaders like Google and Facebook also paved the way for retail media. With well-honed ad platforms, Google and Facebook demonstrated how digital ads could be targeted to the right audiences and delivered at scale in a manner that links advertising and commerce.

“The fundamental underlying megatrend [for retail media] is what I call the vertical integration of the ecommerce funnel,” said Franz Jordan, CEO of retail media and ecommerce agency Sellics. He noted the tendency for digital media titans to occupy as much territory between awareness and conversion as possible. “Retailers like Amazon and Walmart historically have been at the very bottom of the funnel, and as they work their way up the funnel, it opens up opportunities for marketing.”

### WHY RETAILERS ARE GETTING INTO DIGITAL MEDIA

The lure of retail media is even stronger than it might seem at first glance, but the question retailers grapple with is whether it’s a viable opportunity or just the next shiny object to chase. With so many retailers starved for top-line growth amid foot traffic declines and online dollars migrating to Amazon, many are now exploring supplemental revenue streams. According to a February 2019 survey by Duke University’s Fuqua School of Business, the leading challenge facing US CMOs was driving growth, cited by 37.9%, nearly three times higher than their next biggest challenge. (While the study asked challenges of CMOs more broadly, it is especially true for retail CMOs today.)

But ad revenues act as a path to growth, and Amazon’s ad business is proof that it can be achieved. “There’s a point where the realization of an evolving business model or net new revenue stream becomes evident,” said Chris Lundquist, senior vice president and global lead of marketing science at advertising agency BBDO.

Digital ad revenue isn’t just any revenue—it’s highly profitable, with a more favorable margin profile than the typically thin-margin retail business. Consider that leading digital ad platform Facebook’s gross margin is over 80% and Google’s is over 55%. Walmart’s retail-dominated business, by contrast, is under 25%.

### What Are the Leading Challenges Facing US CMOs?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>% of respondents, Feb 2019</th>
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<tbody>
<tr>
<td>Driving growth</td>
<td>37.9%</td>
</tr>
<tr>
<td>Delivering a powerful brand that breaks through the clutter</td>
<td>13.7%</td>
</tr>
<tr>
<td>Securing marketing budget</td>
<td>13.4%</td>
</tr>
<tr>
<td>Providing ROI of marketing activities</td>
<td>10.8%</td>
</tr>
<tr>
<td>Hiring top talent</td>
<td>9.7%</td>
</tr>
<tr>
<td>Generating customer insight</td>
<td>5.1%</td>
</tr>
<tr>
<td>Find sponsorship/support from the executive level</td>
<td>3.2%</td>
</tr>
<tr>
<td>Identifying the right technologies to meet our needs</td>
<td>2.9%</td>
</tr>
<tr>
<td>Managing our online presence</td>
<td>2.5%</td>
</tr>
<tr>
<td>Training our team</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

Note: *97% of respondents were VP level or above Source: Duke University’s Fuqua School of Business, “The CMO Survey: Highlights and Insights Report – February 2019” commissioned by American Marketing Association (AMA) and Deloitte, Feb 27, 2019
Amazon’s growing ad business offers perspective on how even modest incremental revenues can have a profound impact on a retailer’s profits. Amazon’s “other” revenue stream—which consists primarily of advertising revenues and is frequently used as a proxy for that business—reached $10.11 billion in 2018, representing 4.3% of overall revenues. (Amazon does not break out the segment’s operating profits in its public financials, but it is widely believed, along with Amazon Web Services, to be fueling Amazon’s recent surge in profitability.)

The profit incentive is a huge draw for retailers as they realize the value that can be derived from their first-party data. And the pressure to monetize that asset comes from both directions.

“Sometimes we’ll talk to retailers and they’ll use the term ‘data monetization,’” Triad’s Cheyney said. “When I hear that term, it tells me there are companies that have gone into them saying, ‘Sell us your data.’ At the same time, they may be hearing from the C-suite to find a way to bring in extra revenue.”

KEY PLAYERS IN DIGITAL RETAIL MEDIA

The number of retailers entering the digital ad business is growing, but the sophistication of their capabilities and advertiser adoption varies significantly. To date, Amazon garners the lion’s share of advertiser participation, but other platforms are also attracting ad spend.

A March 2019 Digiday Research survey of 71 US media buyers found that 90% advertised on Amazon, far above the other leaders. Walmart ranked second at 23%, followed by eBay (17%), Target (16%) and Kroger (8%).

Below is a brief overview of the leading retail media networks, their capabilities and their value proposition to advertisers.

- **Amazon (Amazon Advertising):** By far the largest player, Amazon has recently emerged as a viable threat to the digital advertising duopoly of Google and Facebook. We forecast that Amazon will generate $9.85 billion in net US digital ad revenues in 2019, up 33.1% and accounting for 7.6% of the digital ad market. Amazon’s platform has an advanced user interface, including self-service capabilities, as well as the ability to deliver ads through sponsored search, on-site display and video, and offsite display and video through its demand-side platform (DSP). Amazon sellers increasingly feel compelled to spend on Sponsored Product ads to drive sales volume. Marketing intelligence firm Jumpshot reported in July 2019 that more than one in 10 product listing views were driven by advertising.

