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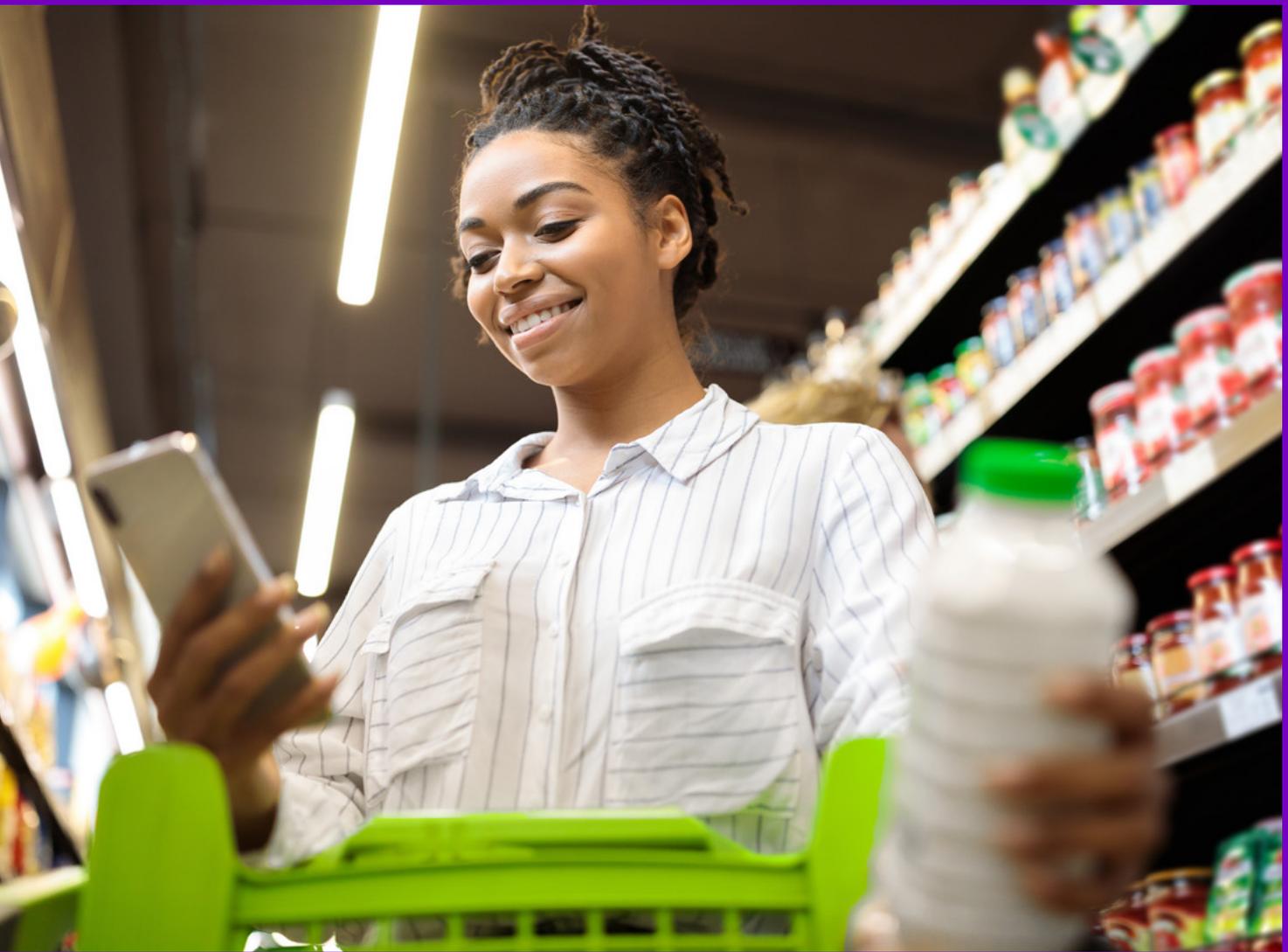

Riding the retail media wave

How media can become a highly profitable new business for retailers

Contents

Introduction

Retail has never changed this fast in history. Digital commerce is accelerating, and consumers are buying online – more than ever before. Consumer behavior has changed significantly and omnichannel is everywhere. Retailers are expanding their digital sales channels, allowing drop shipping, or even becoming an own marketplace platform.

Today, retailers collect terabytes of new data about their customers. To become more customer-centric, retailers must leverage that data to create a 360-degree view of their customers by understanding who they are, what they buy, and what they need. Building insights on individual behavior is of tremendous value to create personalized shopping experiences, shorten the decision cycles and improve brand loyalty.

