CAPITALIZING ON THE RETAIL MEDIA BOOM:
5 TIPS TO MAXIMIZE VALUE FOR RETAILERS AND BRANDS

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SPECIAL REPORT

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INTRODUCTION

Every one of the **top 10 retailers** in the U.S. now has a retail media network (RMN), which should tell you something about where this trend is going (hint: toward ubiquity). It's enough to make retailers without an RMN of their own scramble, particularly as companies like **Amazon** and **Walmart** report mind-boggling ad revenues — **$2.1 billion** for the latter, not too shabby for a company whose core business isn't advertising.

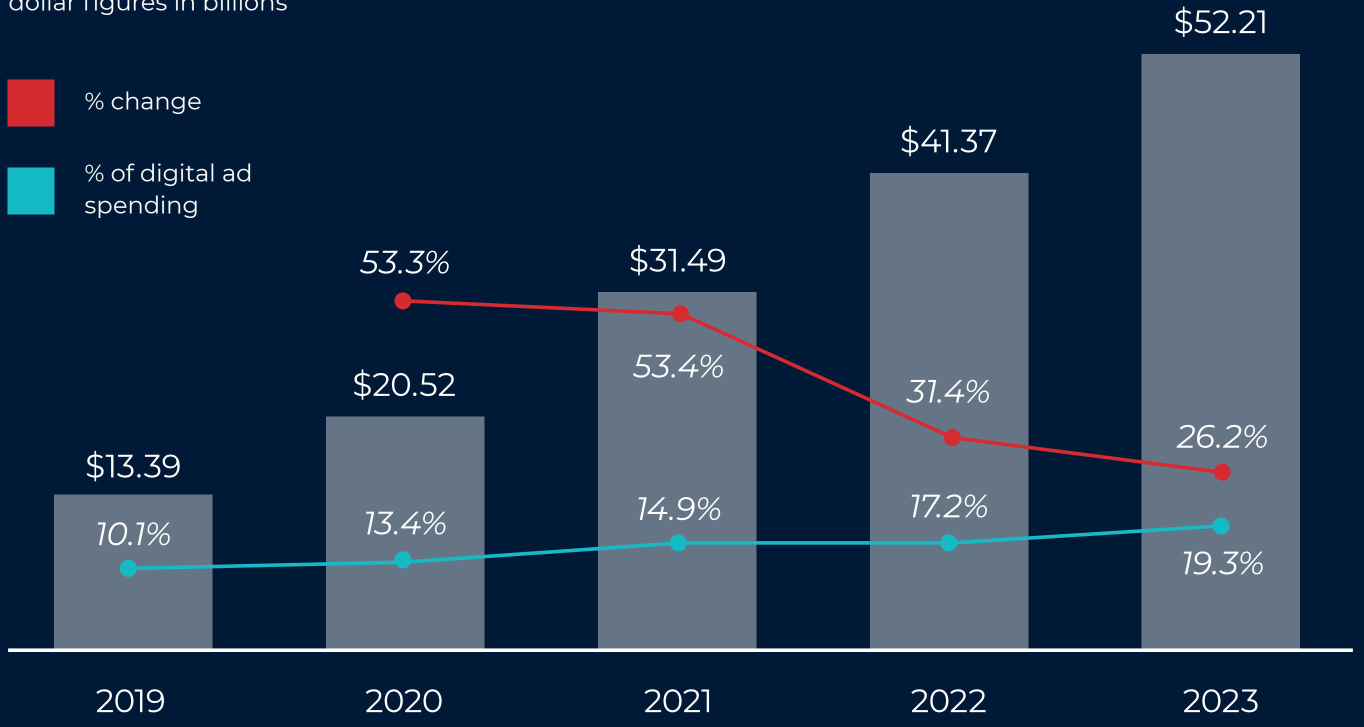
"We're seeing something like **15+** retail media networks launched in the U.S. alone already," said Jon Flugstad, Associate Partner at **McKinsey & Company** in an interview with *Retail TouchPoints*. "Next year, [retail media] will be about **$50 billion** in media spend, which is about **25%** of all digital media, and we're seeing forecasts of around **$100 billion** by 2024."

There are a number of reasons for the rush to set up RMNs. First, there's the Amazon effect: retailers see how lucrative ad sales have been for the perennial disruptor (**$31 billion** in 2021) and want a piece of the rapidly growing action. **Macy's** RMN hit the market in 2020 and quickly generated **$105 million** in revenue in 2021. Then there's the ever-tightening **restrictions on data collection** and tracking, making it harder than ever to target and engage consumers via traditional marketing channels.

