Making Sense of Retail Media

How to navigate the complexities of investing, funding & staffing to optimize retail media activation

THEMARSAGENCY®

SPECIAL REPORT

Why is everyone talking about retail media?

In November, eMarketer published statistics reinforcing a fact about the digital advertising arena that has persisted for several years: that Facebook, Google, and Amazon currently account for for nearly two-thirds of all digital ad spending in the U.S.

U.S. 'Triopoly' Share of Digital Ad Revenue

14.6%	24.1%	26.4%	34.9%
amazon	facebook	Google	OTHER

As you look at those statistics you might immediately notice that one of those players is not like the other two; one is a retailer, while the other two are venerated ad tech titans. But Amazon realized very early on that, as a retailer, it had something that the other two didn't: proprietary first-party data about the shopping and buying habits of its ecosystem's users, and a unique ability to conduct true closed-loop sales attribution measurement of their activity. And because of that, Amazon was able to build a multibillion-dollar advertising business.

Once Amazon created that blueprint, other retailers were sure to follow. And recently, there's been an explosion of offerings in the "retail media" marketplace, with new entrants like Walgreens, CVS, and Lowe's joining the fray and more established players like Walmart, Target and Kroger — who joined the hunt earlier — launching a flurry of new tools and partnerships.

Thanks to the pandemic-driven shift toward ecommerce grocery shopping, there's also been an explosion in ad spending that very, very quickly has made retail media one of the fastest-growing and largest line items in the budget for CPG brands. Total spending is expected to rise from $18.7 billion in 2020 to as much as $50 billion in 2024, propelled by annual double-digit growth, according to eMarketer.

Clearly, retail media has become a very relevant, important topic for the industry. This report seeks to offer perspectives on four aspects of the retail media marketplace that can help CPG marketers better leverage the available opportunities by avoiding some of the key misconceptions that are currently prevalent across the industry.

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1 How we got here.

It's important to understand and appreciate where we've been and what the past looks like in order to formulate a plan for where we should be heading.

To do that, we first need to level set on the meaning of "retail media," because there is still some confusion around the industry about what exactly the term does and doesn't cover.

In The Mars Agency's view, there is a universe of "shopper media" that's focused very specifically on reaching shoppers — different from consumers — along the path to purchase and, ultimately, getting them to convert at retail.

We then deconstruct the shopper media universe into two buckets: retail media and off-platform or third-party media. "Retail media" is shopper media that is bought directly from a retail media network, or in some cases directly from the retailer's dot-com team. This media is further defined by three main characteristics:

- Proprietary first-party shopper data that can be used for targeting.
- Unique on- and off-site inventory opportunities.
- Closed-loop attribution capabilities for measurement.

The universe of retail media, therefore, includes Walmart Connect, Roundel, Kroger Precision Marketing and the other platforms in the graphic below (including third-party partners such as Quotient and Criteo).

Retail Media Landscape

One of the fundamental issues that brands are facing is the underlying tension that retail media has created between marketing and media groups inside the organization, between various agency partners, and between the sales, shopper and ecommerce functions at both. This tension is driven by debates over which group should own retail media within the organization.

This is a recent development, however. Retail media used to be relatively simple. In the early years, there were only a few retailers in the game and even fewer networks that powered most of the activity (third-party service providers such as Triad Retail Media and HookLogic).

Related ad budgets, therefore, were relatively small. A brand could spend $50,000 for a homepage takeover and maybe buy a category banner. They'd cut an insertion order, flip it over to their partner for execution, hope they would reach the right shoppers and then, maybe six to eight weeks post-campaign, get a recap with standard media reporting: impressions, clicks, etc. The process didn't require much sophistication on the part of advertisers.

COVID Creates a Perfect Storm

Then, a perfect storm began to brew at the beginning of 2020. As the world was introduced to COVID, the industry experienced an explosion of ecommerce behavior among shoppers and a surge in ecommerce sales for CPG brands. At the same time, there was increased buzz in the digital media world about:

- Brand safety, due to concerns over advertising inadvertently appearing alongside objectionable content, and

- Consumer privacy, as a growing number of data privacy regulations globally prompted leading aggregator companies like Apple and Google to begin ending the practice of using "cookies" to track consumer activity across the internet.

Meanwhile, retailers have been facing increased pressure to find new and profitable revenue streams as their profit margins continue to shrink — particularly as more of their business moves into ecommerce, where cost-per-transaction levels are significantly higher than they are in the brick-and-mortar store.

This perfect storm has driven a lot of shoppers — and a lot of eyeballs in general — to retail platforms and, as a result, sparked an explosion of retail media. Retailers saw the blueprint that Amazon built, how big and how profitable the ad revenue stream could be, and decided to get into the game.

Within brand organizations in these early stages, the scales tipped in favor of the sales, shopper, and ecommerce functions. It was assumed that retail media would be the domain of those functions because of their closeness to retail and their historical connectivity to related activity.

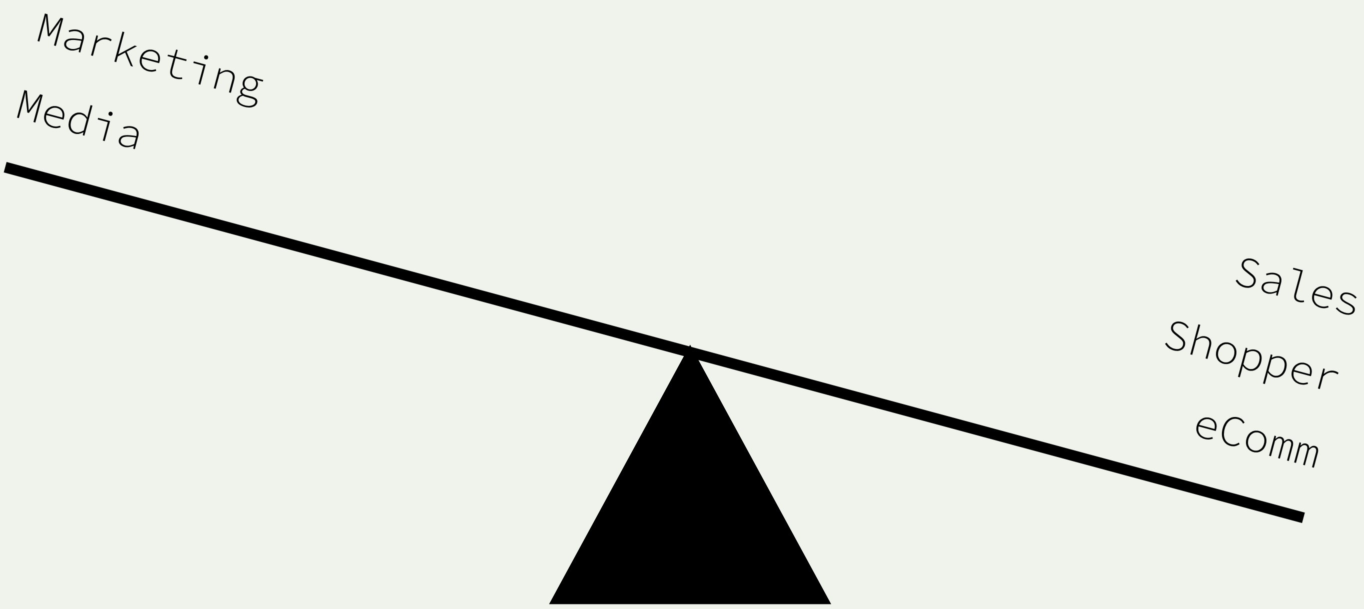
However, as the story continued to unfold and retailers began to better understand the demand for their offerings and their inventory, they started to get bolder with their brand investment asks. We're now having conversations on behalf of clients with the key retail media networks about $10 million, $20 million, even $30 million in upfront commitments. There now is a lot more money at stake.