Rich customer profiles can inform business decisions to drive growth by increasing profitability and open the opportunity to build new revenue streams such as data monetization through an advertising business: "retail media".

Brands, on the other hand, value the unique opportunities retail media offers: They are incorporating this new advertising channel in their marketing mix, in addition to traditional trade marketing spending with retailers.
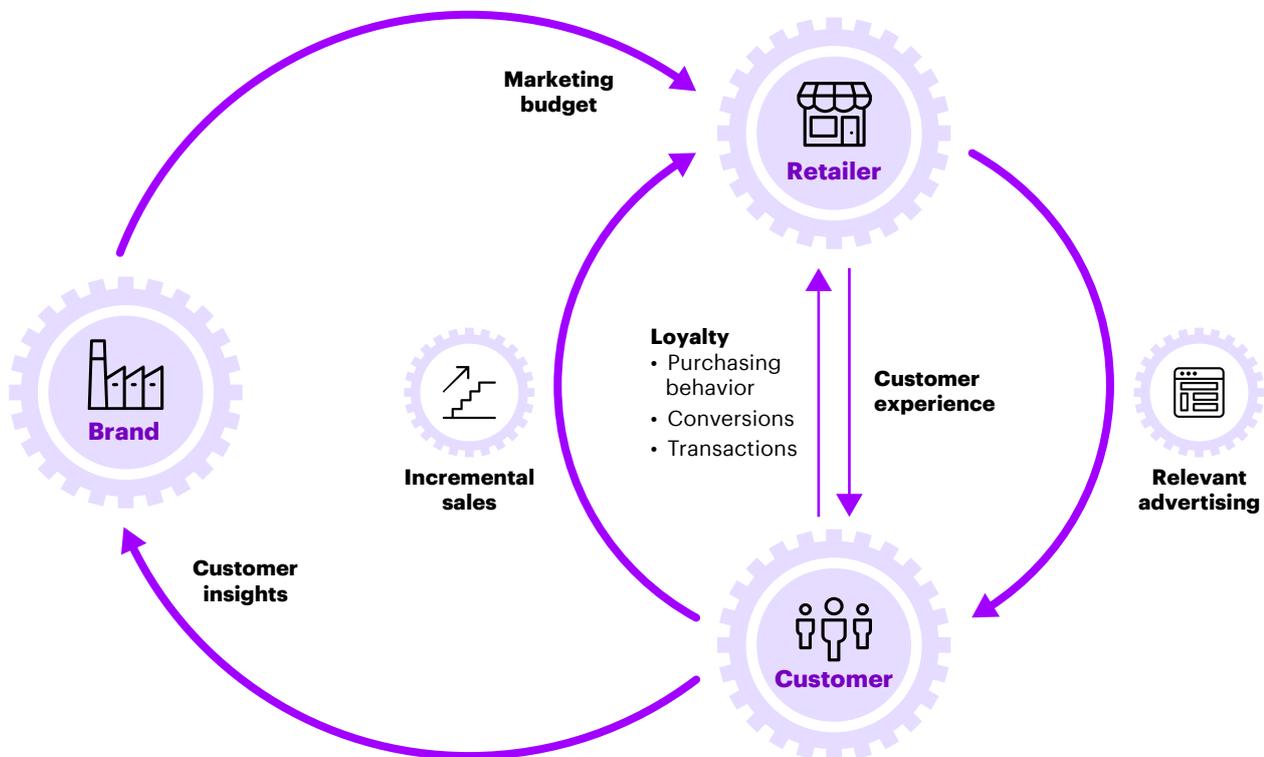
Media becomes an integral part of the retail value chain