- **Walmart (Walmart Media Group):** Walmart was one of the earliest entrants into the space with Walmart Media Exchange (WMX), which rebranded as Walmart Media Group (WMG) in June 2018. Walmart initially outsourced the majority of its ad operations to Triad but began bringing them in-house earlier this year. WMG promotes its scale benefits (in reaching 90% of US shoppers and 150 million visitors online) and its closed-loop reporting of purchase behavior for both online and in-store transactions.

- **Target (Roundel):** Target entered the space in 2016 with Target Media Network, which rebranded as Roundel this past May. Kristi Argyilan, president of Roundel, described its value proposition as “using Target’s rich insights to create smart, personalized campaigns that connect our guests to information and offers they’ll find most relevant.” As a leader in personalization with other digital efforts like Cartwheel—the company’s personalized digital coupon application, which also rebranded—Target brings credibility in being able to deliver on that promise. Roundel’s clients include brands like The Coca-Cola Co., Disney and Hasbro.

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</tr>
</tbody>
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Note: n=71; *respondents are primarily based in the US
Source: Digiday Research, "Target wants to build a media business to rival Amazon," May 3, 2019
eBay (eBay Advertising): eBay Advertising, which evolved from the company’s 2005 acquisition of Shopping.com, reportedly generated $600 million in revenues in 2018, and the company aims to grow it into a $1 billion annual revenue stream by the end of 2019. eBay Advertising emphasizes its audience scale, with 106 million US monthly visitors, and its robust view of the consumer shopping journey. According to the eBay Advertising website, “We know how each user buys, sells, browses, and discovers on the platform, giving advertisers unmatched, intent-based consumer insights to set their campaigns up to win.” eBay has also recently emphasized its independence as a “pure marketplace” that doesn’t compete with its sellers—a key point of differentiation with Amazon.

Kroger (Kroger Precision Marketing): Kroger Precision Marketing, powered by its consumer insights subsidiary 84.51, focuses on targeted ads for consumer packaged goods (CPG) brands. Built on loyalty card data from 60 million US customers’ households, the platform is fueled by extensive longitudinal purchase activity across more than 400 merchandise categories. Kroger Precision Marketing offers ad formats on its owned and operated (O&O) channels and across the web through its DSP and publisher partners. While other retail media networks typically skew toward advertising on their owned and operated domains, Kroger Precision Marketing has a “balanced portfolio between off-property and on our O&O,” according to Caroline Pratt, vice president of commercial and product strategy at the marketing firm.

Other retailers developing their own offerings include Best Buy (Best Buy Media Network), Wayfair (Wayfair Media Solutions) and Albertsons (Albertsons Performance Media). Though their offerings may be more limited in scope, brands that heavily sell through those channels must not ignore them.

“If I’m an appliances or consumer electronics brand, I want to be on Best Buy, as so many sales come from them,” said Will Margaritis, senior vice president of ecommerce and digital marketing at Dentsu Aegis Network. “If I’m in furniture, I’m going big on Wayfair. If I’m in cosmetics, I am talking to Ulta. Whether these categories can justify the expense of building the ad platform and sales team remains to be seen.”

Outside the US, global commerce leaders including Alibaba, Tencent and Lazada also have fairly evolved digital ad businesses. For the purposes of this report, we will focus on the US market.

For more on Alibaba’s ad business, listen to Jasmine Enberg, eMarketer senior analyst covering global trends, on “The Ad Platform” in October. And read more in her March 2019 report on “Global Digital Ad Spending 2019.”

ADVANTAGES AND DISADVANTAGES OF RETAIL MEDIA NETWORKS

Retailers stepping into the digital advertising landscape should approach it with eyes wide open about the potential competitive advantages and to what extent those can be leveraged. When trying to break into a mature market and entrenched ecosystem, retailers can’t strictly rely on the value of first-party data—they must provide a value-add that sufficiently exceeds existing offerings to change advertiser behavior.

ADVANTAGES

In the era of audience-targeted advertising, the companies with the strongest behavioral signals—Google and Facebook—command the majority of digital ad budgets. But even they are limited in what they know, or can reasonably infer, about the products a consumer might purchase.

That’s where retailers come in. “They have purchase intent and actual purchase data. This is something both Google and Facebook are not the best at, but which is very useful for targeting and segmentation,” said Nate Shurilla, global director of commerce and voice at performance marketing agency iProspect. “These retailers are starting to truly understand the goldmine that data is, and are starting to capitalize via their media networks.”