Additionally, the targeting capabilities of these networks have gotten a lot more sophisticated. It's no longer just about buying a contextual category banner ad; it's about leveraging deterministic, first-party path to purchase behavior data to talk to non-category buyers or lapsed brand users.

There's also greater sophistication with respect to inventory. Networks are expanding their channels well beyond on-site search and display to include opportunities like off-site programmatic, connected TV, and social.

The measurement capabilities are getting better, too. We used to talk about standard media metrics being the necessary default method of measurement. Now, we're talking about the ability to measure true attributed sales, ROAS and, hopefully as we move forward, more sophisticated measures of ROI and incrementality.

Initial Focus on Retail Media



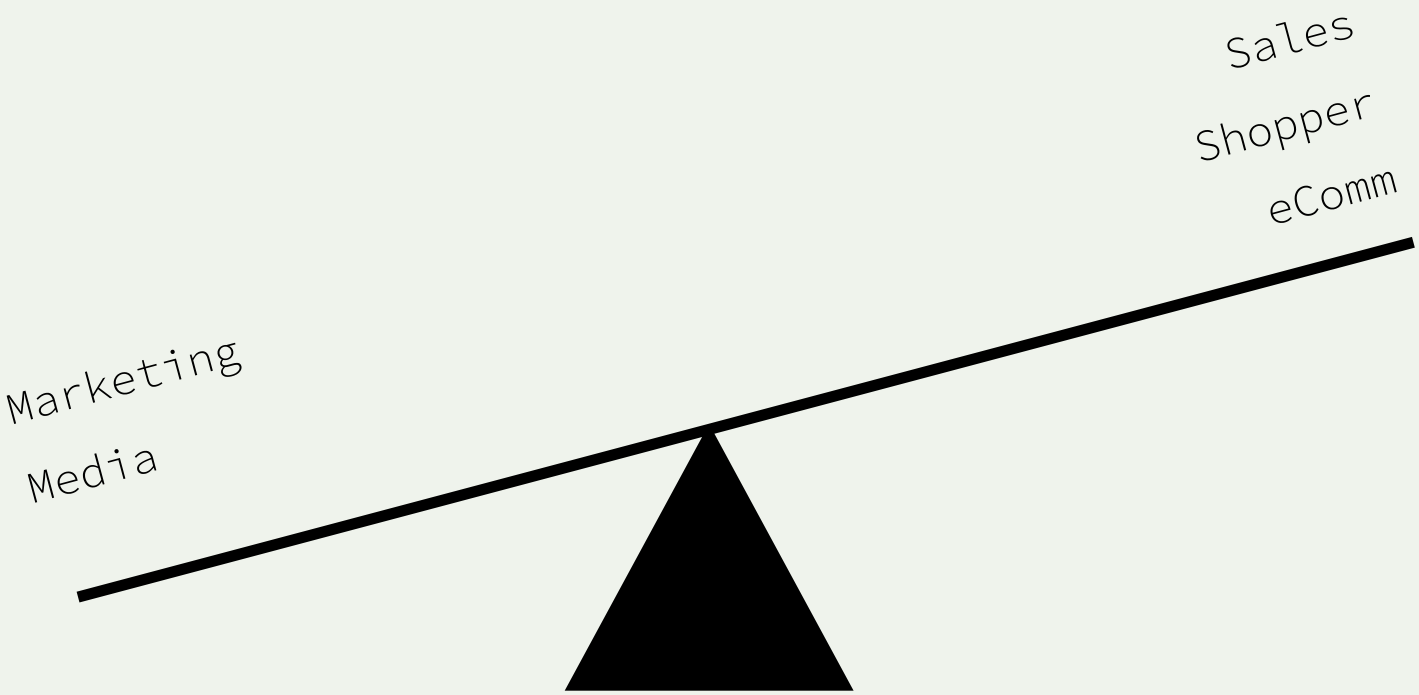
As a result of all this — the asks getting bigger, the capabilities getting more sophisticated — we started to see not just shopper marketing and ecommerce budgets being tapped for investments, but national media budgets as well. And that's when a lot of organizations started to question whether the brand and the media functions and agencies should own retail media, given the increased sophistication and especially the money now at stake.

That thinking may be short-lived, however, as the most recent trends seem to be balancing out the scales. For one, many retail media networks are starting to incorporate digital and even physical in-store touchpoints into their offerings. This is an important and positive step, although it does raise even more questions about how to integrate these activities with the rest of the marketing mix and who should own the practice.

There's also increased connectivity between ecommerce and media. Most industry practitioners can relate to a situation like this: You spend a lot of money on search and display, but you're having inventory and out-of-stock issues and need to make 1,000% certain that the advertising isn't driving clicks to product detail pages where the brand isn't winning the buy box or doesn't have products in stock. Having that kind of connectivity across the organization — a link between ecommerce, shopper marketing and media — is becoming increasingly critical.

The final recent development is intensifying skepticism and questions about ROI measurement. Everyone got romanced very early on by the ability to get closed-loop sales attribution and report ROAS.