While business models today are still linear and sequential between suppliers, retailers and customers – this is about to change. Each partner in the value chain is focused on maximizing the profitability of each transaction, tomorrow it will be about maximizing the value of the individual customer relation. It is a mindset shift from a transactional value perspective to a customer lifetime view of the business. From a linear model to a flywheel business and retail ecosystem.
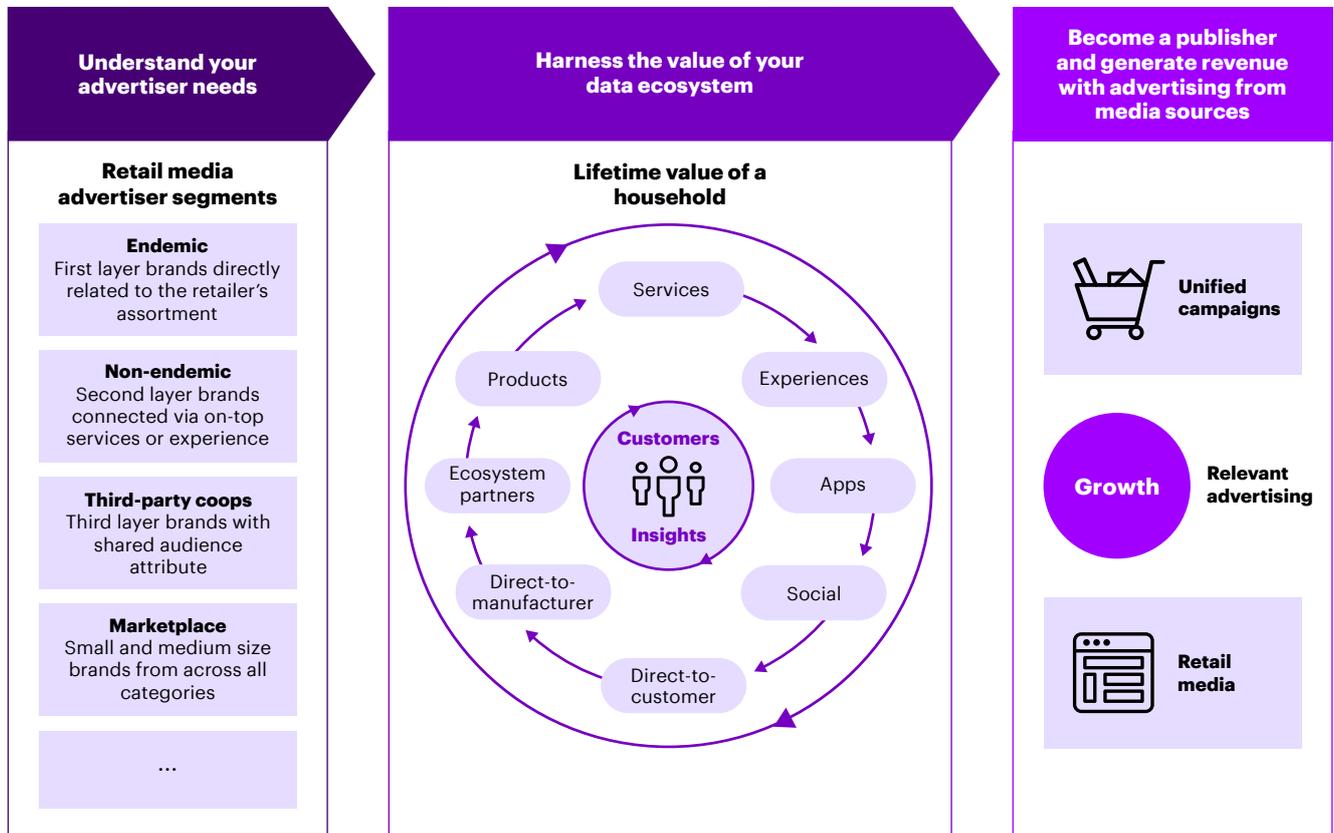
In this, customer data and insights are used to optimize the assortment and create new products, develop value-added new services, and deliver a better customer experience with relevant advertising to attract and retain loyal customers. This in itself can create incremental growth considering the lifetime value of the customer and its household.

The retailer's differentiator is the data foundation provided by constantly enhanced customer profiles from the retailers' loyalty programs. The knowledge about segmented target audiences is the new foundation for customer experience innovation that is transforming brick-and-mortar retail in many areas of the business.

Figure 1: The relationship between brand, retailer and customers in an advertising context

Marketing budget

Retailer

Brand

Incremental sales

Loyalty
• Purchasing behavior
• Conversions
• Transactions

Customer experience

Relevant advertising

Customer insights

Customer

Figure 2: New retail media advertiser segments fueling the lifetime value and growth

Understand your advertiser needs	Harness the value of your data ecosystem	Become a publisher and generate revenue with advertising from media sources
Retail media advertiser segments	**Lifetime value of a household**	
Endemic First layer brands directly related to the retailer's assortment	Services · Experiences · Apps · Social · Direct-to-customer · Direct-to-manufacturer · Ecosystem partners · Products	**Unified campaigns**
Non-endemic Second layer brands connected via on-top services or experience	Customers / Insights	**Growth — Relevant advertising**
Third-party coops Third layer brands with shared audience attribute		**Retail media**
Marketplace Small and medium size brands from across all categories		
…		

With the shift to a customer lifetime view, the retailer's advertising placements not only appeal to the well-known endemic brands (i.e. brands, directly part of the retailer's assortment) that already spend trade marketing budgets, but also opens up the opportunity for non-endemic brands and third-party coops that would contribute with incremental investments while providing additional services. Retailers that become platforms gain scalable access to a large number of new customers, services and experiences.

