

A new seller's market

Promoted items on digital sales platforms are barely noticeable, but they are at the vanguard of a 'retail media' industry, which is worth tens of billions of dollars and poised to go global.

By Alistair Gray



The ability to reach a wide audience through advertising is helping large retailers withstand pressure on sales during the cost of living squeeze

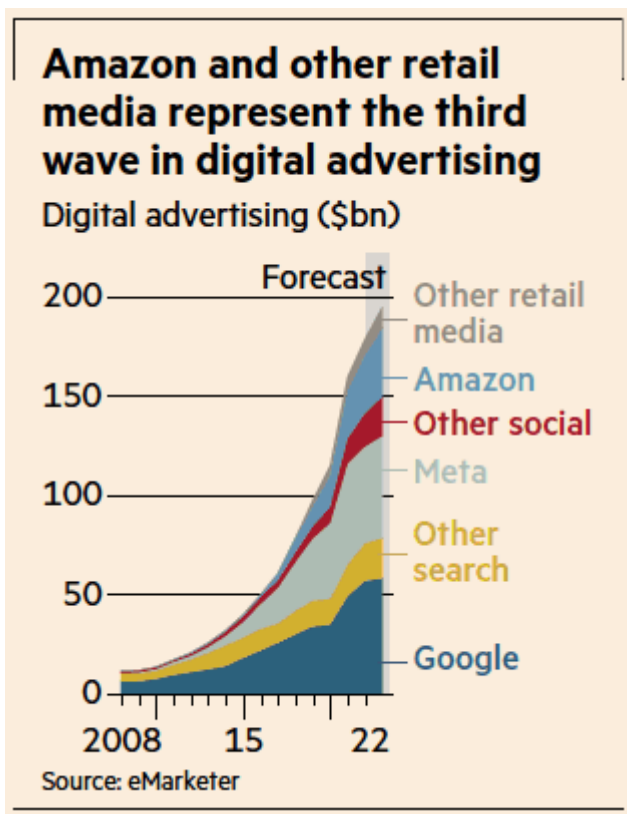
FT montage: Dreamstime



Online shoppers hunting for televisions from the British retailer Argos this week will be inundated with Black Friday offers. Yet among the hundreds of options, an ultra high-definition model from Toshiba stands out.

That is because the Japanese electronics maker has paid a premium for prominent positioning. Argos will use the data it collects about purchasers to better target future adverts during shopping sessions.

The arrangements that underpin such promotions have a relatively low profile — in some cases consumers are barely aware they exist — yet they are beginning to upend the global advertising



industry.

J Sainsbury, owner of Argos, is among dozens of retailers trying to emulate Amazon's success in building a marketing business on the back of a sales platform. They are effectively creating a new form of mass media in direct competition with traditional publishers and Big Tech.

As part of their broader shift away from bricks and mortar, large retailers have developed increasingly influential digital advertising arms that give consumer brands powerful new ways to reach shoppers.

From Woolworths Group in Australia to Canada's Loblaws, retailers in a range of global markets are with varying degrees of success positioning themselves as compelling ad venues for the world's biggest consumer brands.

Amir Rasekh, director of Nectar360, J Sainsbury's loyalty scheme and marketing services arm, says:

"Brands have woken up to the fact that as a retailer . . . you have the ability to understand customer behaviour and personalise advertising based on that."

The expansion is particularly aggressive in the US, where eMarketer estimates advertisers are on track to spend more than \$37bn on "retail media networks" this year, an increase of about a fifth from 2021.

While social media currently attracts more ad dollars, with a forecast annual haul of \$65bn, retail media is set to grow more than five times faster in 2022.

Retailers' ad revenues are already almost twice as large as radio and print combined, and the gap with television, which is forecast to generate \$68bn in ad sales this year, is also closing swiftly, according to eMarketer.

But the industry's media ventures threaten to exacerbate tensions with suppliers over how products are promoted, at a time when inflationary pressures are already leading to sometimes fraught negotiations over pricing.

More sophisticated customer profiling has meanwhile invited scrutiny from data privacy campaigners. And while the ability to reach a wide audience through advertising is helping Amazon and other large retailers withstand pressure on sales during the cost of living squeeze, the expense and logistics required to build digital media businesses risk leaving smaller chains even further behind.

The momentum behind so-called retail media is nevertheless so great that it has the potential to usher in a new era of digital advertising, says Brian Gleason, chief revenue officer at Paris-based Criteo, which has developed media technology for retailers including Carrefour of France and Britain's Asda.