But it’s not enough to just have better data. The data must connect audiences to brands in a way that drives shopping engagements and purchase behavior, according to Kroger’s Pratt. “That is our starting point as table stakes to influence any level of disruption in advertising choices. We don’t believe that any level of syndicated audiences are going to provide the right level of disruption to have a changed outcome in an advertisement.”
Particularly when alternative platforms work well, there’s a high bar to disrupt the status quo. Fortunately for retailers, data quality is of critical concern to marketers. A May 2019 Forrester Consulting survey of US companies found that data quality—selected by 87% of respondents—was the most important determinant of marketing performance success.

<table>
<thead>
<tr>
<th>Important Factors to Marketing Performance Success According to US Companies, May 2019</th>
<th>% of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-quality data</td>
<td>87%</td>
</tr>
<tr>
<td>Internal skills/expertise</td>
<td>84%</td>
</tr>
<tr>
<td>Vendor/partner expertise</td>
<td>82%</td>
</tr>
<tr>
<td>Executive support</td>
<td>79%</td>
</tr>
<tr>
<td>Effective use of marketing dollars</td>
<td>75%</td>
</tr>
<tr>
<td>Ability to tap into a variety of data sources</td>
<td>73%</td>
</tr>
</tbody>
</table>

Note: n=409 very important/important
Source: Forrester Consulting, “Why Marketers Can’t Ignore Data Quality” commissioned by Marketing Evolution, Sep 5, 2019

Another key advantage for retail media networks is high-quality traffic with demonstrable purchase intent. When consumers visit a retailer’s site or app, they are often interested in making a purchase or at minimum shopping or exploring ideas for purchase. From an advertiser’s standpoint, this represents some of the most valuable traffic.

The ability to more easily show advertising return on investment (ROI) through closed-loop reporting is another advantage for retailers because of their visibility into online and offline purchase behavior. A February 2019 Duke University Fuqua School of Business survey found that demonstrating the impact of marketing on financial outcomes was CMOs’ most cited challenge to implement, cited by 63.8% of respondents.

It’s no surprise that when digital advertising platforms can link marketing spend to actual sales, advertisers’ money tends to flow in that direction. When a CMO is able to calculate that for every $1.00 she puts in, she gets $1.25 out, it’s easy to determine where to allocate more marketing investment and justify to the chief financial officer that more marketing dollars are warranted. This explains Google’s early ability to command advertisers’ budgets, which made it grow into the juggernaut it is today.

“The retailers also have excellent data [and know] our purchasing habits better than we do,” Dentsu’s Margaritis said. “They know what we buy, how often we buy, and when we’re going to buy. They also know what people who are similar to us buy, and therefore what we are more likely to buy. It’s very powerful data.”
Multichannel retailers have an added advantage in their capability to attribute both ecommerce and in-store sales to ads. Though the link between online ads and offline sales isn’t always as explicit as it is with ecommerce, the ability to measure the nearly nine in 10 retail dollars still transacted in physical stores widens the lens for attribution reporting by an order of magnitude.

**DISADVANTAGES**

While retailers do own differentiable assets to compete for brand budgets, these theoretical advantages are challenging to realize. Amazon has credibly delivered on these promises, and others are now making progress. But many retailers simply lack sufficient data quality and depth, monetizable traffic, and properly instrumented systems for measurement to create viable platforms. And going up against incumbents that have been developing competing offerings for a decade or more is daunting.

The head start means their advertising platforms are often well-oiled machines that are architected to seamlessly provide the right audiences to target, have the means of allocating budget, can manage and optimize campaigns in-flight, and show a view of post-campaign performance.

Even when a retailer has a valuable data source, it’s of little use to a brand that can’t access it for an activation. Most retailers need third-party partners to make use of their first-party data.

“Very few retailers really understand how to utilize their data,” Triad’s Smith said. “It’s very common that retailers don’t have a data management platform [DMP] to be able to capitalize on that data. And that’s even some of the more sophisticated retailers that you would think have tons of data available.”

Data needs both a means of access and sufficient scale to attract large advertiser budgets. This is where most online retailers fall short, particularly in regard to their O&O digital assets. According to 2018 research from Advertiser Perceptions and media consultancy MightyHive published in March 2019, US digital marketers placed the highest level of confidence in systems integration consultants (i.e., Accenture, Deloitte) and management consulting firms (i.e., McKinsey, Bain) to help leverage their data into strong ROI.

Without enough traffic, retailers hoping to monetize their audiences and inventory will need to partner with ad exchanges. Earlier research from Advertiser Perceptions indicated that the top two criteria for advertising and marketing professionals in selecting a DSP were audience scale and targeting. Retailers’ first-party purchase data can give brands the superior targeting they’re after, but it satisfies only the scale criteria through aggregation.