In summary, retail media can fuel the core business and fund investments in improving the customer experience, developing new services, and investing in customer loyalty to create a flywheel effect for the retailer's business.

This can be a win-win-win situation for all stakeholders involved:
- Retailers (media publishers) create a new high-margin revenue stream and maximize the value of media inventory with targeted campaigns that build customer loyalty
- Brands (media advertisers) achieve a higher return on advertising spend through more granular customer insights and a better view into how their media is performing and how to reach and convert more contacts to customers that matter
- Customers receive more relevant content and offers leading to a better customer experience

Winning every value equation

With the rise of commerce through digital channels, retailers see their lucrative trade marketing income under threat as brands shift their investments into evolving digital channels that help closing gaps along the whole customer journey with measurable advertising products. Retailers have protected their profitable trade marketing income from their suppliers for decades. With retail media, retailers can strengthen their relationship with their brands and suppliers by offering more transparent, performance-based pricing.
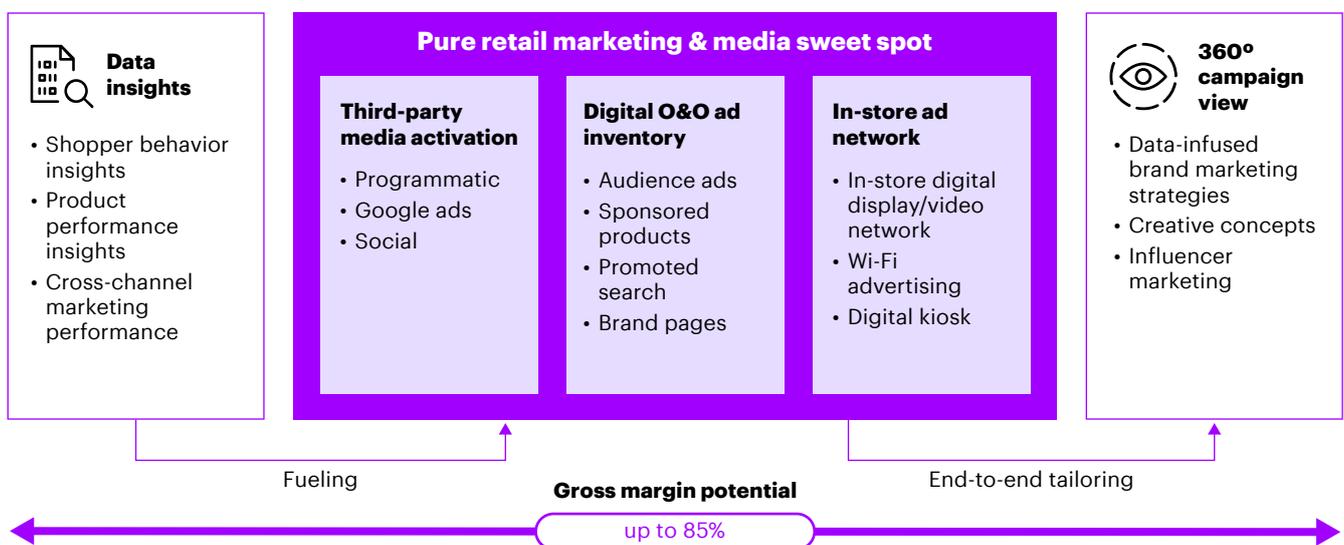
The significant variety in possible advertising products ultimately enables addressing two different supplier budgets with retail media at the same time: the products of the retail media sweet spot offer the possibility to sell upper funnel awareness placements to trade marketing teams, whereas the lower funnel conversion products are sold to marketing departments distributing the media budgets across several channels. For both sides, a new level of transparency and a clear connect of costs to performance opens up chances to redefine how advertising will look like in the future.

