

Retail Media, a brands eye view



SMG.

Introduction

How significant is the rise of retail media networks?

The amount of noise in the digital marketing sector suggests massively so. Group M's Global 2022 End-Of-Year Forecast estimated retail media would account for \$110.7 billion of ad spending globally. According to McKinsey, US advertisers alone could be spending \$100bn with retail marketing networks (RMNs) by 2026.

But at the same time, Gartner's Hype Cycle for Digital Advertising 2022 placed RMNs nearing what it calls the 'Peak of inflated expectations.' And anecdotal evidence suggests that, even among the CPG brands which stand to benefit most from working with RMNs, many are still in the earliest stages of experimentation with the channel. They're struggling with issues within their own businesses, with the way retailers operate their media networks, and with the levels of expertise available to them from their media agencies.

This whitepaper brings together the experiences of five household name CPG brands to discuss where they are in their use of retail media, what's holding them back, and how those barriers can be broken down.

Forces at work

Of course, retail media is not a new channel. Its pre-internet incarnation, shopper marketing, has long been part of a retailer's offering. And online retail media has been around since Amazon launched its Sponsored Product and Sponsored Display features back in 2012. But three factors have driven the dramatic recent growth of RMNs:

- **The accelerated shift to online shopping caused by the pandemic.** Insider Intelligence reported a 46.5% increase in UK ecommerce in 2020, compared to a 15.3% fall in offline retail. It also found that 'After falling for the first time ever in 2022, ecommerce sales will rebound by 2.3% this year. But sales growth will remain below pre-pandemic levels as the cost-of-living crisis constrains consumer spending.'

- **Changing attitudes to online privacy and the demise of the third-party cookie.** Google's deadline for turning off support for the third-party cookie in Chrome is now late 2024. Coupled with similar, earlier moves by Apple and Firefox, this will mean only one browser in ten worldwide will support the functionality that has powered online marketing for the past 25 years. This in turn has sparked a scramble among advertisers to build first-party data strategies, which creates particular issues for those brands that sell through third-party retailers and have no D2C connection.
- **The need for retailers to find new revenue streams, and for brands to increase their return on advertising spend (ROAS).** Increased use of ecommerce may have helped retailers maintain sales, but it hit revenues by driving customers to the lowest margin channel. This has been compounded by consumer belt-tightening during the cost of living crisis, which has also seen brands scrutinising their marketing budgets more closely. The Q1 2023 IPA Bellwether Report found that '21.1% of firms saw an expansion [of their marketing budgets], 12.9% of firms registered budget cuts and around two-thirds (66.0%) recorded no change in spending.'

As so often happens, while these factors are pushing retailers and brands alike towards the new approach to advertising, they're also creating barriers to that approach being realised.

2 Internal Challenges

As the quote above indicates, one of the biggest problems facing brands as they try to do more with RMNs is lack of knowledge and understanding in the business as a whole. There are a number of components to this.

One is that the space is moving too fast for people without a direct connection to it to keep up. The result is that the people responsible for dealing with the RMNs, usually the shopper marketing team, find themselves faced with educating the rest of the business around the scope of what these networks can offer.

“We need to share the love of retail media networks deeper into our business. We do an okay job but it’s not at the forefront when people are allocating budgets. When people are allocating budgets above the line or through the line, retail media networks should be up there. When you’re looking at opportunities working with Netflix, for example, the retail media networks are there as well. So there’s an education piece and there’s a lot of misconceptions in terms of what retail media can do and what it can actually deliver.”

Part of this issue is down to the way shopper marketing has historically been seen by the rest of the business as a tactical, short-term tool. This makes it harder to discuss the role of RMNs further up the funnel. Shopper marketing’s traditional berth within the commercial department has also hampered understanding of its role by brand marketers, although this is changing as more advertisers move shopper into the marketing department.

“We used to sit under the commercial team and then we got moved to under the marketing team. And that’s definitely changed the dynamic because the brand team just don’t understand the complexities of dealing with retailers and all the considerations that come into that.”

Beyond the silos

Coupled with this lack of understanding of retail media within brands' marketing departments, integration of channels remains a problem. The holy grail is to have all channels properly aligned for each campaign, but siloing of the teams responsible makes this all but impossible. Again, this is often down to simple ignorance of the constraints different teams work under. Shopper marketers report a lack of understanding of how their timings work, and of finding themselves at the mercy of the deadlines set by colleagues handling TV advertising.

“We're definitely getting a lot more integrated, but the main deadline is always AV. For shopper we have to supply assets so much further out for new campaigns, and this can sometimes be problematic.”

All of this is compounded by the UK's cost-of-living crisis, which has tightened marketing budgets and increased pressure on marketers to improve efficiency and effectiveness. This has had a particular impact in retail media, where many brands are still at the test-and-learn stage, and are struggling to justify expenditure in new channels.

“As a brand, we're in a really challenging place, balancing our DM investment versus our net sales return, and finance is constantly on my back going, 'What's the ROI? We've got to make choices.' And if you can't articulate in a consistent manner what the thing you want to do is going to deliver, based on either test-and-learns that you've run, or benchmarking it in the marketplace, that investment isn't being signed off.”