**Third Parties that US Digital Marketers Have Engaged with to Help Unlock Their First-Party Data, by Level of Confidence in a Strong ROI, Sep 2018**

| Systems integration consultant (Accenture, Deloitte, etc.) | 80% |
| Management consultant (McKinsey, Bain, BCG, etc.) | 80% |
| Agencies | 70% |
| Ad tech vendors | 65% |

Source: Advertiser Perceptions and MightyHive, “The Data-Confident Marketer,” March 26, 2019

User experience is another (sometimes underappreciated) factor that determines which advertising platforms get used. Google, Facebook and other leading platforms have refined user interfaces for buying, selling and measuring ads that make it easy for advertisers to use. Retailers that can’t reasonably approximate the market leader in terms of usability will struggle to get adoption.
“As these are newer retail media networks, the levers and buttons they have available to advertisers are much more manual and labor-intensive,” iProspect’s Shurilla said. “Adoption will be driven by the size of the opportunity—audience size and purchases—and the ease of use for advertisers.”

BUILDING BLOCKS OF A RETAIL MEDIA BUSINESS

Whether retailers seek a point of entry into digital advertising or to scale their existing businesses, they need to evaluate their assets and determine what they’re willing to invest. Despite its advantages, building an ad business is a risky venture. Carefully assessing one’s capabilities and organizational wherewithal are critical to making the right decision. Retailers that decide they are not where they need to be can then explore alternate means of monetizing their data.

CORE ASSETS FOR RETAIL MEDIA

The No. 1 asset needed to get a retail media business off the ground is traffic, but how many retailers generate enough to attract large media buyers?

“The major players are going to be the ones that have traffic and, in the various media that they own, the full view of the customer,” BBDO’s Lundquist said. Retailers with large digital audiences can generate shopping insight, sales behavior and bottom-funnel search behaviors to inform high-value placements at a level of scale that makes it worth advertisers’ time.

In the digital media world, publishers will often seek to reach a monthly audience of at least 50 million in order to attract direct buys from large brand marketers. According to Comscore, only nine retailers hit that audience threshold in December 2018—the highest traffic month of the year.

<table>
<thead>
<tr>
<th>Top 10 US Retail Sites, Ranked by Unique Visitors, Dec 2018</th>
<th>millions and % change vs. prior year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Amazon sites</td>
<td>206.1 (4%)</td>
</tr>
<tr>
<td>2. Walmart</td>
<td>131.9 (4%)</td>
</tr>
<tr>
<td>3. eBay</td>
<td>109.4 (-3%)</td>
</tr>
<tr>
<td>4. Target</td>
<td>79.1 (-5%)</td>
</tr>
<tr>
<td>5. Apple</td>
<td>72.8 (13%)</td>
</tr>
<tr>
<td>6. Kohl’s</td>
<td>59.1 (1%)</td>
</tr>
<tr>
<td>7. Etsy</td>
<td>56.0 (18%)</td>
</tr>
<tr>
<td>8. Best Buy</td>
<td>55.0 (6%)</td>
</tr>
<tr>
<td>9. Samsung</td>
<td>52.0 (17%)</td>
</tr>
<tr>
<td>10. Macy’s</td>
<td>46.1 (-7%)</td>
</tr>
</tbody>
</table>

Note: ages 18+; desktop and mobile; includes display and video via browsers and mobile apps
Source: Comscore, Jan 17, 2019

Due to this limitation, most retailers will struggle a great deal to bring advertisers aboard. “I don’t know that there are that many retailers that could be large publisher properties,” Triad’s Smith said.

Retailers also need the infrastructure to support an ad business, which means an appropriately integrated data management platform and ad-buying and ad-serving capabilities. There is a base level of ad trafficking support that any advertiser or agency will demand in order to use a platform in the first place.

The other critical component is data quality. It’s easy to assume that retailers possess valuable data because they know what their customers search for and what they buy (and how they buy it). But the value of that data is fundamentally constrained by its depth and breadth.

From a breadth standpoint, cross-category merchants that generate frequent shopping visits have a big advantage. This is why Amazon, eBay, Walmart and Target are best positioned to deliver what advertisers covet. Vertical and specialty retailers can possess depth of insight on their customers’ behaviors within their respective categories, but one-off shopping and purchasing occasions may not generate much useful data for targeted advertising.
BUILDING A RETAIL MEDIA BUSINESS

In-House

Amazon, Walmart, eBay and other leaders currently have their operations in-house (or are in the process of doing so). In-housing makes sense for the small handful of companies that possess the building blocks of a retail media business—which are financial resources that allow for investment and a strong likelihood of success to make the risk-reward profile attractive. It means maintaining full control of their data and not paying an ad tech tax on the attractive profits.

However, going in-house is challenging. It requires complete organizational buy-in, because investments will need to be made to build out a full ad stack. That will typically mean ad-serving, trafficking and measurement capabilities built on seamless data flows.

“If a retailer truly wants to monetize in a large fashion, it’s got to have the data available—so the data management platform is key,” Triad’s Smith said. That’s a requirement for any retail media business, especially for an in-house operation.

There’s also the challenge of how to structure an ad business within the larger organization. Companies that put a couple people on the business and hope it will magically generate revenue growth are mistaken. Because of the learning curve and need to develop institutional knowledge, building a robust team that can withstand the occasional employee departure is essential.