Current Focus on Retail Media



But we've discovered since then that ROAS isn't the end-all-be-all metric and we need to also think about profitability, true ROI, and incrementality. To do that, both sides of the scale — the media organization and the sales, shopper, and ecommerce teams — need to work in concert.

That brings us to the current situation. Looking forward, here are five ways in which we expect the industry to evolve:

1. Consolidation. There has been an explosion in the number of retail media networks, so it's likely that we are going to see consolidation at some point because there is only so much money to go around.

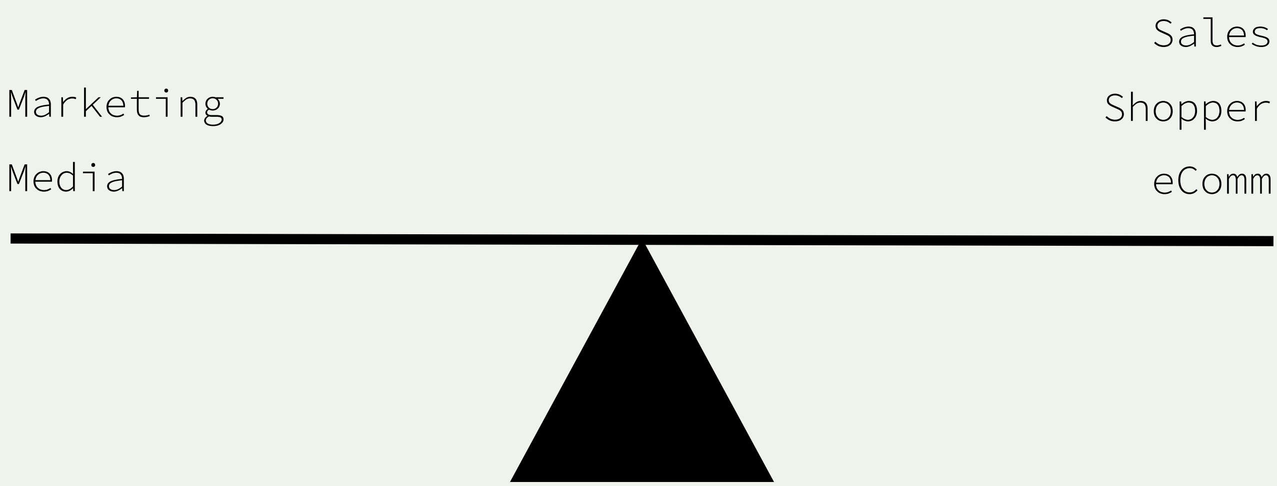
2. Continued Shift to Self-Serve. We've recently seen the launches of Walmart DSP and Kroger PMP, and many brands already are managing retail search campaigns hands to keyboard through tools like Pacvue and Skai. But we'll continue to see a push that probably will move into self-service reporting and measurement in addition to campaign management.

3. Lower Cost to Serve. Right now, there's a significant premium that brands are paying on retail media. And increasingly, right or wrong, we're comparing retail media to the CPMs and other key cost metrics for national media. There will have to be a "coming down to earth" or normalization in terms of relative costs.

4. Data Sharing. There have been recent announcements in this area from Walmart (and its new Luminate insights platform), Kroger (the Stratum self-serve analytics tool) and Target. Meanwhile, new DSP (demand side platform) environments are emerging that let a brand align its own first-party data with the retailer's first-party data to create really powerful planning capabilities.

5. Enhanced measurement. As discussed earlier, we expect increasing sophistication away from ROAS and basic ROI toward true profitability and incrementality.

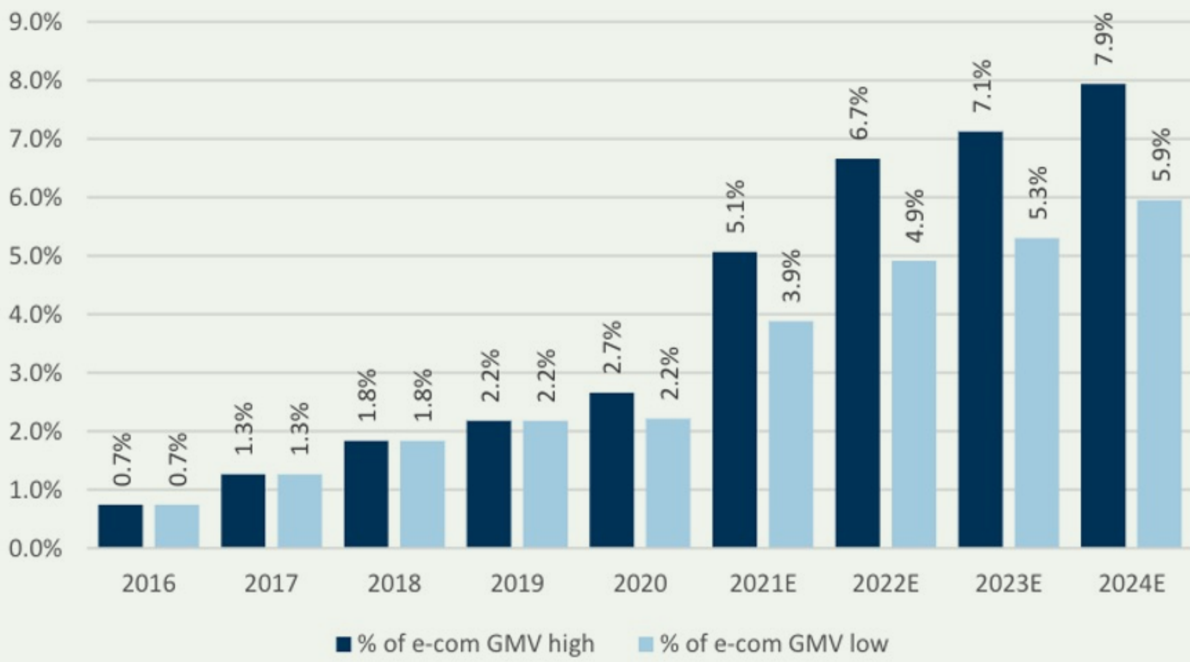
Future Focus on Retail Media



How much to invest.

For many brands, this has become one of the hottest topics for discussion as the requests for increased retail media investment come from more and more retailers. Goldman Sachs forecasts that retail media spending will represent anywhere from 6% to 8% of gross ecommerce sales by 2024. With so much at stake, what is the right way to invest?