In order to achieve high profit margins that retail media typically offers to the retailer (up to 85%) the retailer should follow the following rules to sell their ad inventory at a premium:

1. Offer ad products across touchpoints along the entire customer journey
2. Target valuable shoppers with a high purchase intend when showing particular interest on a retailer's website or mobile app
3. Connect with their audience during the moment of truth at the Point of Sale in the buying journey
4. Target consumers based on retailer's first-party data and real purchase figures instead of derived interests from surfing behavior only
5. Provide clearly measurable MROI being in line with a trend on increasingly shifting media spend to transparent initiatives

With these unique selling propositions, retail media can stand out from the advertising models of Google, Facebook and others as they are not able to provide the same valuable insights of customer data as of today. Moreover, the soon end of third-party cookies will accelerate the growth of retail media in the advertising industry and therewith underlines the enormous value of retailers' first-party customer data when being used for activating audiences across the web.

Figure 3: The spectrum of retail media products

Data insights
- Shopper behavior insights
- Product performance insights
- Cross-channel marketing performance

Pure retail marketing & media sweet spot

Third-party media activation
- Programmatic
- Google ads
- Social

Digital O&O ad inventory
- Audience ads
- Sponsored products
- Promoted search
- Brand pages

In-store ad network
- In-store digital display/video network
- Wi-Fi advertising
- Digital kiosk

360° campaign view
- Data-infused brand marketing strategies
- Creative concepts
- Influencer marketing

Fueling

End-to-end tailoring

Gross margin potential

up to 85%

There is not a one-size-fits-all model

Many existing retail organizations are not yet ready to scale their media businesses. Some either lack the required media sell-side capabilities connected to people and technology or do not actively push the media business as they fear to cannibalize their traditional trade marketing revenues. A media publisher's business relies on an integrated data foundation and is built on top of it. This means merging the several transactions and interactions with a customer under a single ID which creates the opportunity to use the insights generated at the point of sale for higher conversion.

In many cases, aside from a defined data strategy and governance that combines on- and offline data, we see three key challenges:

1. Capabilities to innovate, change and adapt
As print media's importance and investment in the overall media mix steadily declines, retailers are forced to offer new and innovative advertising solutions to offset losses in traditional areas. However, many brands are already two steps ahead when it comes to thinking and advertising through new advertising channels provided either by innovative retailers or entirely new platforms with previously non-existent formats. It is important to have a defined strategy to address the trade marketing budgets at risk; because advertisers shifting budgets to alternative channels looking more promising to be able to provide the required abilities.

2. Unclear internal responsibilities
The lack of alignment of responsibilities between the existing traditional marketing business and a new retail media marketing business unit can lead to a misunderstood go-to-market approach for trade marketing and media on the supplier side. It's often unclear where and to which extent the new capabilities should be hired and how decisions about the future of the new business are taken, while the question of who owns what media inventory also remains unresolved.

3. Harmonized and scalable technology landscape
Many retailers still have not managed to harmonize their technology stack or made significant progress to reach a certain maturity to easily plug-in formats that could serve for the data monetization with retail media. Luckily, the retail media technology landscape reached a level of commoditization lowering entry barriers thanks to software standardization and off-the-shelf solutions that makes it much easier to already start monetizing assets based on simple user behavior and interactions.

Depending on where most sales take place, the invisibility of transactions may limit the ability to utilize and maximize the outcomes for retail media. A retailer's business, which relies heavily on in-store sales, would require a loyalty program or another innovative format that tracks customer buying patterns to enrich customer profiles.

How to set up the business to scale

The core of retail media is the data connected to unique customer profiles
Customer potentials must be relevant and constantly refreshed and enriched. Therefore, the size of the activatable customer audience is the key factor in answering the question of whether it makes sense to launch a retail media business. We see three key building blocks on the journey to establishing and scaling a retail media business:

Figure 4: Key elements to scale a retail media business

I. Design	II. Build	III. Operate
Business strategy	**Data & technology**	**New capabilities**
• Commercial & GTM model	• B2B CRM platform	• Media sales & product development
• Operating model capabilities	• Multimedia inventory management and delivery	• Campaign management
• Data architecture and governance	• Integrated IT architecture	• Audience analytics and insights

I. Design – Business strategy & operating model
Understanding and maximizing the value of data potential to be monetized is the basis of a successful business strategy for setting up retail media. This positioning as provider and enabler for customer data-driven insights and advertising will be crucial for interested suppliers and brands.

The go-to-market approach very much depends on the decision of independent treatment of the retail media portfolio. Either having retail media within a separate business unit or integrating it as part of an already existing sales team has the following advantages and disadvantages (see Figure 5).

