

Co-creating a new marketing channel – why collaboration is key to the future of retail media

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Introduction

Retail media has exploded onto the marketing landscape in the last couple of years. E-marketer declared 2022 as “the year of retail media”, while in the autumn of that year a GroupM report said that retail media already represented 10.7% of global ad spend.

The sector continues to grow. By December, GroupM’s Global 2022 End-Of-Year Forecast estimated retail media would account for \$110.7 billion, up from its prediction of \$101bn in September.

This growth is being driven by a number of factors. Retailers are looking for new revenue streams. Brands are trying to replace the functionality of the current third-party cookie-based marketing ecosystem. Meanwhile both sides are looking for ways to mitigate the tough trading environment caused by war, pandemic and economic conditions.

Add to this the ubiquity of programmatic advertising infrastructure, the continuing development of technology around data collaboration, and the maturing attitude of the industry to data protection and privacy, and you have the conditions needed for the emergence of this new marketing channel.

Retail media gives retailers a way of monetising the huge data resources they’ve been building since the launch of electronic loyalty cards in the 1990s. It gives brands a way of using that opted-in first-party data to target and measure their advertising more accurately, and to understand customer behaviour more deeply. And it promises customers a more personalised shopping experience, better deals and, ultimately, better products.

Looking to the future

However, the immaturity of the sector means significant questions still remain to be answered. How do we want the industry to operate in the future, and what standards need to apply for that to happen? What new opportunities are starting to emerge for brands and retailers? And what barriers are there to all participants – and the sector itself – in realising their full potential, and how can we remove or avoid them?

This report sets out to address these questions and find out what the answers might be, at least right now.

“The word we see as being critical in this space is collaboration. Whether that’s collaboration for a retailer around their own data, looking at how they work with media partners; whether it’s collaboration between a retailer and a service provider which supports them developing the strategic angles of retail media; or whether it’s the connection between a brand and a retailer, it’s all about collaboration.”

– Hugh Stevens, Head of Strategic Growth, LiveRamp.

2 The Brand Experience

Digital has been touted as the most targeted, measurable form of advertising for nearly 30 years. So it's ironic that two of the key attractions retail media holds for brands are targeting and measurability.

But the form adopted initially by most RMNs – carrying advertising on digital properties the retailer owns – has an innate advantage over other digital channels. Because the advertising and the resulting transaction can both happen on the same platform, the relationship between the two is directly measurable.

“Being able to connect the dots between what we serve and what we sell has been really difficult for a long time, so of course this feels like it could be a holy grail in the industry. Retailer media is opening up much more opportunity to target the people who we've always tried to find through other ways, but might not have been able to do it perfectly.”

– Faye Cruickshank, Brand Director, P&G.

However, even taking the initial steps has its challenges. Marketers can be seduced by the possibilities of the new technology and lose sight of the goals of their brand and the business case they're trying to solve. The technology itself is very different to what brands are used to, creating a need for education and expertise. Most significantly, working with RMNs means significant shifts in culture and structure.

“The parts of the puzzle that a lot of people miss are the structural and cultural changes that are needed, both on the brand and the retailer side. Not too long ago, a position like Retail Media Director at a brand didn't exist. There was a brand team, a shopper team, and a national account management team, but the very essence of getting retail media right is collaboration, connecting all of those three parts of the puzzle. And that takes structural and cultural change from the brand to do well.”

– Sam Knights, CEO, SMG.

Part of the solution to all these problems is finding the right people to work with, whether that's technology specialists, agencies or the RMNs themselves. And because retail media is still in its early stages, the key to success in all of these partnerships is that they should facilitate a test-and-learn approach.

“We've relied for a long time on being brand generalists. Retail media is an area where we've seen the need for more specialism in tech, data science, bidding, so forming central pockets of expertise to help lead the brand generalists is definitely really important. But you still need to balance that with good strategic brand business people, because without them you can lose the focus on the business case. And that's when you struggle to sell this back to the businesses to invest. That connection between the brand strategy and the tech specialism is needed to enable it.”

– Faye Cruickshank, Brand Director, P&G.

Then, inside the marketing department, the key discussion is about budget, and how it's split between brand and performance. The previous, non-digital, iteration of retail media (otherwise known as shopper marketing) drew on performance spend. However, while marketers are finding that conversations with RMNs are much more focused on brand than on sales, there is a strong sense that what's really required is flexibility. The businesses that are seen to be most successful in the space are the ones that are able to switch budget from brand to performance – or vice-versa – as opportunities arise.