CPG retail media spend as a % of retailer ecommerce and gross sales



Source: Goldman Sachs (using data from WPP, US Chamber of Commerce, IRI Worldwide)

Unfortunately, the discussion is too often framed completely as a financial exercise rather than a strategic assessment, with both the request from retailers and the evaluation by brands driven by a specific dollar amount (or percentage). To fully unlock the potential of retail media, this conversation needs to shift.

The asks by retailers, however, are often substantial, representing 2% to as much as 10% of a CPG's total sales — which can equate to $10 million to $30 million depending on the size of the product categories and brands in question. Those are daunting levels that make it difficult for brands to determine where and how much to invest.

And a focus on the amount ends up making the spend feel more like a tax than a marketing investment. "That's a shame, because organizations are viewing the price tag and not the value proposition of these retail media platforms," says Diana Haussling, VP–GM of Digital Commerce at Colgate-Palmolive. "That's why we have to reframe the conversation."

Reframing the conversation will require brand and retailer organizations to reshape their strategic thinking in the following ways:

1. **Put the “retail” back in “retail media.”**
2. **Give the keys to the merchant.**
3. **Eyes on the prize, not the price.**
4. **Rethink KPIs.**
5. **Evaluate instead of compare.**
6. **Plan holistically.**
7. **Tap into agencies earlier.**

1. Put the "retail" back in "retail media."

It's not like traditional media and can't be viewed in that context alone. While that might make things more complicated for both retail media operators and their advertisers, it is nonetheless reality because the value proposition for retail media is much different than it is for traditional media.

There is tremendous power in the fact that retail media networks have traceable data on millions of customers making transactions in their stores that can be evaluated for planning and then used for targeting. There's also value in media opportunities that allows brands to power their product pages, engage with consumers across the funnel in relevant ways, and then lead them directly to purchase.

The upshot? However corny it may sound, we need to put the "retail" back in "retail media" because the full value proposition only comes to life when you're able to lean in, unlock, and connect the retail component back to the media space.

The full value proposition of retail media only comes to life when you're able to lean in, unlock, and connect the retail component back to the media space. The magic really happens when you can connect the dots with your merchant teams.

2. Give the keys to the merchant.

Right now, for some retail organizations, this is a very siloed dialogue. The merchandising team is on one side, and the retail media network is driving the discussion on another side.

These retail media network partners are extremely valuable. They know their platforms intimately and therefore can help brands unlock value (whether working with them directly or through an agency partner). "But the magic really happens when brands are able to connect the dots with the merchant teams and fully understand the shared business challenges that can be solved," says Haussling.

3. Eyes on the prize, not the price.

Brands, meanwhile, have to shift away from focusing the conversation on financing alone. They must move from "How much should we spend?" to "What's the business problem that we're trying to solve, and how can we leverage retail media to achieve that goal?"

4. Rethink KPIs.

Taking that step requires brands and retailers to start thinking differently about KPIs. The media professionals are comfortable using terms like ROAS and CPM (cost per thousand), which will remain important. For retail media, however, the focus needs to shift towards such metrics as sales profitability, category share, merchandising and display placement, as well as the rich data and subsequent insights that are available — data isn't just attributed, but actually direct.

5. Evaluate instead of compare.

When you do that, you move away from the comparison of national vs. retail media being the main reference point to viewing activity as a build: What objective needs to be achieved, what role does national media play, and what role does retail media play? That is when you can start unlocking real value.

Cross-Platform Assessment Tool

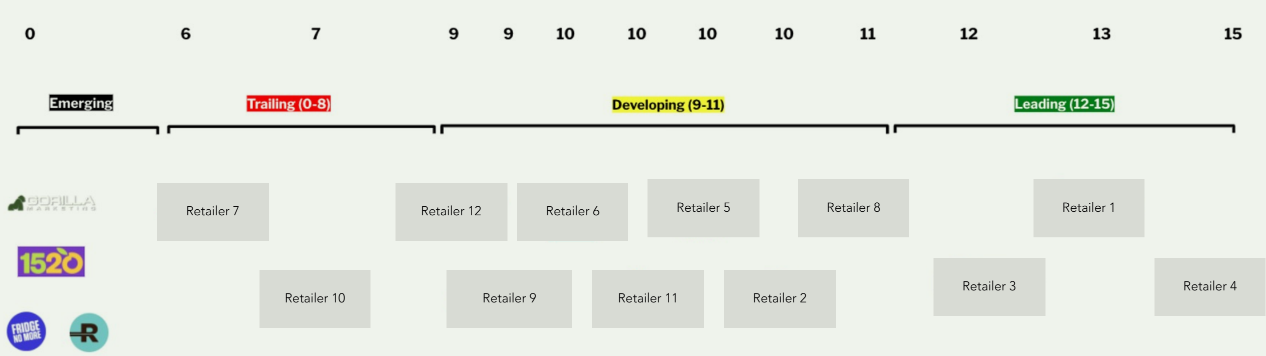
	Retailer 1	Retailer 2	Retailer 3	Retailer 4	Retailer 5	Retailer 6	Retailer 7	Retailer 8	Retailer 9	Retailer 10	Retailer 11	Retailer 12
Scale	3	2	2	3	2	2	1	2	2	2	1	2
Reporting and Measurement	2	2	2	3	2	3	2	2	2	1	1	2
Partnership Opportunities	3	1	2	3	2	2	1	3	1	1	2	1
Brand Safety	2	3	3	3	3	2	1	2	2	1	1	3
Media Formats	3	2	2	3	1	2	1	2	2	2	1	2

Beyond comparing national media with retail media, brands should evaluate across the spectrum of retail media to assess how each platform stack ups according to the criteria that are most important to your brand. Among the criteria that should be used are scale, measurement capabilities, media formats and partnership opportunities (see chart, above).

Brands can then start to map out potential partners across a spectrum of sophistication. At this stage, no two platforms are exactly alike, and their relative strengths and weaknesses should be evaluated to determine where they might best fit into the overall plan (see chart, below).

What are the emerging platforms suitable for test and learn projects? Where are the incubating platforms where you want to get in the front door? Which are the platforms where you have to win, where you really need to invest to benefit from their access to critical consumer groups? And then, finally, where are the opportunities for brands to connect national media campaigns to this retail media activation to effectively bring "media to shelf" to life in new ways?

