

The Daily: Keeping up with retail media, ads in Roblox, and Tesla gives advertising a go

Audio

On today's episode, we discuss what's currently driving retail media, the other retailers outside of Amazon to watch, and what advertisers should be focusing on in this moment. "In

Other News," we talk about ads (and influencer content) in Roblox and why Tesla has decided to start advertising for the first time. Tune in to the discussion with our analyst Max Willens.

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Episode Transcript:

Marcus Johnson:

Hey, gang, it's Tuesday, May 23. Max and listeners, welcome to the Behind the Numbers Daily: an eMarketer Podcast made possible by InMobi. I'm Marcus. Today, I'm joined by one of our

senior analysts covering digital advertising and media based out of Pennsylvania, it's Max Willens.

Max Willens:

Yo.

Marcus Johnson:

What's good? Today's fact. How much water can a camel drink? A lot, like an aggressive amount. So camels can survive up to 15 days without water, a record I appear to be going for every day, constantly dehydrated, but one of the reasons that they can survive that long is because of their humps that store energy, rich fat, not water, and can help them go longer without it. A typical camel though, Max, can drink 200 liters or 53 gallons of water in three minutes.

Max Willens:

What?

Marcus Johnson:

For context, that's over 800 glasses of water. So at the recommended six to eight glasses of water per day for humans, it would take us four months to drink as much water as a camel can drink in three minutes.

Max Willens:

Well, now I need to find footage of this. Do they have-

Marcus Johnson:

First thing's first.

Max Willens:

... straws hiding in their humps? That's bananas.

Marcus Johnson:

Yeah, that's too much. That's too fast. Slow down. Slow down. What's the rush? Anyway, today's real topic: retail media.

In today's episode, first in the lead, we'll cover retail media. Then for another news, we'll discuss ads on Roblox and Tesla advertising its cars for the first time. Max, in your latest piece on retail media, you write that retail media has the potential to become one of the biggest growth engines in the history of digital media. And that next year, more than one of every \$6 one in six spent on digital ads in the US that's 18% will go to retail media. Retail media taking an 18% slice of all digital advertising. So let's start with the why. What are the main couple of drivers behind this growth in retail media at the moment?

Max Willens:

So I think there's a lot of things fueling this growth, and maybe even before diving into what those are, I would just say also that it kind of captures and taps into a lot of concerns and interests that advertisers have right now. So retail media is a lot of things, but at its core at the moment right now, it's really powered by onsite search. So I go to amazon.com or walmart.com and I go looking for a pair of pants or a camping stove or a television, and it will send back regular results, but it will also send back some sponsored advertisements. And this kind of advertising is very, very attractive to advertisers because A, it's close to the transaction. It's easy to connect the dots between person looked for product, person clicked on my ad, person bought my product. That's very easy to make the case to spend lots of money if it's driving results.

And two, it sits on big, big piles of privacy compliant first party data. A lot of the big retailers have pretty in-depth pictures of the people that are shopping on their websites. So with that said, it also benefits from lots of other macroeconomic factors.

So if you think about retail, e-commerce sales, just the number of people buying goods on the internet that is continuing to grow really, really healthily and the sheer volume of goods that people buy online now is really, really pretty large and pretty impressive. So by our own numbers, the retail e-com sales per digital buyer will exceed \$5,000 this year, which is basically just another way of saying that most Americans buy lots and lots of things online. And in so doing, they not only open themselves up to exposure to advertisements, but the purchases that they make, make the targeting and delivery of those advertisements more efficient and more accurate.

The other thing that's driving this is the proliferation of ad formats. So like I said, the core of the spending in retail media is sponsored search, but some retail media networks offer CTV ads, they offer video ads, they offer offsite display, they offer audio, they offer in-store media,

and there's a lot of complexity and some challenges inherent in those formats. But the reality is that you can use retailers to target consumers almost anywhere that you can target any kind of digital advertising, and that potentially is very powerful.

And then finally, there's a lot of just scaled relationships in place. You think about something like podcasting, which is growing nice and healthily, but a lot of the hope for growing there is that they need more advertisers to get interested in podcast as a format. Whereas, if you think about something because of the marketplaces that a lot of these retailers run, they already have relationships in place with thousands if not millions of potential ad buyers. So in the fourth quarter of 2022, for example, eBay disclosed that it had 2 million advertisers in its retail media network. And building those relationships for emerging ad formats can sometimes take years. And retail media basically has those relationships in place right now.

Marcus Johnson:

Mm-hmm. So you mentioned eBay. You point out that Amazon will reign over retail media for the foreseeable future, accounting for two-thirds of the market. But outside of Amazon, who are some of the other major retail media players to watch and why?

Max Willens:

Well, I think the easy, boring answer is Walmart because they are the second biggest. They're, I think, going to be something in the neighborhood of \$3 billion in ad spending this year, and that's going to grow quite healthily over the next several years.