Figure 5: Hybrid vs. separated business model approach

	Pro	Con
Retail media as a separate business unit	• Avoid cannibalization of trade and media products • Focus on establishing relationships with client's media/marketing teams, targeting incremental ad spending • Specialized skills to drive media business (across ad ops, sales, analytics) • Improved access to large agencies who control media spending	• Higher stand-up cost and less economies of scale at launch • Adjustment required on client side to introduce right marketing/media stakeholders – potential confusion with multiple disjoin client conversations • More challenging to develop integrated (cross marketing product) campaigns
Retail media integrated into current efforts	• Integrated sales discussions with suppliers/ brands/advertisers (across all marketing products) • One value proposition per campaign • Single client front door for all discussions	• Limits access to supplier marketing/media budgets – results in shifting of traditional trade funds vs. new revenue • Typically, suppliers' media/marketing teams with limited engagement • Limited ability to scale to off-site campaigns and non-endemic advertisers

The business strategy needs to be backed up by an operating model and ways of working that match the requirements of a media business. Having a look at the required capabilities of the retail media team, we differentiate three layers: Strategy & ad product development responsible for the long run positioning of the business and its USP, orchestration and execution building the core with all relevant sales and ad ops functionalities and lastly the third layer of enablement that can be described as a pool of business operation supporting function. These teams share resources with the retail media entity and therewith generate significant savings while avoiding building up silos with similar capabilities and competencies.

II. Build – Data & technology

Thanks to the standardization and commoditization of retail media in the last years, the technical barriers for a market entry have been reduced drastically. Even without a well-defined data setup, out-of-the-box solutions can be plugged into a webshop and efficiently ran onsite advertising with a minimalistic team. Nevertheless, to scale the business in the long run the solutions provided by existing players do not fulfill the full stack of requirements. Only an entirely embedded multimedia advertising platform and integrated delivery suite can cover these needs (see Figure 7). At the core of the holistic retailer platform are the following four elements:

1. Media & work orchestration: The business processes need to be supported by a multimedia sales automation tool that helps professionalize the sales to attract and manage customers enabling portfolio & opportunity management, campaign planning and automation for flows such as billing.

2. Data monetization: With the data lake connected, as well as an injection of external resources from the foundation layer, the baseline for data collection management, profile unification and segmentation is set. An analytics platform for effectively running an intelligence engine enables advanced analytics that serves prediction and decision requirements as well as reporting and dashboard creation.