But there is one reason that tops them all — retail media offers a straight-line connection between ads and actual purchases. "Optimizing media by closing the loop — that's the unlock here," said Quentin George, Partner at McKinsey and leader of the company's Commerce Media Practice. "**What gives retail media networks an advantage over almost every major media owner is that they have transactional behavior and intent."**

U.S. Digital Retail Media Ad Spending, 2019-2023

dollar figures in billions



Source: eMarketer

Top 10 U.S. Retail Media Networks

Source: eMarketer

"For the last **80-plus** years, media has been optimized around impression delivery — you reached the audience we said we're going to target," George added in an interview with *Retail TouchPoints*. "The problem is, all of the optimization happens around marketing activity and not marketing results. What retail media aims to change is to draw **a direct correlation between an impression and a SKU-level sale**, [and that's why] this is so exciting and transformative."

Which isn't to say it's perfect yet; speak to any brand buying into retail media platforms today and they'll tell you there are still some kinks to be worked out. "Although the vision is compelling, and we have seen some examples of tremendous success, today **there remains a clear gap between the reality and the promise for most**," said George. "Prominent retailers have invested heavily in standing up media businesses over the last few years, but this is still not a core business for them and to expect that they can close the gap to compete with Google and Facebook and Amazon in just a few short years is unrealistic. Many have made substantial progress, but most have had growing pains, and it's been an uneven experience for the brand advertisers they serve. Having said all this, once you've seen this work, **it is hard to revert to buying media on a reach and frequency basis alone**."

As the retail media ecosystem rapidly evolves, here are **five** key aspects that retailers must consider as they build out their offering:

1. Retail media's **core value prop is the data**, so deep, integrated data measurement and insight capabilities are an absolute must;
2. The most successful retail media networks will be those that look **beyond the website**;
3. Retail media is **transforming the brand-retailer relationship** as brands become not just suppliers but clients;
4. At the same time, retailers can't forget their first client, the **end consumer**; and
5. Introducing an entirely new business model within organizations that have operated the same way for decades requires **flexibility and boldness**.