“The newer brands we work with have no constraints on the brand and performance split. They just have one marketing budget. That means they have a lot more freedom to flow funds between building long-term equity and performance than there is in more established businesses where moving budget from one to the other involves P&L changes, which are difficult to achieve. So these newer brands have a slight advantage in that they can push the upper limits of performance marketing alongside the brand, and also link them quite closely. And those bigger brands that are winning are those that are able to flow the money between the two and experiment a little bit more between them. And nobody’s reached the cap of where the performance can lead you in terms of returns.”

– Sam Knights, CEO, SMG.

3 The Retailer Experience

The Covid pandemic dealt retailers a number of blows, but two of the longest-lasting were the acceleration of ecommerce and the emergence of free delivery as a necessity to attract customers. This increased use of a channel that was suddenly commanding even less of a margin than before hit retailers hard. The fact that, after the pandemic, they were also struggling with disrupted supply chains, product shortages and sustained economic turbulence made the need to find new revenue sources even more urgent.

“Boots has always had a really strong retail media offering, particularly from a store perspective, but increasingly there was a demand from our partners and our suppliers to strengthen that offering even more. That provided the impetus to the business to review what we were doing in this space and how do we evolve it? Then there was the evolution of what we were doing on the Boots consumer side, pulling our data together so we could utilise it in retail media. And also technology caught up, so it was easier for us to do things that we couldn't do before, like begin to offer onsite activity through partners. All of these things began to open up and the combination created a perfect storm.”

- Ollie Shayer, Omni-Media Director, Boots UK.

Capitalising on the opportunity presented interested retailers with a similar set of challenges as it did brands. They had to work out how much of the tech stack – and the expertise to run it – had to be developed in-house, how much could be done in partnership with technology suppliers, and how much could just be handed off to agencies.

Changes on the data side had already begun, driven by the advent of GDPR. This forced retailers to think about the data they were collecting, and whether it was worth the risk of incurring the dramatic new penalties if they got it wrong.

“The fact that everyone needed a DPO, had to go through infosec and all that stuff actually forced thought processes around, “What’s the value of the data we hold?” So we’re not just holding it for our own sake, or because it’s nice to have, we’re actually really thinking about what the value in it is for us. And equally, what’s the value in it for other people? And then how do we safely and securely make that data available for certain use cases?”

- Hugh Stevens, Head of Strategic Growth, LiveRamp.

They also had to make cultural and structural changes. These are more significant than the ones faced by brands, since media ownership is very different to their core retail business.

“In the past, retailers might have been accused of asking the suppliers to service them in retail media. Now it’s completely the opposite way around. The retailer has to provide a great service to someone who’s no longer a supplier, but is now actually a client. And that takes structural change. It means the buying team needsto work more closely with the marketing team, who need to work more closely with the promotional team, to bring it all together. That way, when brands are planning their media: a) it’s aligned with the communication calendar the retailer is planning for their customers; b) the communication feels consistent with everything else the retailer’s doing, so it doesn’t jar with the customer on their journey; and c) it provides a brilliant sales uplift, both for the brand and the retailer.”

- Sam Knights, CEO, SMG.

But perhaps, as Shayer’s quote indicates, the most significant challenge has been to find brands willing to experiment in partnership, and essentially co-create the retail media sector with the retailers.



“Retail media isn’t fully baked yet; we’re all learning around the industry. It’s delivering great results, but it requires partners who want to go on that journey with you, and that’s been a big part of the last 18 months for us. And we’ve seen differing points of view from brands. One is, I’ll wait until you can show me all the results and that everything’s there before I get involved. Versus those who’ve jumped in early and got involved. And having seen some of the results we’re getting, particularly the last quarter, the brands who’ve gone in early have established a competitive advantage because they’ve been able to learn faster through working with us.”

– Ollie Shayer, Omni-Media Director, Boots UK.

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The Future – Opportunities and Challenges

Retail media has already stepped beyond the initial stages discussed earlier, with some networks sharing their data to be used for targeting ads outside their own properties. Extending this to allow data to be used to deliver insights earlier in the advertising process is one of the next big opportunities for the sector.

“What we’re seeing today is activation; “Yes, I can find an audience, and I can push it into a media platform, and I can activate it, and I can do some measurement.” But there’s a piece further up, which is the planning phase. When you think about the huge investments brands have with their agencies, and the resources they have there, could they help that agency make better decisions across the total media estate that they’re buying, not just the retail media estate? How could they put more data in the hands of those experts in media planning, who think across out-of-home and TV, and so on? There’s a huge opportunity there, because the technology is evolving, the data is evolving, and the retailers are becoming much more confident that they have the permissions to enable this through their datasets.”

- Hugh Stevens, Head of Strategic Growth, LiveRamp.

Brands want to put everything in one media plan to compare ROI across all channels, so they can make the right choices about budget allocation. Richer data at the planning stage and better measurement of results also hold the possibility of helping brands break down internal silos (discussed in section 2) to create a truly omni-channel approach. However, a major concern is incrementality; when you’re advertising so close to the bottom of the funnel, how can you tell whether the person you reach would have made their purchase anyway?