But I think that what's going to be really most interesting to watch is going to be not the retailers themselves, but the aggregators. So you think of a company like CitrusAd for example, which is owned by Epsilon, and they claim that 40% of US retailers offer some ad inventory through their pipes. And again, there it's mostly search advertising. CitrusAd has recently debuted a couple of new ad products. But I think what's going to really have a really powerful effect on not just the retail media ecosystem, but just the US consumer experience of shopping online is going to be determined in large part by aggregators like CitrusAd, like a Criteo, like potentially Shopify or The Trade Desk, because they will have an outsized impact on what's searching and what shopping looks like on online for the foreseeable future.

Marcus Johnson:

I mean, it's hard. It seems like it's hard for anyone outside of Amazon to really have an outsized impact, correct? Because we're suggesting that Amazon's going to claim \$34 billion in retail media ad revenue this year. That's over 10 times more than second place in terms of retail media, Walmart.

Max Willens:

Yeah, I mean, that's exactly right. I mean, what's so interesting is one of the key areas of interest around retail media ad spending is offsite spending. So like I said before-

Marcus Johnson:

Explain to folks what that is, onsite versus offsite retail media.

Max Willens:

Yeah, of course. So onsite is what it sounds like when you're on amazon.com or you're on walmart.com, it's ads that appear on those websites. Offsite is any ad that's targeted to a user using a retailer's data, but not on one of their properties. So an example would be if you're sitting back and watching shows through your Roku at home and you see an ad for a camping stove that could conceivably have been targeted there using Walmart data and ad spending through Walmart. That's an offsite ad. And this is really important not just for Amazon and Walmart, but especially for all the other retailers that just don't have the same kind of scale as an Amazon or a Walmart.

So Amazon is one of the largest, most visited websites on the internet. Dollar General's website, not so much. They have a decent amount of digital traffic, but most of the commerce that they drive happens in their stores. And so for them to make retail media really work for them, they need offsite spending to grow and grow and grow.

The reason I bring all this up is that retail media, most of the spending is onsite right now, principally because of Amazon and Walmart. If you think about the other retailers, offsite is going to be much more important.

Marcus Johnson:

Yeah, so what we forecast about 86% is onsite. The rest is off, and offsite is slowly growing, but slowly, right, by a point per year.

Max Willens:

In terms of share, yes, but in terms of dollar amounts, it's growing quite healthily. So you think about this year, offsite retail media ad spending is going to be bigger than influencer marketing is.

Marcus Johnson:

Wow.

Max Willens:

By next year, it'll be bigger than all of digital audio ad spending. So it's going to be bigger than Spotify, bigger than SiriusXM, bigger than iHeartMedia all rolled up together. And it's one of those funny things where to your point, its share of retail media is going to be sort of growing, but very slightly, but it's going to be in and of itself a big deal in an area that marketers and advertisers are going to have to pay close attention to.

Marcus Johnson:

When you give these numbers context, they really do indicate that they are a big deal, or not only have become a big deal, but are becoming even more of a big deal. And one of those numbers, a retail media milestone of sorts, in 2025, advertisers will spend more on retail media than they will on linear TV, \$68 billion up from 45 today. Milestones happening all over the place. Max, what's holding retail media back?

Max Willens:

So it's funny to imagine anything holding it back given all the numbers that we've been throwing around. But I would say that there are a couple things kind of holding onto it and slowing things slightly. The reality is that this is a space that's growing and evolving really, really fast. And I would say that it's evolving maybe too quickly for ad buyers and sellers. So in March of 2022, our forecasting team looked at retail media and they expected that retail media would exceed \$51 billion this year.

And since our forecasting team ran those numbers, Meta, Snapchat, Pinterest, TikTok, Roku, have all jumped into retail media. A number of the largest retailers announced that they would allow advertisers to use money from joint business partnerships and retail media. And yet with all of that excitement and energy, we revised our forecast for the space down by about 12%. And I think partly it's because there's so much happening right now that it's kind of difficult for advertisers to make sense of what to do and where to spend their money. And one of the

ways that you sort of see that happening is just in the number of formats that are available and the challenges that creates.

So imagine for a moment that you're an advertiser and you're spending a little bit of money buying ads on Amazon, but then you think, 'Oh, well maybe I'll start spending and using this money to target people on Facebook or on Instagram.' Well then maybe you've got to bring in the agency that handles your social spending and then you think, 'Oh, well, I'd also like to use this to target some programmatic display ads.' And then all of a sudden you've got to bring in your digital agency to talk with about how that's going to work. And then you think, 'Oh, I'd also like to do some digital audio ads.' And then all of a sudden, the next time you chat internally about how to do your retail media spend, you've got five different agency partners on the Zoom with you, and each of them is trying to muscle in and have a say in how this relationship gets handled. And that creates a coordination problem.

And then this problem gets compounded still further by the number of retail media networks you spend in. So if you're not just in Amazon, but you're also in Walmart and you're also in Target's Roundel network, and you're also spending in Kroger, A, that just becomes difficult to manage, but it then gets really, really difficult when you sit down with all the data and go, "Okay, but which one of these is actually doing a better job? Right now I'm spending a million bucks at all of them. Which one should get 2 million next year if I only can up my spending?" And that comes down largely to a measurement problem that this space has. And I think to be clear, I expect that that's a problem that will get ironed out in the coming years, but right now it's there and it's presenting a little bit of a speed bump for the space.