Retainers also need to be ready to partner closely with their clients. According to eBay’s Kelliher, “A lot of people in the media ecosystem underestimate how important client service is as a unique value that you’re adding to an advertiser. As a general rule, advertisers are looking for places where people will help them solve their problems.

“A company ultimately needs to provide a mechanism, an ease of buying, an understanding of how and why they’re buying, as well as other added value components.”

Partnering and Data Consortia

For the majority of retailers that lack the capabilities and organizational resources to become a media network, partnering becomes the path to data monetization. Existing digital media networks serving the retailer community, like Criteo, can help them leverage their data and bring scale by aggregating inventory across multiple retailers.

“That’s what we call a network solution,” said Geoffroy Martin, executive vice president and general manager of Criteo Retail Media. “A smaller retailer might not have enough inventory or traffic to attract a major brand. But if we combined the demand of three or four smaller retailers, then we will get the attention of the bigger brand to spread their budget across.”

Another player is OwnerIQ, a second-party data marketplace for retailers and brands primarily serving ads offsite. The data-sharing platform brings together thousands of small and midsized retailers to enable and buy media against specific shopper audience segments. “Anyone smaller will likely need to be a part of a data aggregator like OwnerIQ,” Dentsu’s Margaritis said. “It allows them to control and monetize their data without spending significantly on an ad platform and ad sales team.”

Offloading data to a third-party media network is easy, but it can come with additional costs. There are data leakage concerns and the possibility that a competitor will use a retailer’s data for competitive conquetting. Many retailers will resist this loss of control of how their data is used, but alternative options also exist.

Triad, another key third party in the space, has a data consortium model that helps retailers participate in a media network by aggregating audience data from like-minded retailers. This allows them to monetize their audiences through multiple ad formats both on-site and offsite.

“They can participate in a data consortium that is pulled together across similar retailers where in aggregate they would have scale,” Triad’s Cheyney said, noting that an individual retailer’s data would be anonymized. “So if there’s a consortium of small apparel retailers, for example, and you—as a buyer of the media—know that there’s 20 stores in that consortium, the data you’re accessing could be from any of them, so it’s not specific.”

This provides the same benefits that midsized publishers get from selling their inventory programmatically. According to a March 2019 survey by Advertiser Perceptions, publishers’ top reason for selling programmatically was monetization potential for their inventory (70% of respondents). Secondary benefits that also apply in this instance are enabling them to leverage their data (50%), more seamless media executions (48%) and access to more demand sources (46%).
46% of respondents

Leading Benefits of Selling Ad Inventory Programmatically for US Publishers, March 2019
% of respondents

<table>
<thead>
<tr>
<th>Benefit</th>
<th>Percentage</th>
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<tr>
<td>Monetization potential for our inventory</td>
<td>70%</td>
</tr>
<tr>
<td>Enables leveraging of data</td>
<td>50%</td>
</tr>
<tr>
<td>Faster, simpler order execution or input/output process</td>
<td>48%</td>
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<tr>
<td>Access to new demand sources</td>
<td>46%</td>
</tr>
<tr>
<td>Ability to strengthen your publisher brand by association with premier ad tech partner</td>
<td>43%</td>
</tr>
<tr>
<td>Reducing overhead</td>
<td>41%</td>
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</table>

Note: n=155; respondents chose top three
Source: Advertiser Perceptions, “SSP Report, Wave 3: 1H 2019,” July 17, 2019

Cheyney also noted that retailers want to maintain control of their data and respect customers’ privacy. Third parties can play a role by providing data security, keeping individual retailers anonymized, and ensuring their audiences aren’t being sold directly to their competitors, all of which make data monetization more palatable.

“But that control aspect is key,” he added. “I wouldn’t want to participate in a data consortium and then [have that data] thrown out on the open web. It still needs to be sold by a company that is specifically hired to sell the media associated with that consortium.”

ATTRACTION ADVERTISERS

Allocating Budgets

Getting advertisers to allocate their spend to digital retail media requires a budgetary commitment. Since many advertisers haven’t traditionally put their buys against these platforms, the dollars may end up pulling from different parts of the organization.

While not necessarily reflective of the budgets retail media networks might tap into, Amazon budgets could offer some insight. A March 2019 survey from Digiday of 59 media buying executives found that nearly half (47%) were getting incremental budget to advertise on Amazon, while 44% were taking dollars from existing search budgets. Another 22% said their Amazon ad spending money came from exploratory budgets, and 20% was pulled from social budgets.

As a result, retail media teams need to cast a wide net within brands and agencies. “We’re building relationships with agencies, national brands, ecommerce teams and existing shopper media teams,” Kroger’s Pratt said. She noted that off-property ads tend to come from national media budgets, while on-site ads are funded by ecommerce teams. “Some CPGs are a little less mature in their development at that type of team, [and in those cases] the shopper team has increased budgets directed at influencing a digitally constrained shelf.”

What makes the CPG space unique, for example, is the massive shopper marketing budgets, and with shopping behavior increasingly moving online, there is a growing sense that some of those dollars should be allocated to digital channels.