First came search, he says, "which changed the way we interact with consumers". Then came social media, which brought target audiences into clearer focus. Retail media is the "third wave", says Gleason, a former executive at advertising group WPP. "The largest retailers in the world are becoming media companies in many ways."

Big retailers, big ad revenues

Last month, Amazon threw a three-day event at one of Manhattan's largest convention centres for a group of valuable customers. US Olympian Allyson Felix hosted a fireside chat and after-hours entertainment was provided by American rock band The Killers.

The clients were not TV critics or cloud computing users but advertisers, who added \$9.5bn to Amazon's global revenue in the third quarter.

As the largest online retailer, Amazon is the most obvious beneficiary of a shift in advertising markets as a decade-long boom for social media deflates. Ad revenues at Meta, owner of Facebook and Instagram, fell 3.7 per cent over the same period to \$27.2bn.

Amazon's earnings report showed that its revenue from advertising was higher than fees from its Amazon Prime membership scheme, audiobooks and digital music combined.

Although their numbers are much smaller, several of Amazon's biggest rivals are also making considerable inroads into advertising, especially since the surge in online shopping during the pandemic.

Retailers have realised they have a "certain scale of digital attention that allows us to monetise data in a whole new way", says Lauren Walker, head of data and analytics at Accenture Song, the consulting group's marketing wing.

The world's largest retailer overall, Walmart, said last week that its ad revenues surged 30 per cent in the most recent quarter thanks to expansion of its Connect media business in the US, and in India through Flipkart Ads.

The company is on track to generate \$2.2bn in revenues from advertising in the US this year, eMarketer estimates. On a call with analysts, Walmart's chief financial officer John Rainey noted that advertising was not only faster-growing than its main retail business, it also had higher margins.

'Treasure troves' of data

Despite its scale, retail media tends to be lower key than commercials on TV, outdoor billboards or indeed other forms of digital advertising.

Online, the ads take two main forms: promotions on homepages and product pages, and search results, akin to those on Google. Unlike the banner ads and embedded videos that are plastered across the wider web, the commercials are typically integrated seamlessly into the retailers' web design.

Although in many cases promoted products are clearly marked as "sponsored" — as they are at Argos, for example — it might not always be obvious to shoppers that suppliers have paid the retailer for the positioning.

In the physical world too, retailers are finding ever more creative ways to turn more of their properties into space they can sell to marketers, from ad-supported in-store radio stations to video displays on shopping trolleys that promote particular products based on the weather and time of day.

Tesco, for instance, has installed 500 "smart screens" at entrances to its connected stores through a partnership with JCDecaux.

What makes such media so compelling to suppliers is the data, which in theory should allow them both to target particular demographics and to measure the effectiveness of their marketing efforts far more

efficiently.

“Many of these retailers are sitting on real exciting treasure troves,” says Marc Brodherson, senior partner for marketing at McKinsey.

The expanding dossiers on consumer behaviour now held by retailers have become more valuable since online privacy controls have hurt rival digital media owners, especially social networking apps.

Apple’s updates to its iOS operating system have restricted the ability of apps to follow users around the web and gather information about them. Google meanwhile has said it will begin phasing out types of cookies — or bits of data that identify a user’s device — that are used to track browsing on its Chrome browser from 2024.

The changes have had less impact on retailers — along with hoteliers, food delivery companies and other owners of so-called first-party data — since they do not need to collect information from users on other websites.

Consumers are frequently logged in using their personal credentials when they shop online, allowing retailers to collate particulars about shopper interests without running into restrictions.

“You had a whole industry that was predicated on behavioural targeting and measurement, and it’s been kneecapped,” adds Andrew Lipsman, ecommerce analyst at eMarketer. “Especially in these inflationary times, ad budgets are going to go where they have more certainty about return. Increasingly, that is retail media.”

The information that retailers can glean about users is “much more valuable” to marketers than other forms of digital ads, says Matt Krepsik, chief executive of Quotient, which has helped build media networks for companies including Rite Aid and AutoZone. “It’s a level up from the social platforms.”

Advertisers on social media generally need to use personal data collected about users as a proxy for the types of products that they might be interested in, albeit through increasingly sophisticated algorithms. Retailers, in contrast, have assembled databases on actual transactions.

Amazon and other retailers have also had some success combining their own first-party data with that held by the likes of Facebook and Google to target ads to visitors on a wide range of websites. In some ways, so-called “off-site” media can allow advertisers to skirt the looming crackdown on third-party cookies.

The new medium has further advantages. Online ads can be a distraction, if not an outright nuisance. But when users are actively browsing for particular products, if not about to buy something, they can be more receptive to commercial messages — if they are precisely targeted.