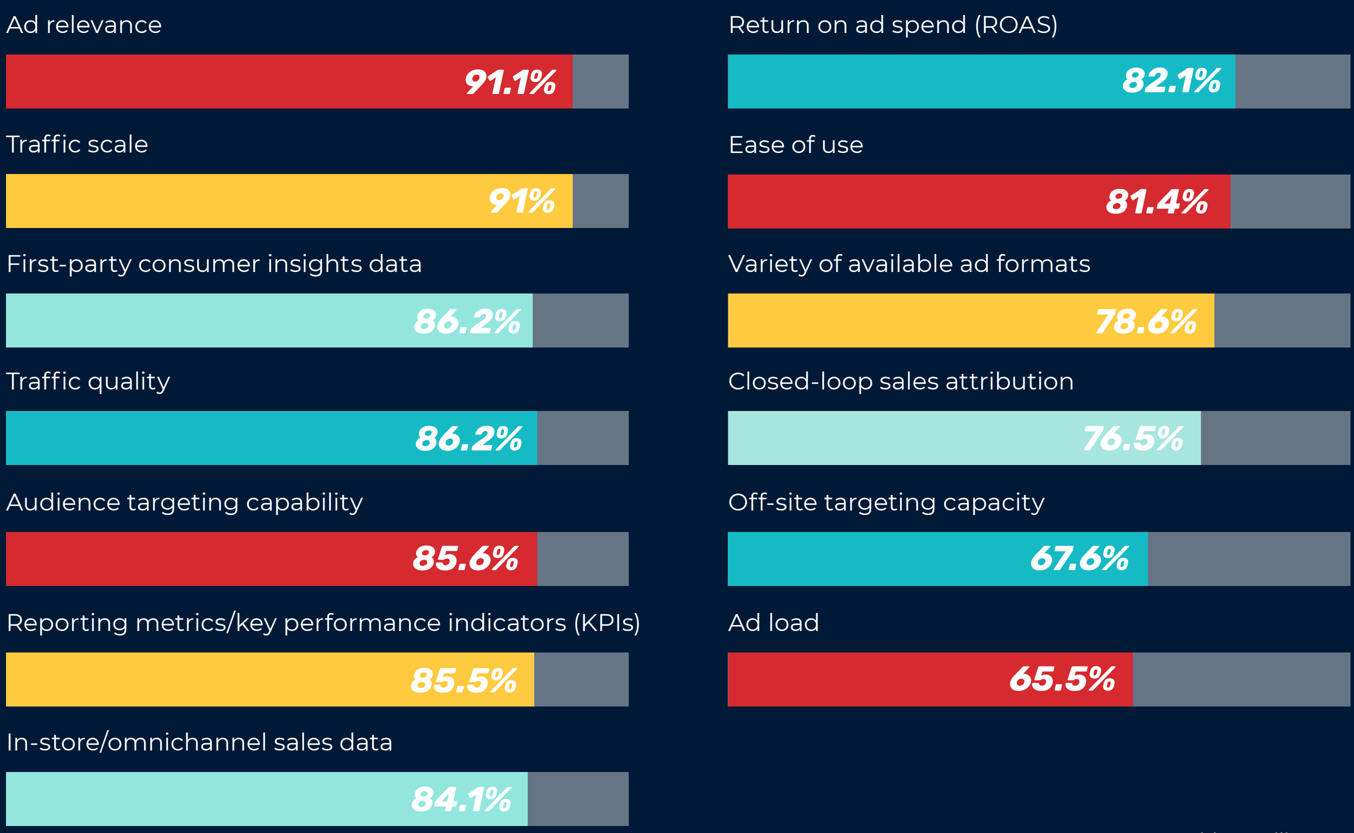
1 It’s All About the Data

While retailers might be new to running media operations, brands, particularly those with the biggest budgets, are not. “P&G, J&J, Unilever, GlaxoSmithKline, **they expect to be able to plan, place, optimize and attribute their [media] investment the way they do with every other marketing channel** that’s digitally based,” said Laura Davis-Taylor, Founder of the **Branded Ground** consultancy and Board Member of the Digital Signage Federation.

“When you talk to advertisers, they’re going to express numerous pain points,” said Flugstad. “One, that they can’t find credible media talent within some of the retail media networks they work with and get a credible response on how the return on ad spend [ROAS] will be measured. Second, [retailers] are trying to build the holy grail of integrated reporting, but it takes time to build the customer data architecture to do that. **Down the road, retailers will have omnichannel reports that are able to link metrics in real time for the advertisers**, but right now it’s still too slow and it’s not granular enough.”

Importance of Select Retail Media Network Attributes According to U.S. Consumer Goods Advertisers, Nov. 2021

% of respondents that said attribute was “extremely important” or “very important”



Source: InsiderIntelligence

That **customer data architecture** will be key to delivering on the promise of retail media. "The core value proposition [of retail media] is the ability to measure the effectiveness of your marketing spend, so you need to have technology that helps you create efficiencies at scale, curate the audiences and make the data accessible in the right formats," said Vihan Sharma, Executive Vice President of Global Revenue at data enablement platform **LiveRamp**. "**The most important thing is having a holistic view of the consumer in order to create custom audiences at a high frequency**. Today that is very much a manual process. It takes time [to get to the point where there are] always-on measurement capabilities that will allow retailers to have similar capabilities as Facebook and Google, but those things are coming."

In some cases, instead of building these kinds of capabilities in-house, retailers might be better served with a third-party solution. One interesting new offering that has recently sprung up is **Carrot Ads from Instacart**. The online grocery marketplace runs one of the most prominent retail media networks in the space today, and now it's white-labeling its tech to help retailers develop their own retail media operations.

"We're extending Instacart's advertising technology, products, services and talent to our retail partners to leverage on their owned and operated ecommerce sites," explained Ryan Mayward, Head of the Ads Business at **Instacart** in an interview with *Retail TouchPoints*. "**Building an advertising business is a significant investment that requires time, talent and technology expertise**. When retailers leverage Carrot Ads, they can tap into the depth of Instacart's ad technology and ad sales talent without standing up their own teams."

As to the decision of whether to build in-house or with a partner, Jordan Witmer, who has led retail media strategy at a number of brands, including The Hershey Company and now at **Johnson & Johnson Consumer Health**, offered this analogy: "The size of your property is going to factor in to what you do when you strike oil. If I've got a half-acre, I probably don't have enough scale to build a company around it. The best thing for me will be to bring somebody in to extract it and sell it for me. Now if I own 3,000 acres, like a Walmart, and I discover a well of oil, it probably makes sense for me to build a whole company and own the whole thing."