Retail Media Network Activation Planning



6. Plan holistically.

Effective cross-functional alignment requires a holistic planning process with two components:

- An integrated briefing process with agency partners to ensure that plans are connected all the way from media to shelf
- Integrated planning with the sales team and partnering retailer merchants not only to ensure execution for brand initiatives but to close the loop on strategic alignment.

Retail media activation spans both tactical operations (building an effective product page) and marketing touch-points (traffic-driving connected TV and streaming video).

That makes this level of integration all the more critical.

7. Tap into agencies earlier.

"When I think about the biggest opportunities for our retail media partners looking to access brand dollars, one way is to really engage with agency partners," says Haussling. Agencies are recommending various options to help brands build holistic campaigns; retail media operators can work themselves into those recommendations by making sure agencies fully understand the value they bring to the table.

Retail Media Network Activation Planning

How to fund it.

To say retail media is complicated is an understatement, as a recent report from Cleveland Research Company made abundantly clear: CPGs are funding their Amazon Advertising activity from at least five distinct investment buckets across the organization: traditional media, trade, search, social and video. That's a common state of affairs as organizations try to determine more ideal ways to navigate the complicated nature of retail media and the multiple functions it impacts.

Much of the complexity can be traced back to the prevailing way in which the marketing community views — and follows — the traditional marketing funnel. While it might be a little controversial to say, this concept has become antiquated. "The thinking that all national media spending is upper funnel and all retailer and shopper activity is lower funnel is a myth that we have to bust," says Haussling at Colgate-Palmolive.

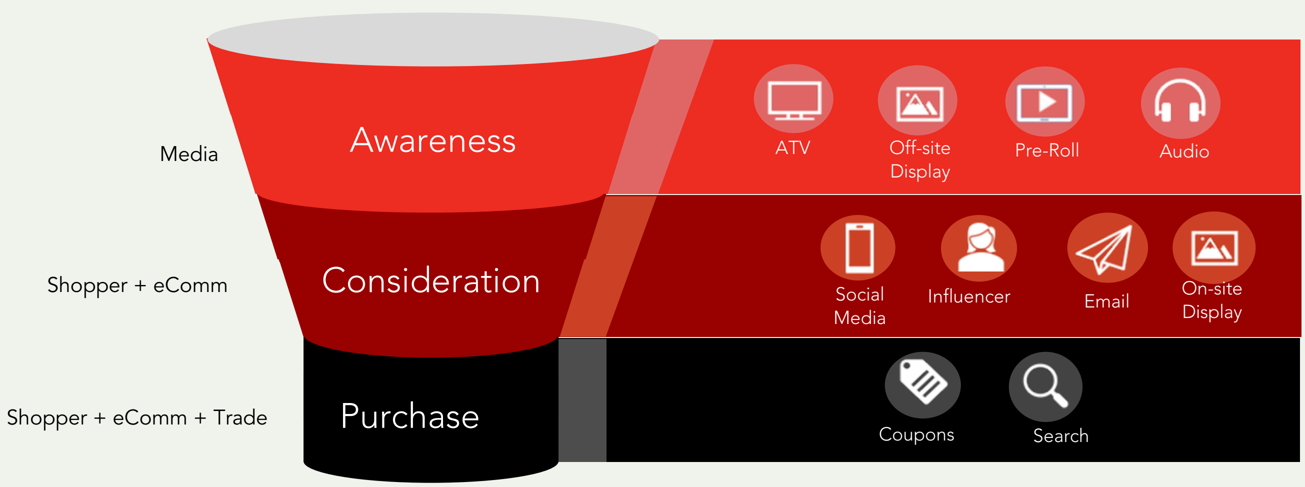
"The thinking that all national media spending is upper funnel and all retailer and shopper activity is lower funnel is a myth that we have to bust."

If you think about it closely, the shopper marketing spend is hitting the full funnel within the retailer's walled garden, and it's also full funnel depending on how the brand leverages the retailer's off-site DSP opportunities.

To win in digital commerce, brands must find and drive traffic to their product pages on retailer websites (if not directly into shopping carts). That requires engaging consumers wherever they are in the "funnel" — especially since technology-enabled "consumers" are now able to become "shoppers" at any point in time — regardless of where they might be in the "funnel" at that moment.

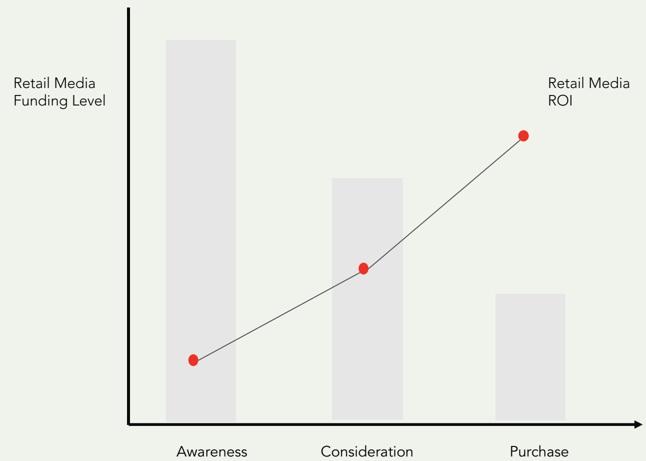
But too often, organizations allocate retail media dollars from trade or shopper budgets, so they're limited in nature and focused on sales and conversion. Meanwhile, national dollars are funding national media tactics, with very little of that money devoted to the retail media environment.

Complexity of Traditional Funnel Funding



What ends up happening, as the graph at right illustrates, is that brands — encouraged in large part by the retail media networks themselves — use national media dollars to aggressively invest in some of the "upper funnel" opportunities that are available (like off-site display or CTV), then use their smaller shopper/ecomm budgets to fund lower funnel tactics (such as retail search) that typically are far more effective at driving ROI/ROAS.

To grow, brands must constantly drive traffic and convert consumers who may not be buying their product but do have them in their consideration set, and also get consumers who already buy their products to buy them more frequently. For that purpose, they have to effectively leverage both upper and lower funnel tactics.



Potential for Underinvestment

One Budget, One Plan

As stated earlier, this requires organizations to move away from siloed budgets and embrace holistic planning. It should no longer be brand funds vs. shopper funds vs. trade funds, but one budget that will drive a holistic plan leveraging the right activation levers across national media, retail media, and any other touchpoints that will engage consumers and achieve the objectives.