Figure 6: Building blocks of an operating model to scale retail media operations
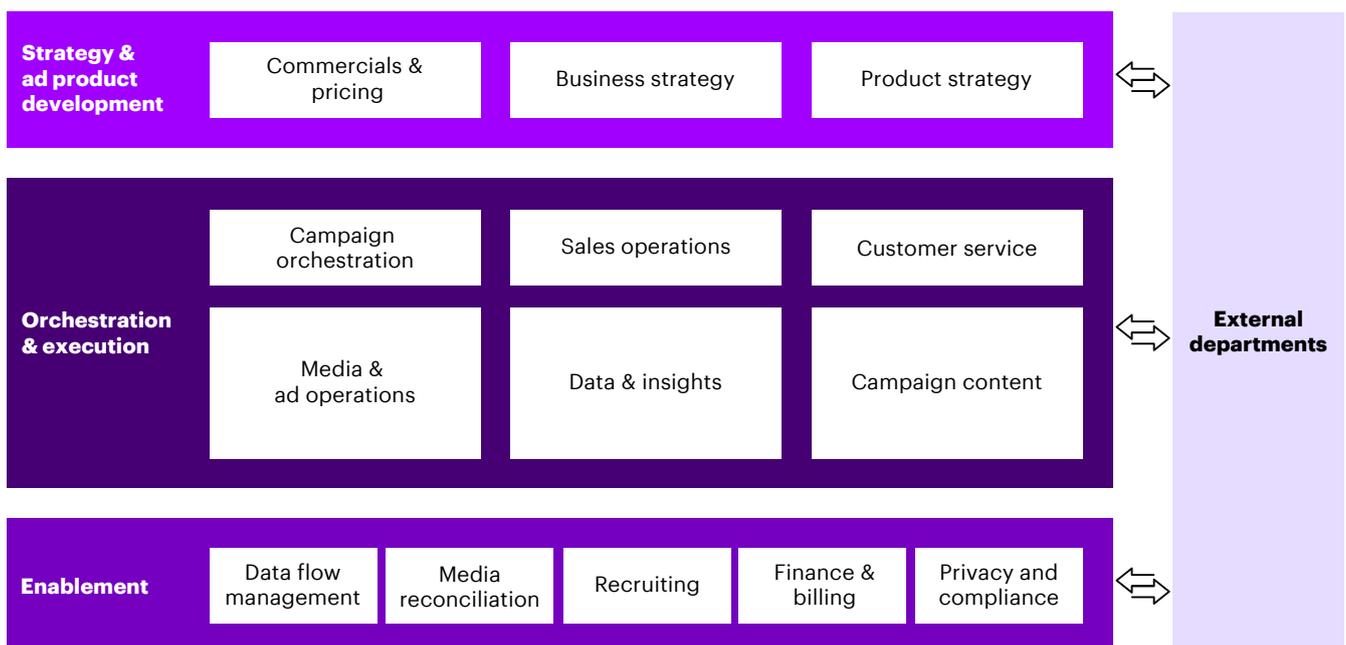
Figure 7: Advertising platform supported by business workflow orchestration tools and delivery APIs
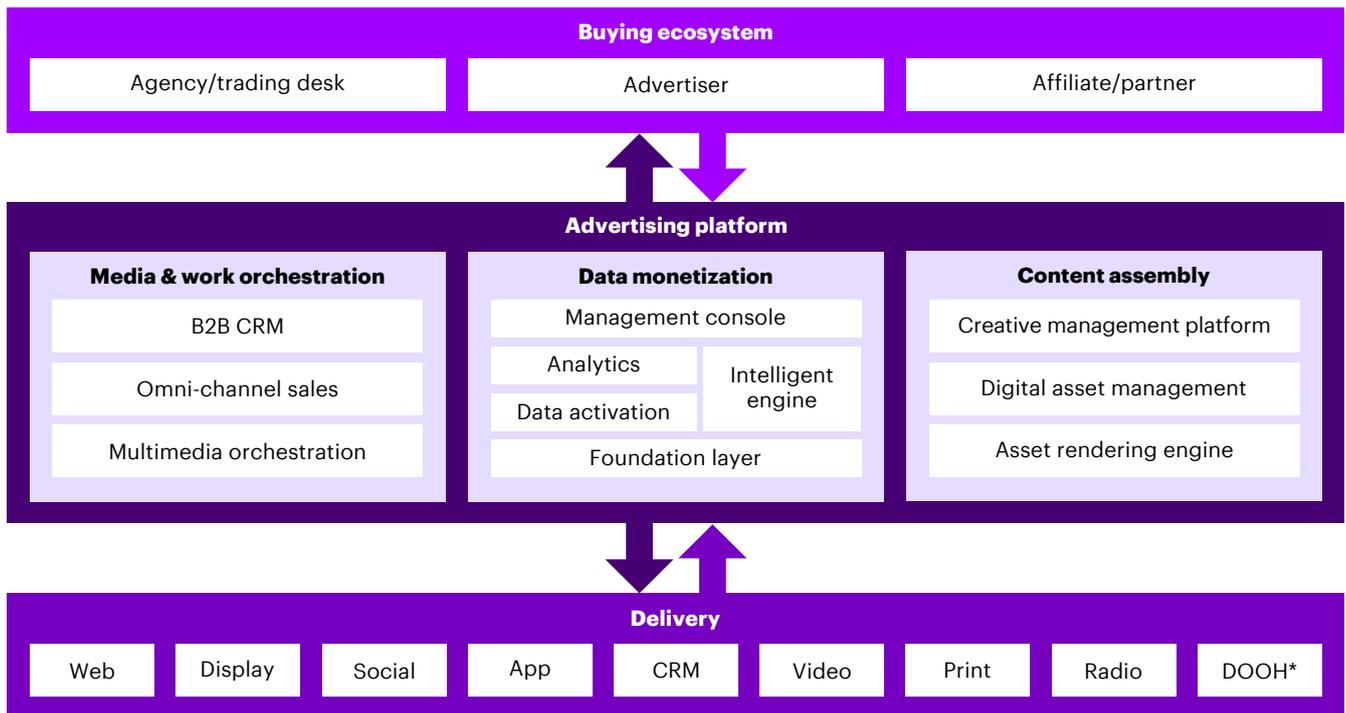
* Digital out-of-home

3. Content assembly: Based on a creative management platform, the marketer can put together the required content with a modular setup that is pulled from a digital asset management storage space. The content can then be assembled dynamically based on the needs of the customer and according to the relevant channel. The rendering engine assembles the building blocks to a complete content piece and hands it over to the delivery fully automatically.