2 Looking Beyond the Website

While the bulk of retail media thus far has been dominated by fairly basic website-based offerings — sponsored search, display ads, promoted listings — the true power of retail media comes in connecting retail data with other channels, including **stores** and third-party platforms like **social media** and **connected TV**. Some of the more mature RMNs are already moving aggressively into this space, including Walmart, Kroger and **Target**.

In its nearly five years in operation, **Kroger Precision Marketing (KPM)** has expanded well beyond the paid search placements of its debut RMN offering and is continually looking for "impactful ways to pair our data with inventory and customer touch points across the web," according to Michael Schuh, VP of Media Strategy at KPM, part of the company's data science division 84.51°, in an interview with *Retail TouchPoints*. This now includes **co-branded off-site media, programmatic** and **relationships with major platforms** and publishers including Roku, Pinterest and Meredith.

The opportunity to connect with Kroger customers while they're perusing a recipe on Allrecipes, for example, can be particularly powerful for brands. "The intersection of product and audience with Target and Pinterest, for example, makes a lot of sense because Target's guest over-indexes in being influenced by social," said Witmer. "When we run direct buys on Pinterest, and then Roundel [Target's RMN] buys on Pinterest, **the Target audience is so much more valuable and effective for us that sometimes I can get better ROIs out of Roundel Pinterest than I do going direct, even though it costs me twice as much**."

These kinds of pairings are the start of the truly transformative effect retail media is having on the commerce landscape, which is why McKinsey's George prefers the term "commerce media." "It's more useful to think of these as **'attention monetization businesses'** than media networks. **The ones that do it well will introduce brands and offers and incentives to their customers that they maybe ordinarily wouldn't see or respond to**, and customers will reward you with their continued attention."

Things get really exciting when you start to add the store to the mix as well. Walmart, for example, just announced a slate of **new premium ad offerings** that includes formats for connected TV and video, as well as brick-and-mortar “omni-experiences” across self-checkout screens, TV walls, in-store events and sampling.

Source: Cooler Screens

Walgreens rolled out screens on its coolers in select stores, with mixed reviews.

The customer experience must still take precedence though, as **Walgreens** can attest. The pharmacy chain made **national headlines** after digital screens on its coolers enraged shoppers: “The digital cooler screens at Walgreens made me watch an ad before it allowed me to know which door held the frozen pizzas,” said one **Twitter commentator**.

Still, this holistic vision of retail media — one that includes integrated, personalized promotions across all consumer channels — is where the future opportunity lies. “Retail media is breaking down those traditional silos because you have the possibility of partnering in a different way,” said Sharma. “I want to not only advertise on ecommerce websites, I want to be providing the right promotions in stores as well. Today, it’s all still siloed, but we absolutely believe that there is going to be **a convergence of category management, shopper insights and activation across retail channels**.”

THE 3 Cs OF ELEVATING YOUR DATA STRATEGY

By Vihan Sharma, Executive Vice President of Global Revenue, LiveRamp

/LiveRamp

> Outdated data strategies lead to broken customer experiences. Marketers looking to provide seamless and welcoming experiences should continually elevate and optimize their data strategies.

Balancing Offensive and Defensive Data Strategies

When you start to break down your data strategy, it's helpful to think of the balance your business requires in minimizing risk while supporting growth. A defensive approach to data management focuses on maintaining a single source of truth to minimize risk. On the other side, an offensive approach is needed for activities related to business growth, including but not limited to boosting customer satisfaction, hitting revenue goals and increasing profitability.

Traditionally, this offensive data position has been retailers' sweet spot. However, increased regulation and heightened privacy awareness have made it challenging to access and connect the data that support retailers' customary levers of business growth.

Check out these three ways to discover the right balance to increase your competitive advantage:

1. Collect

A 360° view of the customer is something that is often talked about, but few retailers have. Consider the first-party data that's collected by your company. If you work in analytics, it's a fair bet that you spend a lot of time finding and organizing data. Can you imagine having the right data at your fingertips so you could quickly start creating dashboards and deriving insights about the business?

By investing in bolstering your defensive data strategy and creating a single source of truth, you can accelerate the path to organizational efficiency.