Marcus Johnson:

That's it for the lead time for the halftime report. So Max, I normally ask for a takeaway at this point, but I'm going to ask you instead, what does this all mean for advertisers?

Max Willens:

I think what's really interesting about what's happening here is that this potentially really complicates the relationships that advertisers have with retailers. Where if I'm General Mills and I am buying a bunch of ads on a social media platform and something goes wrong, or the results they give back are kind of hard to measure, they're kind of vague, I can get on the phone with my account rep and respectfully but firmly or maybe quite angrily say, "Hey, what

gives? I paid you to do this. You didn't drive the results I wanted. This is kind of hard to use. I can't plug this into my model. This is unacceptable." And that's one kind of relationship.

But if you also are relying on, you can't really yell at Walmart for example, or at Amazon because they're also a key driver of your product is on their shelves. And so you managing those relationships is I think going to be very complex for lots of advertisers as they move forward. And so watching how that evolves I think is going to be fascinating.

Marcus Johnson:

Excellent point. Max's research on this is titled Retail Media Ad Spending Forecast H1 2023 as Retailers Race to Innovate and Buyers Scramble to Keep up link, of course in the show notes. So you can head to insiderintelligence.com. Time for the second half of the show today. In other news, ads and influencer contents inside Roblox and Tesla, it's going to give advertising a go.

Story one, "Ads and influencer content inside Roblox games weren't adequately marked as such according to the Children's Advertising Review Unit or CARU," Patrick Coffee of The Wall Street Journal notes. Companies like Nike and Kellogg have created branded experiences within Roblox, which are free to develop. Bonnie Patten, executive director of advocacy group Truth in Advertising says, "All branded executions should be labeled as ads, but marketers approach to the subject varies." Fruit Loops World on Roblox has a sign saying this is an ad. Nikeland does not. "Roblox said it will prohibit game developers and brands from serving ads to kids under a new policy taking effect June 15th, addressing a large portion of CARU's complaint," Mr. Coffee notes. But Max, the most interesting sentence in this article is what and why.

Max Willens:

I think you alluded to it in your setup, Marcus. Roblox said, "Branded virtual worlds on its platform don't constitute advertising." And I think that's pretty rich. They are technically correct in that they are not charging developers for building these big branded fun houses on its platform. But the point of those from the brand's perspective is to market themselves to Roblox's user base.

And I'm be very curious to see how the FTC and trade groups respond to this little loophole that Roblox is staking out of saying, "Well, no money's changing hands." But the reality is that they're trying to acclimate their users to engaging with kind of branded content and entities

within their platform. Because the path that all these platforms take is that it's free to start, and then once you get hooked on the exposure and connection to users that they have, then they turn the dials and start charging you for it.

Marcus Johnson:

Yeah. Yeah. One of the reasons this is such a big deal is because there are a lot of young people on Roblox. As of Q1, Roblox had 66 million daily active users. 43% were under the age of 13.

Story two, Tesla will give advertising a go according to CEO Elon Musk marking a significant shift in strategy. Our senior director of briefings, Jeremy Goldman, explains that the electric vehicle pioneer has historically relied on the quality of its products and word of mouth marketing to build its iconic brand, which controls roughly 12% of the world's global electric vehicle market share. But, Max, the most interesting sentence in Jeremy's piece about Tesla giving advertising a go for the first time is what and why.

Max Willens:

So Jeremy writes, "Increased competition from traditional automakers who are heavily investing in electric vehicles and advertising has put pressure on Tesla." And if you're running unopposed, there's no reason to spend money on campaign ads. In the world that we are entering where I think I saw the other day that GM has vowed that by 2035, they will only sell electric vehicles. If that's the world that we're all moving to, however belatedly, then Tesla's going to have to advertise. They will not have a choice because-

Marcus Johnson:

Certainly, 12 years away somehow.

Max Willens:

That's right. But there will just, we will be entering a world where the chief selling point of its product ie, that it's electric, will simply not be that special anymore. And so they're going to have to find a way to sort of extol the other virtues of its product. And the only way to do that really is advertising.

Marcus Johnson:

Yeah. Yeah. They're way out in front at the moment, but if they stand still, they're going to get caught up pretty quick. So according to the Associated Press, Tesla sold over 160,000 electric vehicles in Q1. That's eight times more than GM, 16 times more than Ford. However, GM's Chevrolet Bolt was the bestselling EV in the US in Q1. Mr. Musk has suggested that the ads could highlight Tesla's lesser known features and address affordability misconceptions as well. That's all we've got time for this episode. Max, thanks as always for hanging out, mate.

Max Willens:

Always a pleasure, Marcus.

Marcus Johnson:

Yes, sir. Thank you to Victoria who edits the show, James who copyedits it, Stuart who runs the team. And thanks to everyone for listening in to The Behind Numbers Daily: an eMarketer Podcast made possible by InMobi. You can tune in tomorrow to hang out with Sarah Lebow and VP of Content, Susie David Canyon, as well as analyst, Blake Droesch, as they discuss the battle for online dollars between the top 15 retailers.