A hypothetical program with Instacart provides a great example of this. Brands can activate a social strategy on Instacart that's very much driven by national media. But they can make the ads shoppable to pull consumers into a retail environment. And then they can connect the entire experience to engage consumers all the way through the path to purchase.

How to structure the team.

Given all this complexity, another key consideration for CPGs is how to redesign or refresh the organization to enable winning in the retail media ecosystem.

A recent study from Cleveland Research Company found that 62% of CPGs have no clear owner of their retail media strategy, and that even execution is often handled by multiple functions. This can create a multi-headed monster in which the various functions and the agencies supporting them are having their own, isolated interactions with retail media partners. And that can lead to numerous potential issues that will need to be contantly rectified :

No connectivity & synergy: There is a lack of connectivity and communication across these various functions. We often see situations where clients are activating retail media out of different pockets of their organization that don't have visibility into what the others are doing.

Lost leverage: That, in many cases, can lead to lost leverage because the organization doesn't have the ability to talk to the retail media partner about the full scale and power of the collective activity. This is a huge miss.

Duplication: The worst possible cases involve functions within the organization driving up costs by actually bidding against each other on the same keywords for retail search. There are many other examples where we see duplication — all of which are avoidable.

Gaps in coverage: Conversely, a lack of visibility and communication across the organization can lead to damaging gaps in coverage.

Disjointed shopper experiences: Perhaps most importantly, a disjointed internal approach can lead to a disconnected experience for shoppers that can negatively impact short-term results and perhaps even long-term perception.

To address these potential issues, there are five possible models that organizations can embrace. All five are based on three key underlying principles:

Cross-Functional.

In addition to the media, ecommerce, shopper and sales teams already discussed, there are other functions inside the organization that need to be involved in effective retail media planning and activation.

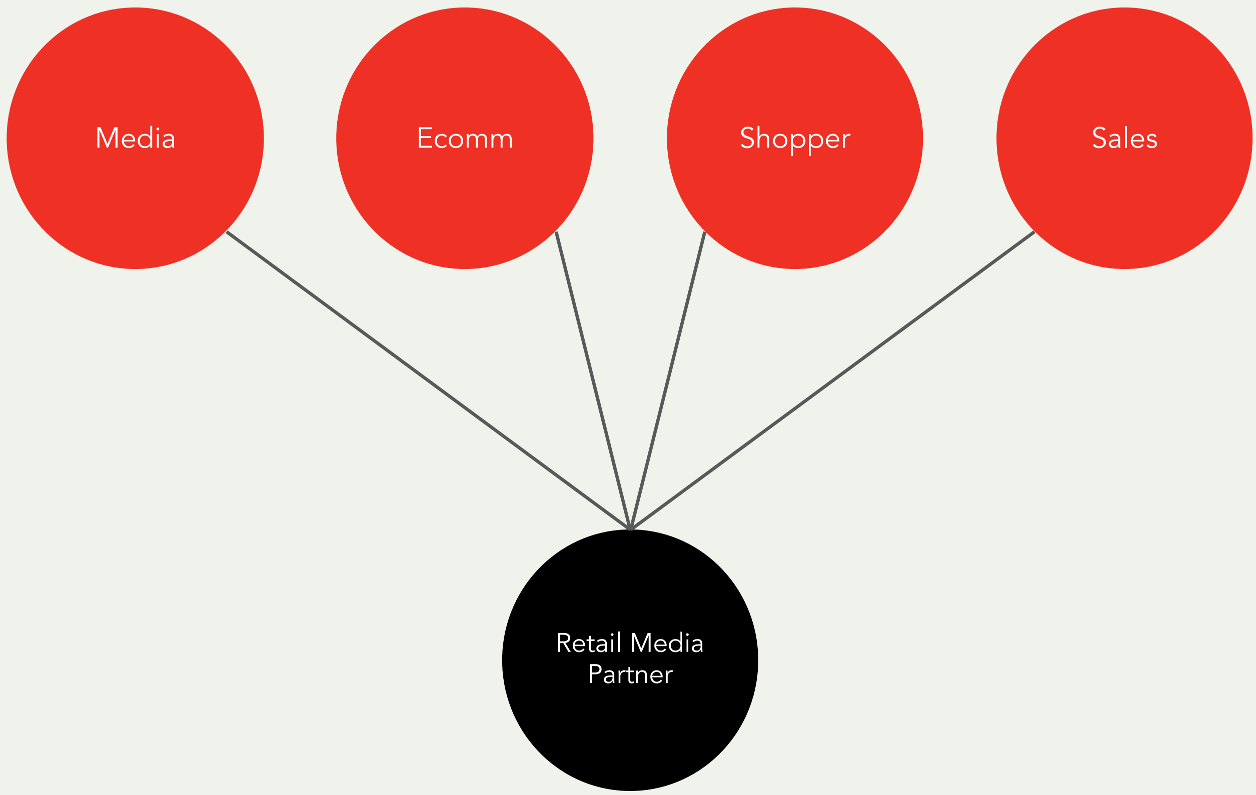
Collaboration.

It is critical to ensure that all of these parties are on the same page from the outset and working closely together to move the organization's strategy forward.

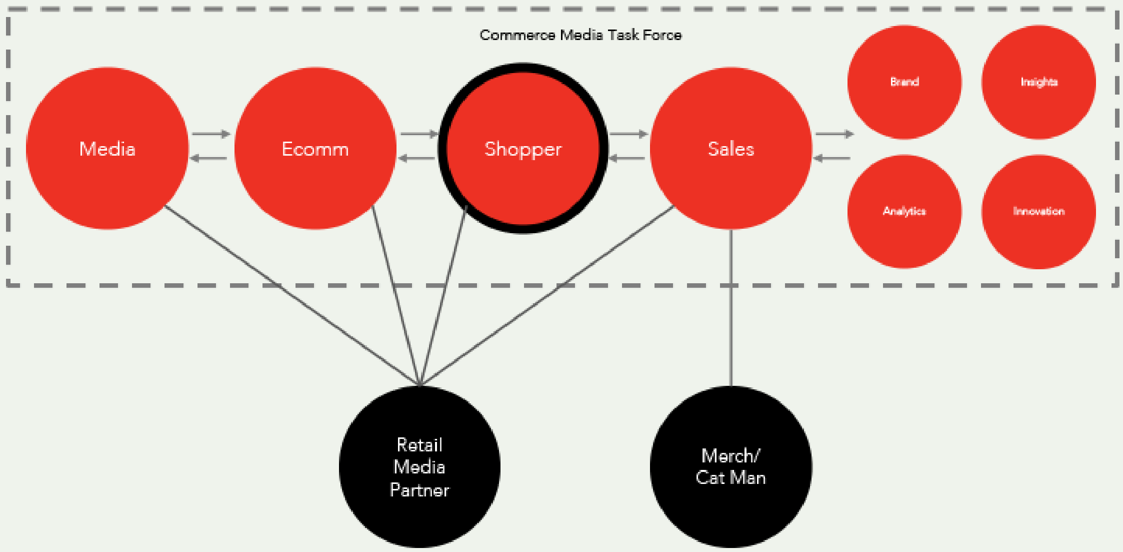
Communication.