2. Connect

Once you've collected your first-party data, you're in a prime position to connect data in new ways, particularly outside your four walls. Customers don't solely shop in your stores, browse your web properties or follow you on social media. To gain a holistic understanding of their wants and needs, you can connect data from media partners to more accurately calculate return on ad spend, for a start.

These connections get you closer to that true 360° view that other teams can benefit from. Saving money on your media strategy is always welcomed, but you could also use an enriched view of your customer for researching and developing new products, and even uncover whitespace opportunities.

3. Collaborate

Collaboration brings your offensive and defensive strategies together by allowing you to safely and securely enter into data partnerships while keeping privacy front and center.

The possibilities are truly endless:

- Partner more closely with CPGs and other suppliers to provide better customer intelligence and grow share of wallet.
- Share shopper insights with operational partners to help you win together and plan ahead for the holiday season.
- Build a retail media practice to leverage your first-party data and deliver relevant content to consumers while unlocking new revenue streams.

These three C's don't happen overnight. They require executive sponsorship and cross-team collaboration and alignment. But by building this data foundation, you will be in a better position to not only connect with consumers in a meaningful way, but also to earn lasting loyalty. That's a competitive advantage you can't afford to pass up.

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3 Reshaping the Brand-Retailer Relationship

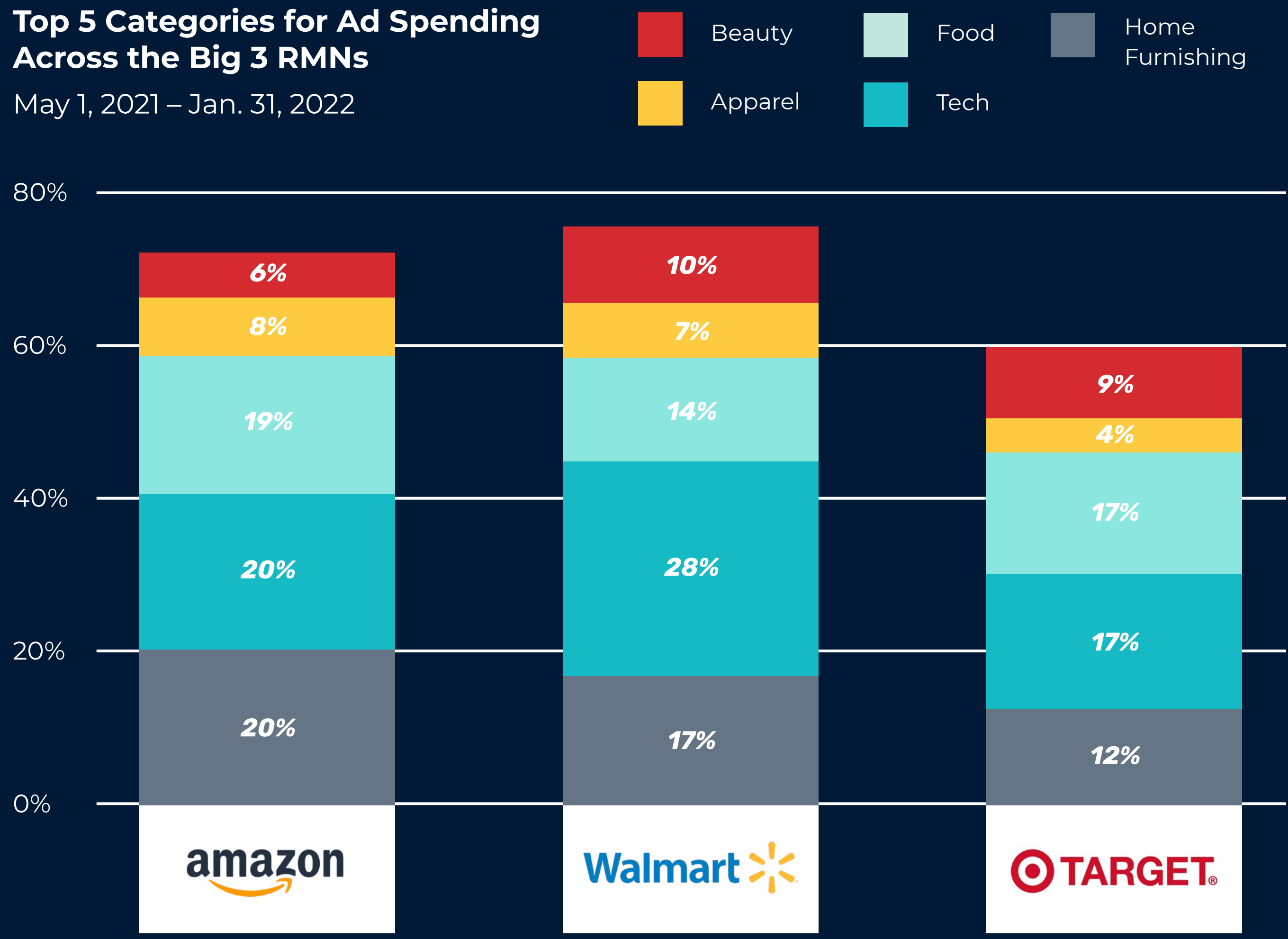
The advent of retail media is changing not only the advertising landscape but also the nature of retailers' relationships with brands.