For many other categories, the budget reallocation is more straightforward. “It is primarily digital budgets being shifted around,” Sellics’ Jordan said. “But within the sub-budgets of digital, there isn’t a common trend.”

Working with Agencies

Most brands buying retail media are working through their agencies. Within the major advertising holding groups, there are performance marketing shops specializing in making these buys.

Because of Amazon’s dramatic rise, many independent performance marketing agencies are now reorienting around that opportunity. It’s also spawned an entire cottage industry of startup agencies focused on Amazon ad buying and optimization—similar to what arose with search marketing agencies during Google’s ascendance and with social marketing agencies during Facebook’s growth period.

While this new type of digital advertising demands similar domain expertise, these emerging agencies see the larger opportunity that exists beyond Amazon alone.

This need for domain expertise stems from the fact that “retailers aren’t great at selling themselves,” said Dentsu’s Margaritis said. “Their tools and interfaces are dated, they lack case studies and experience to convince, and they’re not creating the right collateral to educate.”

It’s not a case where “if you build it, they will come.” Agencies need to be properly educated about the new platforms, how they operate and the results they can deliver for the agency’s clients.
“Media planners aren’t as familiar with the offering, aren’t as convinced of the results, and are less likely to pull budget from something they know will work to put into something they feel is unproven and risky,” Margaritis added.

Measurement

There is an old adage that “not everything that can be counted counts, and not everything that counts can be counted.” Any modern CMO will recognize the truth behind this statement. Yet, in an era of shortened CMO tenures, many will put their dollars against working media that can be measured—even if imperfectly. That’s why CMOs don’t get fired for advertising on Google and Facebook; they can point to the ROI of their marketing spend on the platforms.

Retail media networks have the ability to measure brand outcomes with closed-loop reporting that can be, perhaps, best-in-class. “Every brand tries extremely hard to understand the relationship between digital media and offline sales, and these media networks have the right flow to help see where the consumer is transacting and how many are transacting,” Dentsu’s Margaritis said.

It’s the linking of ad targeting on the front end in combination with sales performance on the back end that constructs such a powerful feedback loop.

Kroger’s Pratt said her company will use the anonymized exposure files as a common link between the ad impression and sales. “That allows us to do more than know who we targeted or make assumptions based on click-through rates, viewability measures or brand recall studies [in order to] predict sales impact. It also allows us to understand whether there was truly incremental lift that was derived—sales lift, penetration lift, unit lift.”

And brands are seeing the results. “Advertisers are indeed finding success, and we’re seeing a growing shift in investment to these platforms,” iProspect’s Shurilla said. But he cautioned about measuring sales lift correctly. “As advertisers we need to, more than ever with retail media networks, pay attention to the actual incrementality of the advertising campaigns we launch. To do this, it’s helpful to have insight into overall sales to compare with ad-induced sales.”

When brands get visibility into the incremental gains of their ad spend, especially when they outperform other channels, budgets tend to follow.

RETAIL MEDIA AD FORMATS

Retail media ads come in a variety of formats that, like other forms of digital advertising, break down into top-of-funnel brand-building vehicles or bottom-funnel direct-response ads, including search.

SPONSORED PRODUCT ADS

Sponsored product ads (aka paid search) are typically the starting point for retail media businesses. When consumers come to a retailer’s website or app, they’re ready to shop or buy, so there’s a high degree of intent that can be monetized by the retailer.

Triad’s Cheyney calls it the “low-hanging fruit” of retail media. “Sponsored products are very attractive for brands and retailers because they’re at the lowest end of the funnel. Shoppers click, they go, hopefully they purchase. It’s a great experience for the consumer because it shows a relevant result at the right time.”

The playbook itself is one of the oldest ones in digital media, popularized of course by Google, but even more powerful within the context of an online retailers’ shopping experience because of the shopper’s clarity of purpose.

Search is relatively straightforward to implement for advertisers, many of whom are already accustomed to buying relevant keywords for their products. It can still be a time-intensive process to select, test and optimize keyword terms, especially when each search platform behaves differently depending on user behavior. What works well on Google may not work quite as well on Walmart.com, for example.

But the efforts are hyper-relevant and tend to bear fruit for advertisers who know their way around the space. There’s a budget to be set, and the results can be tracked in black-and-white terms to know whether that search ad spend is delivering ROI. Sponsored product ad budgets most often pull from brands’ offline shopper marketing budgets and online paid search budgets.
ON-SITE DISPLAY AND VIDEO ADS

Retail media networks also have a sizable opportunity to move further up the funnel from sponsored search with display and video advertising, which can be delivered both on-site and offsite.

On-site display ads can help promote brands and products when shoppers are already perusing the digital aisle. These “digital endcaps” tap into traditional methods of in-store shopper marketing to spotlight brands at opportune times, like an over-the-counter allergy medication in August or canned pumpkin in November. These ad units take advantage of heavy traffic volume that hasn’t already been winnowed down through search and work well for everyday products or seasonal promotions. The ads may appear on the premium homepage real estate or within different product category sections.