In a space as fast-moving as retail media, when brands even have the ability (at times) to act on real-time campaign insights, communication needs to be constant.

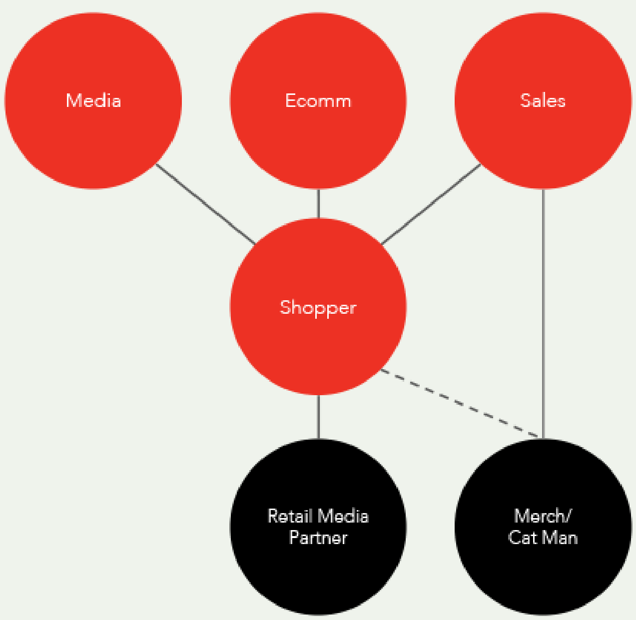
Current Structural State



Model 1. Task Force



Here, the idea is to avoid completely shaking up the organization with any wholesale restructuring. Instead, continue operating with multiple stakeholders "owning" the retail media relationship, but make a concerted effort to bring these stakeholders together in a task force that meets on a regular cadence, with a specific agenda, to ensure that the vital cross-functional communication is taking place.



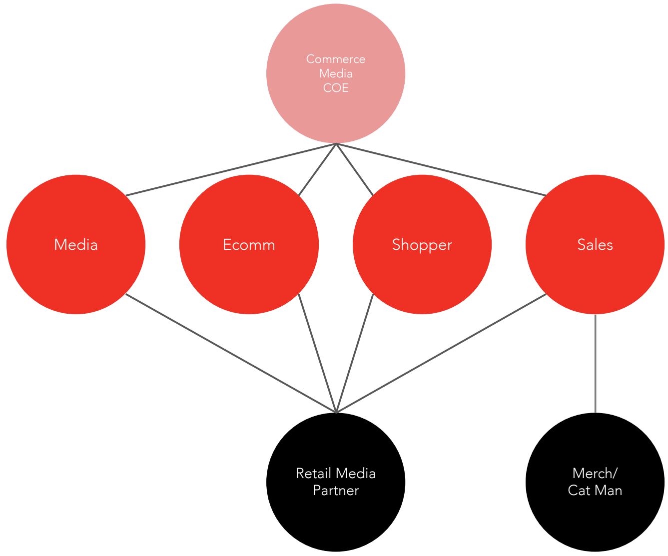
Here, the organization assigns one single point of contact to lead negotiations and own the relationship with the retail media partner, while internally coordinating close collaboration with the various teams. The primary goal is to present a more united front to the retail media partner to control the communication and the relationship. The Mars Agency has a number of clients embracing this model.

Although any of the key functions could take point, we recommend shopper marketing since it typically sits in the middle of all or most of the other groups, situated directly between sales and brand and typically closely connected to ecommerce and media as well.

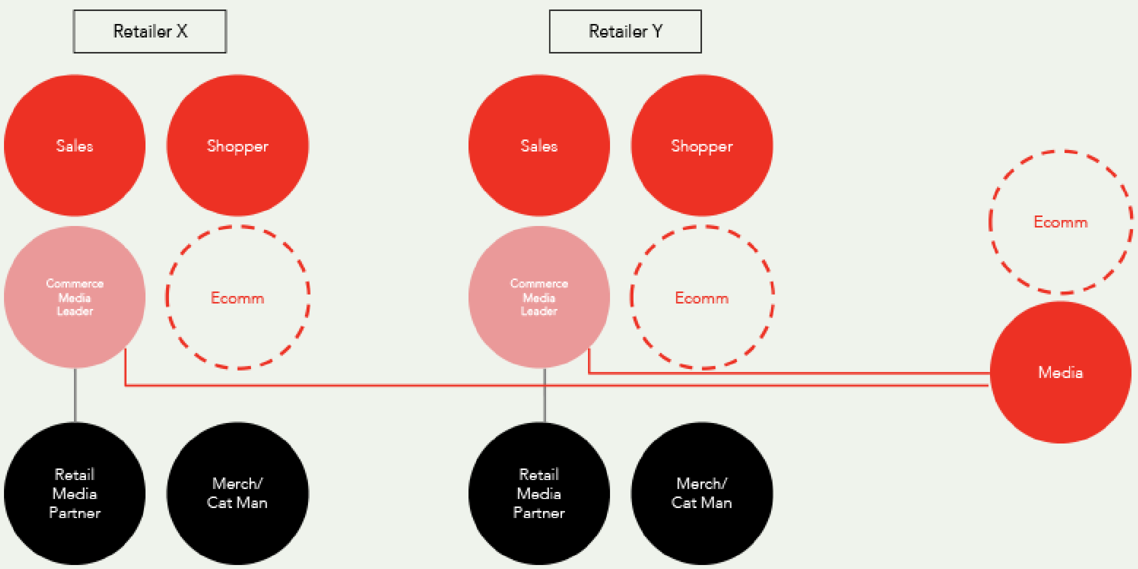
Model 2. Single Point of Contact

We've also seen a handful of clients start to embrace this model with success. It's similar to the task force model, except here the idea is to create a dedicated center of excellence for retail media (or commerce more broadly) with dedicated resources and personnel that will serve as the retail media experts for the organization.