4. Delivery: With a retailer-specific multimedia campaign execution platform that is connected to the multimedia platform via a decoupling layer, the delivery of ads across ecosystems can be ensured. This module also should include a self-service layer to scale media operations to small and mid-sized advertisers that do not rely on managed services. While this is standardized for digital channels within the owned marketing technology landscape, it requires building a customized solution for a connector to offsite placements on channels such as Facebook or LinkedIn, in-store and print.

Aside from the existence of these two building blocks, the modules at the same time need to be fully integrated into the buyer ecosystem and the advertising delivery across all channels to feed information back into the system and learn.

III. Operate – Running the media business
As the running of a retail media business requires entirely new capabilities that need to be interlocked, media operations have to be built within a dedicated team that plans the media activities with the help of analytics-based customer segmentation strategies. These audiences must be connected with a set of creatives and deployed on the respective channels by media operations team members.

In case of not leveraging a self-service layer, the process covers three main steps that can be handled in the three teams described in Figure 8.

At the heart of the operations is the sales & orchestration team which is responsible for the management of advertisers' media bookings and therefore leads the conversation with the customer. In case of extended full-funnel bookings, the team sizes the audiences with the help of the data and insights team and creates a media plan. It therewith allocates the received budget to the right channels as per the customers' requirements and needs.

During the execution phase, the three streams seamlessly collaborate to cover ad operations activities like campaign trafficking, creative management including the content production as well as the testing and verification before the launch of the campaign.

The measurement phase is led by the data and insights team but in close collaboration with the campaign execution and the sales team as the live monitoring of campaigns happens in the execution while final performance reports are conducted by the insights team.

They also take ownership of attribution measurements and support audience definition, segmentation and the development of a partner portfolio and product insights.

Figure 8: Media operations management and its coordination within the retail media team
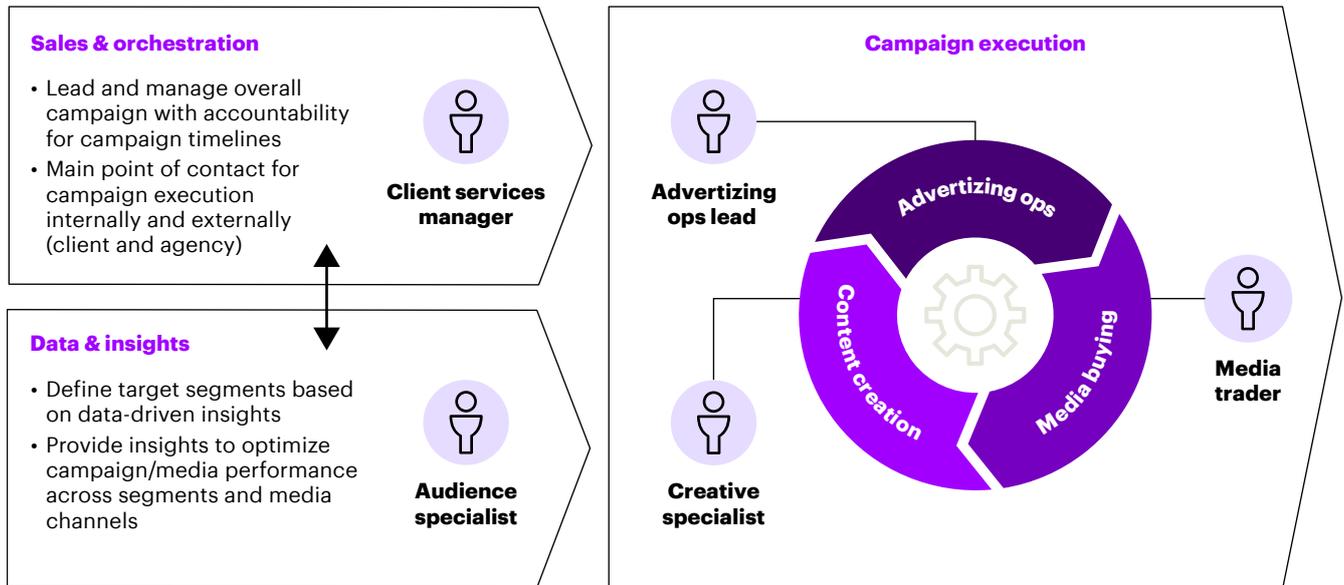
The moment of truth to build the business is now

Retailers are in a unique position to build and scale their own media businesses. The imminent end of third-party cookies will further accelerate the growth of retail media as brands and media agencies shift their media budgets to retailers to leverage their wealth of first-party customer data.

With a promising future ahead and numerous players in the game, the business of customer data monetization is precious. The market is longing for innovative solutions – now retailers can play a pivotal role in building this business.

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