“If I’m just constantly hammering someone near the point of sale, the very fact they’re near the point of sale means they might have bought it anyway. So the whole incrementality bit starts to get really interesting. Some of the platforms have quite a strong story about that already, but this year and possibly next year more than ever, that incrementality piece has to be compelling.”

– James Chandler, CMO IAB UK.

From clicks to bricks and back again

What makes this omni-channel aspect of retail media particularly important is the fact that – hype notwithstanding – physical stores still account for the vast majority of sales. Figures from the UK’s Office for National Statistics show that, in November 2022, online accounted for 30.2% of total sales. So the ability to impact offline as well as online sales from one media plan is significant.

“The digitisation of the store is really important for retailers; how we digitise the store to offer flexibility of creative. At the moment, if you want to have in-store activity, someone has to go in on a Thursday night to put up the banner, and then come back two weeks later to take it down. But we should be able to give advertisers the same flexibility they get with any channel, where we can tell them the times of day that are most relevant for their audience, and then we can adjust the message. Retailers need to understand the benefits of enabling that, and the demand that would drive from their brand partners.”

– Ollie Shayer, Omni-Media Director, Boots UK.

In addition, measurement of in-store activity has always been an issue for brands. Addressing that through a combination of online and offline retail media is another big opportunity for brands and retailers alike.

Encouraging diversity while avoiding fragmentation

Another change already happening in the market is more retailers unveiling RMNs as they start to try and realise the value of their customer data.

“Harrods are a really interesting example. They might not have the huge scale of a Morrisons, for example, but if you’re Jaguar Land Rover, why on earth wouldn’t you be working with Harrods? Even if you’re not buying any media, you could be ingesting their data around the top 2% of people that can afford to shop at Harrods and use it to infuse your media planning. They’re niche, so they’re not probably that useful for Colgate but they might be really useful for high-end luxury brands.”

– James Chandler, CMO IAB UK.

The danger here is fragmentation; the US, for example, already has more than 400 RMNs. Of course, the UK market is much smaller overall, and much less likely to sustain a large number of networks. But there is still concern that a proliferation of RMNs – and a lack of interoperability between them – will increase the cost to brands and hinder the growth of the sector.

“The danger is that we end up with eight, nine, 10 individual walled gardens, which is actually what buyers are saying they don’t want. They want sophistication, they don’t mind complexity, but they want to be able to buy retail media in a really simple way. However, with standards, we’re not starting from scratch saying what standards do we need? We’ve got a bunch already. So, in a way, the conditions for retail media are really mature, which is good.”

– James Chandler, CMO IAB UK.

Even without this issue, some brands are concerned about the cost of being active in retail media.

“We’ve started to test and prove that retail media can be effective and drive sales uplift when we’ve got the use-case right. But the sticking point has been cost, particularly as we’re looking at full end-to-end cost of infrastructure, resource, plus data cost, plus media cost. And we know that targeting a smaller audience can drive up the CPM. So, what’s the tipping point at which it doesn’t make good business sense to do? – That’s probably our biggest challenge.”

– Faye Cruickshank, Brand Director, P&G.

Once again, the solution here is likely to be collaboration, in this case between brands and RMNs. In the current early stages of the sector, there aren’t many different business models available, but this looks likely to change with maturity.

“What we’re able to do and how we connect retailer data to our brand partner platforms is evolving, and different brand partners are at different stages of what they want. It’s about how we manage that as a retail media network. Self-serve, managed service, all of these things are definitely on our mind – how we can do them given the consents we have and how do we build the right type of model that works with brand partners but also works well for us as a resale media network.”

– Ollie Shayer, Omni-Media Director, Boots UK.

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Key Takeaways

Collaboration is crucial.

A new sector can only succeed if it meets the needs of all participants. The only way that can happen is through both individual partnerships and cross-industry cooperation.

Competitive advantage comes at a premium.

Industry maturity is likely to see costs coming down, but those brands and retailers that are active in the sector now are learning lessons that will put them ahead of the curve.

Cultural and structural change can't be ignored.

Business on both sides of the retail media equation need to operate in new ways. Retailers need to behave like media owners, while marketers need to integrate brand and performance teams. And these new behaviours need to be accepted and embraced across the organisation.

Think omni-channel.

Retailers have a 'fire hose' of data that brands can apply to their entire media plan. Meanwhile, creating and integrating an addressable in-store environment multiplies the power of an RMN.

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This report has been compiled by Michael Nutley. Mike is a widely-experienced journalist who has spent the past 16 years writing, thinking and talking about how businesses are using digital media.

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