"Retailers and CPG brands have always had a buyer-supplier relationship, which can be very fraught," said Sharma. "Now, though, for the retail media teams, the CPG brands are their clients, and that's a very different thing. All this digital transformation that is happening is **bringing the retailers and the CPG brands together to tackle something bigger**."

"We have to get closer together with our major brand partners," acknowledged Schuh of KPM. "There's a lot of power in the brands' data asset and the retailers' data asset, and sometimes even a publisher's data asset, coming together to create the best view of how investment dollars are actually spent throughout the ecosystem in an impactful way."

Top 5 Categories for Ad Spending Across the Big 3 RMNs

May 1, 2021 – Jan. 31, 2022



Source: MediaRadar

For his part, Witmer is already seeing this happening, although perhaps not as often as he would like: "I've found some really mutually beneficial relationships with some of our major partners, but you have to be really good at establishing your expectations from the brand side," he said.

One thing that can make these kinds of collaborations difficult for brands is the sheer proliferation of retail media offerings. "This is net-new work for advertisers," Witmer added. "If we have to engage with **35** or **40** networks, we don't have the people for that. **I'm [the retailers'] consumer now, so how are they crafting the experience for me to buy from their industry?** Do I have to go to 30 different stores to complete my shopping list, or should you be making this available so that I can buy you anywhere?"

Schuh and his team are focusing on just that with a number of new initiatives: "You can't expect brands and agencies to have to transact in 100 different places, that's not going to be sustainable," he noted. "That's why **our strategy has really been to meet advertisers where they are and enable the right flexibility**. We're finding ways to make our data asset available where brands are already buying, whether that's in The Trade Desk, Google 360 or in ad management platforms for **on-site search inventory** like Packvue and Flywheel Digital."

"Last year we worked with almost **2,000** brands. Those 2,000 brands are not going to come to us and 100 other places. It's about making it easy for them to transact and make decisions about where they put their investments."

— Michael Schuh, VP of Media Strategy at KPM

4 Keeping the Customer in Mind

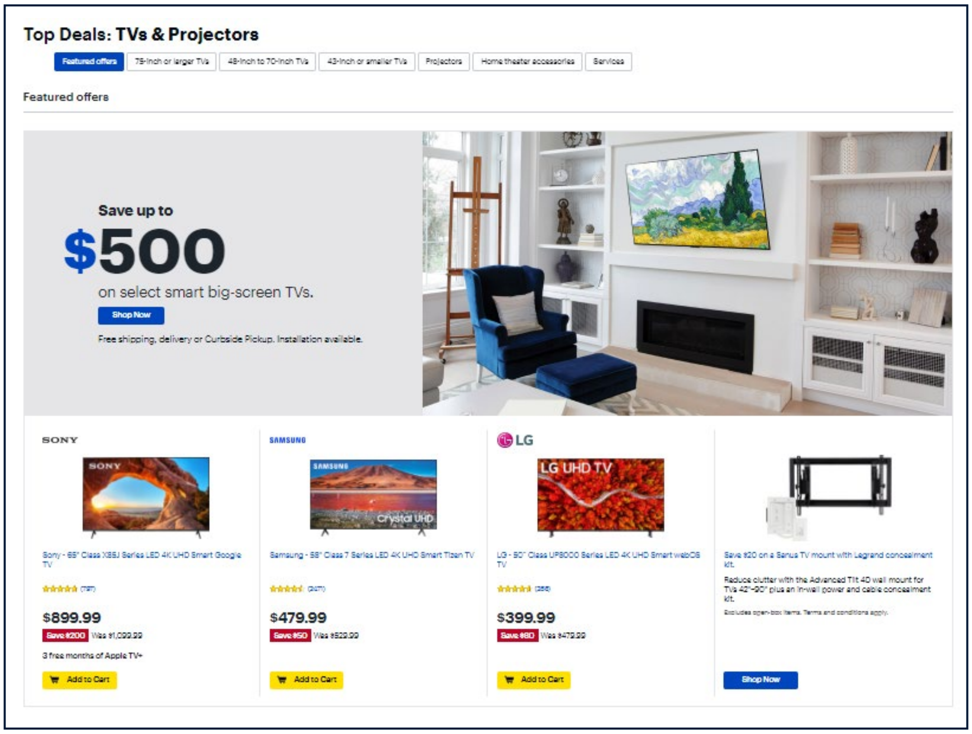
With all the focus on building out media infrastructure and serving newly minted brands/clients, it can be easy for retailers to forget about their original client, the end consumer — but that would be a huge mistake, according to Schuh.