“The last thing we want to be doing is serving people irrelevant messages,” says Nick Ashley, managing director at dunnhumby, Tesco’s data science business. Members of the retailer’s Clubcard loyalty scheme who search for the same products are presented with different promotions “based on previous shopping behaviour”.

The ability to reach shoppers near the point of purchase also gives marketers greater scope to track the effectiveness of particular ads. “That’s what a lot of people term the holy grail of advertising,” says Gleason. “Brands get immediate reporting back to show how their advert is doing.”

Such ads do not come cheap. Several advisers in the sector say it is not unusual for marketers to pay at least 10 times more for slots on retail media networks than “programmatic” ads on the wider web, although the returns can ultimately be higher.

Not everyone is convinced about their efficacy. In reality, some ad executives say, the ability to track which ads lead to purchases is not always as sophisticated as promised.

Marketers are increasingly “asking retailers to prove” how much value is added by such advertising, says Paul Frampton, global president of digital marketing consultancy Control v Exposed. “If we’re spending on this, does this genuinely lift sales or does it just bring in the same people who were coming anyway?”

One limitation is that unlike those on the open web, ads sold through retailers are largely confined to that particular company’s own site. “You might run an ad on Amazon and the shopper might see it, but then they might go make the purchase at Tesco,” says Andrea Leigh, a former Amazon executive who founded ecommerce consultancy Allume.

However, the lure of retail media can be too great to pass up. While several larger consumer goods companies, including PepsiCo and Kraft Heinz, have experimented with direct-to-consumer businesses that sidestep retailers, most ventures in the sector are limited.

Suppliers’ enduring reliance on retailers means many lack first-party data of their own about who is buying their products, Walker adds.

Some retailers jealously guard details about shopper behaviour, which can lead to “friction” with advertisers, Frampton says. “What the brands really want is the access to the data, but the retailers obviously own the data and they’re not just going to give that away.”

Retailers have good reason to prize their newly built media empires. As the deteriorating global economy has hurt their main business, advertising has become increasingly important to their bottom lines.

Yet the rewards of retail media are available chiefly to those with the tech infrastructure needed to make the shift.

Smaller retailers, including many high street chains, have found it hard enough to manage the transition to ecommerce, Frampton notes, never mind taking what is a “big step” into digital advertising. A smaller audience is also less attractive to brands seeking to target a mass market.

At the other end of the spectrum, the potential to expand in “alternative profit” areas such as advertising could encourage consolidation.

It is one of the motivations for US grocery giant Kroger’s planned acquisition of rival Albertsons. Both companies already have retail media networks, yet executives at the two retailers pointed out that the combined group would have an enlarged audience of about 85mn households to whom they can target advertising.

America first, UK next?

So far, online retail media is more developed in the US than in Europe. One reason for that is scale, says Melissa Wisheart, global head of media at Media Monks, Sir Martin Sorrell’s digital advertising company. Only a few retailers have expanded successfully beyond national boundaries.

Another reason is red tape, such as the EU’s General Data Protection Regulation. “Data privacy is much tighter in the UK and Europe,” says Rasekh of Nectar360.

Still, Mariano delli Santi, data privacy campaigner at the Open Rights Group, says he is concerned about increasingly sophisticated “behavioural profiling” on both sides of the Atlantic.

He adds that the distinction between first-party and third-party data is overstated: product purchase histories can contain highly sensitive personal information. Alcohol abuse, for example, is “very easy to spot” in the data.

Shoppers have often not given informed consent for advertisers to target them via retailers, he adds. “The fact that this is being done by a centralised platform [instead of by cookies] changes little to the risks.”

Retailers stress they take data security and privacy seriously. At Sainsbury’s and Argos, for instance, Rasekh says loyalty-scheme customers have given consent for digital advertising. “It’s fully transparent, and it’s easy to opt out.”

Yet both he and Tesco’s Ashley say the industry needs to take care not to create an overly commercialised environment in which every conceivable space in effect becomes an advert. Tesco avoids “plastering the website with every single ad format that we can possibly think of”, as Ashley puts it.

Yet he adds that retail media can ultimately become as big in other markets as it is in the US. The retreat of cookie-dependent advertising, in particular, means “it’s going to be tougher for brands to target their customers” on other digital formats.

“It’s quite early days” for retail media in Europe, Ashley says, but “as you’d expect Tesco to say, every little helps”.

The Killers performed at a three-day event last month in Manhattan for a group of Amazon’s advertising customers