On-site media is also incorporating more video advertising, though typically not in the form of an imported 15- or 30-second TV spot. These ads can be seen as interruptive in the context of online shopping, so the video spots may look and feel more like product merchandising reels.

“There’s a huge opportunity with video because sight, sound and motion at the place where a product is being sold, it’s almost like an online version of the in-store demo,” Triad’s Cheyney said.

All else equal, retailers would prefer more video inventory, as impressions command higher CPMs and tend to correlate strongly with sales. But given inventory constraints on retailers’ websites, few have the scale to make this format viable. Today, that primarily means Amazon, though Walmart acknowledged earlier this year that it would introduce video ads in 2019.

OFFSITE DISPLAY AND VIDEO ADS

Offsite advertising represents a huge opportunity for retail media that’s only beginning to get off the ground. Amazon has the most sophisticated capabilities with its own DSP and is generally further along in being able to deploy ads around the web. Even still, we estimate that only 28% of Amazon’s US ad revenues come from display and video ads, not all of which are delivered offsite. Walmart also brought a DSP in-house through the Polymorph Labs acquisition, although it remains in the integration stage.

Off-site advertising adds a layer of complexity for which many retailers are not yet equipped. Kroger Precision Marketing is further along in these efforts because grocery chains generate modest web traffic but have breadth and depth of brand purchase data—ideal for powering brand-building ads across the web.

A retailer that doesn’t have a big enough or valuable enough data footprint will struggle to cut private deals with publishers and needs to plug into the open exchanges. No matter how the ads are bought, however, the mechanism of purchase-based targeting for display and video advertising is valuable—especially in fast-moving consumer goods categories.

EMERGING FORMATS

Over-the-Top (OTT) and Addressable Video

Realistically, most retailers probably wouldn’t get into the advertising space if it were just about carving out a share of the existing pie. It’s the allure of emerging formats and the marketing dollars they represent that forces many to consider the opportunity.

The foundational elements of retail media—purchase-based targeting and closed-loop measurement—can theoretically translate into various advertising contexts. The one on everyone’s minds at the moment is addressable TV, which remains nascent but promises to draw traditional TV ad dollars.

Already, there are signs that Amazon harbors TV advertising ambitions, with its continued content investments in Prime Video (which is today not ad-supported but could be in the future) and content rights acquisitions for NFL Thursday Night Football, Premier League, and back-catalog TV shows and movies on IMDb TV. Introducing its existing advertising platform could shake up the dynamics of the $70.30 billion TV ad market in the US (per our estimates), which has historically lacked strong targeting and measurement mechanisms.

Amazon isn’t alone in thinking about bringing retail media into ad-supported TV. At Advertising Week 2019, Target and Disney announced an innovative partnership to bring advertising attribution to linear TV. Disney’s ad sales teams—for channels like ABC, ESPN and the Disney Channel—will be able to tap into Target shopper data to measure sales lift. Given the 70% overlap between Target customers and Disney’s TV audiences, there should be plenty of useful data on which to forge the partnership.
As reported in Ad Age, Argyilan of Roundel described the initiative as intending “to unlock a level of transparency and accountability in performance that hasn’t been available in the marketplace because these capabilities haven’t come together before.” She offered the example of being able to prove to a CPG brand “that when they ran these spots with Disney, we saw this lift in their sales through Target’s sales channel.” Importantly, this closed-loop measurement would incorporate both online and in-store sales.

Walmart has also reportedly taken steps to become a TV advertising platform. Like Amazon, the company is investing in original content—beginning with at least six original shows, including family-friendly content, to be streamed through its Vudu service—that could provide it with ad-supported video inventory (on top of its existing back-catalog of content). The new programming will also reportedly include plenty of “shoppable” content in the form of product placements that can be purchased at Walmart.

These video efforts may be embryonic, but it’s not hard to envision a future with TV advertising delivered and measured by retail media networks. In a medium that has lacked sophisticated targeting and real-time feedback loops, this has to be enticing to advertisers.

**In-Store Media Networks**

Retail media will likely come full circle, moving from brick-and-mortar to digital to TV and right back into the physical store—only this time, through digital media displays. While brick-and-mortar signage is still in the early phases of adoption, particularly in grocery stores where it yields the greatest potential, it’s inevitable that retail media will get reintroduced into this environment—albeit in a different format.

What will it take for this opportunity to materialize? Aside from much greater adoption and proliferation of in-store video displays, it will need supporting technology to enable personalization. The promise of retail media is predicated on a one-to-one relationship, where the individual user’s purchase habits can be used to target them with relevant messages. That’s possible only if the display can recognize the shopper in its vicinity through some form of proximity-based communication with the shoppers’ mobile device.

And that doesn’t happen automatically; shoppers will need to opt in to that experience. But if the future of grocery looks like Amazon Go, where shoppers engage their app to authenticate at entry and exit via cashierless checkout, that level of in-store personalization could become the norm within the next decade.