“**If it’s not good for the customer, it’s not going to be good for the advertiser**,” he said. “Digital advertising outside of retail has gotten a bad rap — that’s why ad blockers exist. The really big opportunity for retailers is to help transform the industry from what historically are, in my opinion, bad measures of success, things like viewability and click-through rate. **It should be a value exchange with customers** that are sharing their data with us for specific purposes, in our case through our loyalty card. What value are we providing back to them? If that’s not relevant content, relevant touch points, then the whole system breaks down.”

Relevancy is the ultimate key to striking the balance between customer needs and advertiser ROI. One way KPM does this is by not allowing “competitive conquesting” on their site. So for example, Pepsi can’t buy ad placements on searches for “Coke.” “Our ad units on the site and search and other places are more focused on promoting discovery and inspiration, especially since **85%** of our search terms are unbranded,” Schuh added.

“This cannot just be about making money, it has to be about the consumer,” said Sharma. “**If the consumer doesn’t feel like you’re providing value it’s going to negatively impact that relationship, and without the consumer there’s no retail media**.”

Best Buy is doing an admirable job of striking the balance between customer experience and advertisor ROI. They’ve got clear creative guidelines, so any advertising from external sources looks like part of the Best Buy page. And what they’re offering is relevant for the customer, for example an Xfinity ad when you’re shopping for a TV. **“[When done right] advertising can help the experience, it doesn’t have to be something that erodes it,”** said Flugstad.



5 Overcoming Institutional Inertia and Averting Corporate Culture Shocks

While the benefits of retail media — for both brands and retailers — are clear, there are still significant organizational and corporate culture issues that need to be addressed.

“It’s really hard to build a business inside an existing business, maybe even harder than building a new venture that’s standalone,” said McKinsey’s Flugstad. “You’ve got cultural ways of working, pockets of power and hierarchy. What can be really challenging for launching a media team is you’ve got driven, passionate marketers who are really excited about this opportunity — but merchandisers and others have all the power, and they are really nervous about rocking the boat and cannibalization of existing funds and margin. **For this to work, you need to be bold and you need to be willing to crack some eggs along the way to marshal the resources to really go after this**.”

Kroger faced this very challenge in establishing its retail media offering **five** years ago: “We’re a **130-year-old** retailer,” shared KPM’s Schuh. “We have a lot of traditional, legacy things that, moving into the retail media space, we’ve had to break down. We’ve had to remove some of those barriers and misperceptions and work with our teams and our leadership to make this happen.”

One of the misconceptions that many retailers have when considering retail media is that it will cannibalize their sales in other areas. “Retailers are already getting a lot of funds from vendors that work through them — they’re getting pure margin, promotion dollars and some media dollars already through co-op and shopper marketing and other buckets,” said Flugstad.

“Retailers are concerned that you’ll just be taking from the right pocket to the left and calling it a retail media network, but we surveyed over **180** advertisers and found that the pockets from which folks are shifting retail dollars are actually **around 80% incremental or net-new for the retailer**,” Flugstad added. “Think about it — if you’re [an advertiser] spending on programmatic advertising that is centered on impressions, that budget is just waiting to be cannibalized by retail media. More upper-funnel or brand-focused spending, which traditionally is hard to account for and tie to any kind of performance, is also a major portion of where they’re shifting from.”

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