The COE will compile best practices, key learnings and insights to guide the individual customer teams, who will control the relationship with the retail media partner. This model also makes sure that someone in the organization is responsible and accountable for setting the strategic direction and building the blueprints for all of the teams to follow.



Model 3. Center of Excellence

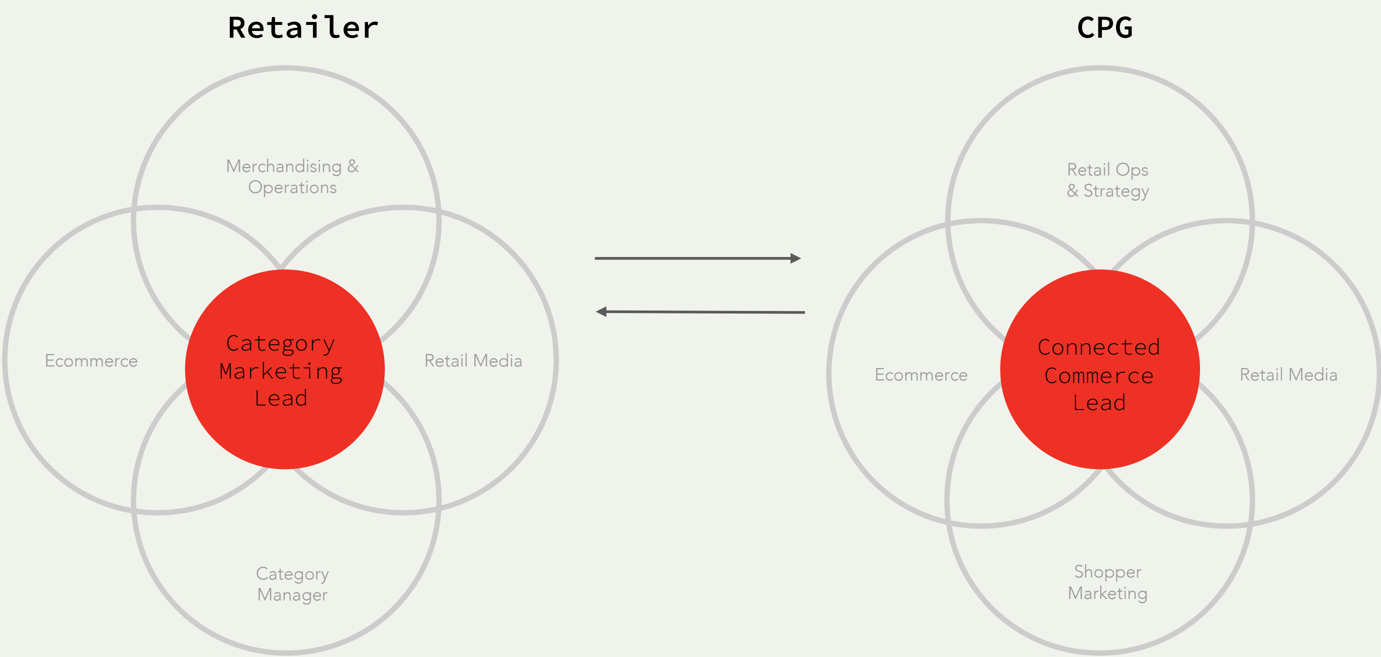


Model 4. Embedded

We've seen this model executed with a large degree of success as well. Here, a commerce or retail media leader is placed within each customer team, similar to the way many teams already have key roles in place for sales, shopper and even ecommerce. (Structurally, this commerce media leader can dot-line or straight line into the organization's media team.)

The expertise, therefore, isn't cultivated at a central center of excellence but down in the weeds in the field — and, importantly, the collaboration across functions can be even more closely enforced.

Model 5. BSU (Blow Stuff Up)



On the flip side of the conservative task force model, this potential solution embraces a more disruptive model that falls more in line with the concept of Connected Commerce.

On the retail media side of the equation, retailers increasingly are bringing together their in-store and dot-com operations across buying, merchandising and other areas. They're more tightly knitting together these functions.

Therefore, a case can be made for CPGs to think about doing the same thing, building Connected Commerce teams or hubs in which (similar to Model 2), one person takes a centralized role to align the internal functions and lead the holistic conversation — not just the retail media conversation, but entire retailer relationship (including the trade and sales). This person would work with a centralized counterpart on the retailer side (when available) to ensure the entire brand organization is doing everything it can to drive the total business.

5 The Key Takeaways

1. Negotiate for the total business.

Brands should strive to invest in retail media at the right levels to meet mutual growth goals within the customer's full arsenal of offerings and activities. To do that, they must bring the merchant to the table alongside the retail media group and discuss the total investment required to achieve growth and the role a retail media investment can and should play within the overall plan.

2. Connect the team.

In the short-term, brands must align all the various stakeholders involved in the retail media relationship to make sure that, at the very least, they have a formal method of collaborating and communicating. Potentially, as we move forward, they should consider evolving current structures to make sure that they're inherently designed to drive even stronger collaboration and communication.

3. Think one budget, one plan.

Brand organizations need to stop thinking about spending in terms of "my money" vs. "your money" and instead build one plan that pulls from one budget because, ultimately, all functions have the same goal: to drive the business by making the smartest investments possible.

4. Put retail back in retail media.

This final takeaway encapsulates the other three and also all of the recommendations presented in this report. Retail media can't be compared to national media at face value because the objectives and KPIs — the higher-order outcomes that organizations are looking to achieve at retail — are vastly different. Unless retail media is viewed through that lens, its full value to success will not be achieved.

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Ethan Goodman is SVP-Media at The Mars Agency and a renowned strategist with deep expertise in digital commerce and shopper marketing. He's been named a "Young Influential" by Adweek and a "Who's Who in Shopper Marketing" by Path to Purchase IQ and also serves as a Faculty Member at the Path to Purchase Institute. Prior to his current role, Ethan built, grew and managed TMA's eCommerce and Innovation practice groups, and also guided the team that created SmartAisle — the world's first voice-powered shopping assistant for brick & mortar retailers.

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