**KEY TAKEAWAYS**

- **Retail media is a path to profitable revenue growth.** Digital advertising has a different margin profile than traditional retail, making it a tantalizing opportunity for retailers. Success in building this incremental revenue stream not only represents a path to topline growth for retailers struggling to grow as foot traffic dwindles and price competition increases, but also can juice bottom-line results.

- **Sponsored search dominates today, but display and video are emerging.** Brands have put most of their budgets toward sponsored product ads since they get in front of shoppers at the bottom of the funnel when they are ready to make a purchase. However, retail media ads are destined to move further up the funnel with more traditional brand-building ad formats like display and video, fueled by purchase data.

- **Building a retail media business is easier said than done.** Owning first-party customer purchase data isn’t enough to build a viable digital ad business. Retailers developing their own media networks need enough traffic, depth and breadth of data, a robust ad stack, and means of engaging and servicing advertisers. Without enough of the necessary core assets, their better option is to partner with a third-party network or agency.

- **But with the potential to eventually tap into the $70 billion TV ad industry, the effort might still be worth it.** Applying the current digital ad model for retail media to emerging addressable TV and OTT video formats will attract advertisers looking for the ability to reach video audiences more efficiently as well as measure the sales effectiveness of these campaigns.
EMARKETER INTERVIEWS

Sean Cheyney
Vice President, Global Business Development
Triad
Interviewed August 5, 2019

Franz Jordan
CEO
Sellics
Interviewed August 2, 2019

Scott Kelliher
Head of Brand Advertising and Partnerships
eBay
Interviewed September 6, 2019

Ed Kennedy
Senior Director, Commerce
Episerver
Interviewed July 26, 2019

Chris Lundquist
Senior Vice President and Global Lead, Marketing Science
BBDO
Interviewed August 28, 2019

Will Margaritis
Senior Vice President, Ecommerce and Digital Marketing
Dentsu Aegis Network
Interviewed October 8, 2019

Geoffroy Martin
Executive Vice President and General Manager
Criteo Retail Media
Interviewed May 14, 2019

Caroline Pratt
Vice President, Commercial and Product Strategy
Kroger Precision Marketing
Interviewed October 2, 2019

Nate Shurilla
Global Director, Commerce and Voice
iProspect
Interviewed October 9, 2019

Sherry Smith
CEO
Triad
Interviewed July 25, 2019

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Amanda Silvestri
Senior Copy Editor
One of my favorite New Year’s traditions is watching the World Junior Hockey Championship. Go Team Canada! But what does it take to be a successful team? Let’s take a closer look at the retail media network players and how they can evolve their relationships to become a unified team:

The Retailer (Target’s Roundel, Walmart Media Group)

Traditionally seeing themselves as the coach, positioning brands and agencies where they needed them, retailers must evolve to become a player on the team. The most valuable retail media networks will be those who develop shopper data partnerships with brand partners, share meaningful post-campaign reporting, and make it easy for media agencies to work with them.

Retailer teamwork can also evolve within its own walls. Whether the media network grows from an existing merchant organization or a newly formed group, retailers will need to expand the team to include IT, analytics, CRM, marketing and merchants.

The Brand Manufacturer (P&G, Nestle)

First-party retailer data has always been elusive to brand manufacturers. Now that there’s an opportunity to partner with retailers, it’s time to play nice. Think about what you bring to the game. Have you been developing your own customer database? Have you defined the value of retailer audiences for your brands? With access to more data, better reporting and targeted digital ads on and off the retailer’s properties, brands must define the incremental value.

Setting up a center of excellence to better understand the landscape and select the retail networks that fit with your shopper and consumer strategies will allow you to be a smarter player.

The Non-Endemic Brand (General Motors, United Airlines)

If you’re reading this as a non-traditional brand, don’t feel left out. This is your opportunity to get in the match. Think about your core consumer beyond the path to purchase for your own products. Where else do they shop? What other brand affinities do they have? Challenge your media agency to find retailers where your consumers shop. Then get creative about how you can engage with them to build unique campaigns that run with this valuable retailer data.

The Traditional Media Agency (Dentsu Aegis Network, and their media agencies such as Carat or Merkle)

With over a decade of shopper marketing experience, I’ve sat in annual planning sessions where it has been clear that traditional media agencies don’t give a second thought to retail media spending. As this industry matures and offers more ad solutions with greater reporting and access to real results (AKA sales), it’s time for media agencies to understand their position, while also helping retailers understand agency success metrics.

From Reluctant Partners to Teammates

The game is changing. In the past, whether you defined the retailer and brand marketer relationship as traditional co-op or a more evolved shopper marketing effort, it was built on forced teamwork. If we’re going to find the true promise of retail media networks, we’ll need to better understand what motivates each of the players and find ways to work together for a better shopping experience.

—Janine Flaccavento, VP, client partner, Merkle
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