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External Challenges

The issues that brands's shopper marketers face internally are mirrored by those they face in dealing with the RMNs themselves. Retailers don't always understand what their media networks can do, and the networks aren't properly integrated with the rest of the business. But the most damning criticism is that often, retailers can't – or won't – supply the data that shopper marketers need to make the business case for more budget. In all of these cases, retailers are making it harder for brands to spend money with them, rather than easier.

“If the retailer does a better job at educating themselves, probably their commercial teams can get more money out of our teams. And if our own teams have that information, our money will work harder.”

The issues of retailers' lack of understanding and lack of integration are deeply interlinked. The two business models – retail and media – are fundamentally different. In the former, retailers hold the power. They control the shelf space and brands are encouraged to outbid each other for prime locations. But in media businesses, advertisers are customers, so they're in charge. Integrating these two different approaches within the same business is a challenge many retailers have yet to resolve.

For brands, this contradiction manifests itself in the way retailers treat their marketing spend. Where brands see one pot of money, which they want to spend in the most effective and efficient way possible, the different teams within the retailer each see their own revenue target, which they're incentivised to meet. Any attempt by a brand to move money from one part of the retailer's offering to another is resisted at the team level, rather than viewed holistically in an attempt to maximise the brand's overall spend. The result is constant conflict between the retailers' commercial team and their media networks, and frustration for the brands trying to optimise their ROAS.

A more holistic view

Again, this is particularly important to brands in the test-and-learn stage of their retail media journey. It's vital for them to be able to spend small sums – at suitably discounted rates – to discover what works and what doesn't. What's required is a more collaborative approach where retailers accommodate the brand's needs in recognition that a successful test will unlock further spend in future.

“We had a conversation where we said to a retailer, if we do this test and it works well, then we'll invest more next year. But we need to do a test first because we won't get sign off internally to do anything more than that. And because it was something that's never been done in our sector before, the buyer was very much on board and we're going to be able to do it. But it took us pushing a little bit more to get that result.”

This also links in to a massive source of frustration for shopper marketers – the lack of data coming back from brands.

“We had a conversation where we said to a retailer, if wThere's a reluctance from retailers to share any information they have, their data, their insights, which seems absolutely crazy. Because if you give me the information so I know where my shoppers are going to be or what they're going to be searching for, then I'll put my money against that, which is going to generate more sales.”

Sympathy for the retailers

At the same time, brands are aware retailers face similar challenges to themselves; the pressure to justify everything in revenue terms, overstretched staff, the bureaucracy involved in large organisations.

“Resource can be a challenge when account handlers are spread across lots of suppliers. Sometimes I think they would love to give you more information, but they don’t have the time. And that’s something you wrestle with when you’re chasing up evaluations too.”

There is also the inherent problem in test-and-learn that, by definition, you’re asking for something new. At a large corporate retailer, that’s likely to send the people working there into a spin. Many brands report that it’s easier to conduct experiments with smaller retailers for precisely this reason.

All this is why, at the heart of brands’ concerns, is a desire for better relationships with retailers and their RMNs; a partnership, rather than something that is merely transactional.

“There are two key things we need from the retailers. One, we need better ways of working in terms of timings and execution. There needs to be more collaboration and acceptance. Two, we need better data, or at least an aligned way to show those KPIs. The data is not always concise or always available for us to make investment decisions.”

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The Role of Agencies

If the next stage of retail media networks looks to be built on greater collaboration between brands and retailers, what is the future for the traditional intermediaries, the agencies?

Certainly brands have similar concerns about the traditional media agencies that they do about retailers, and their own senior management, namely understanding and integration.

“We rely heavily on our agencies and we have distinct agencies that deliver certain KPIs at certain levels. So we have an above-the-line agency and an above-the-line media agency and then a specialist agency that manages below-the-line. Is this integrated as it could be? Probably not. But there’s also a lack of education among the above-the-line agencies in terms of what RMNs can do. They work to their plans and deliver their KPIs, but they’re in silos as well. We line up as much as possible, but it could be a lot more integrated within that.”

More immediately, brands are also looking to their agencies for help winning their ROI battles. While they’re struggling to get the evaluation data they need from the retailers, agencies have traditionally been a source of information from other, similar clients and campaigns.

“I would like to see agencies providing more information upfront, such as a case study, or some examples of what they’ve done in a category similar to yours, or a benchmark of something another brand at a similar price point to yours did and how it worked. We don’t need a lengthy document, but a couple of pages with a solid rationale would equip us with the right information to give confidence upfront that this sounds like the right thing to do, before we get the budget signed off.”

Moving up the chain of command

The other role that brands need their agencies to perform is getting their concerns heard at a higher level of the retailer's organisation. The level of access, and of influence, that an agency commands will depend partly on the amount they spend with a particular retailer, as well as the depth of the relationship between agency and retailer, and the credibility and knowledge the agency brings to bear. In a world where retailers are still siloed, and where shopper marketers are typically dealing with over-worked, inexperienced contacts, this role is pivotal.

They need agencies listening both to their day-to-day challenges and their longer-term issues, understanding what their strategy is and where they want to go, and taking all this into the key contacts at the retailers. This will be critical in driving the changes that both sides need to capitalise on the opportunities presented by retail media.

The Way Forward

Retail media is too large a sector, and the businesses within it – both brands and retailers – are too diverse to draw hard and fast conclusions about what's required for the next stage of growth. However, there are some clear steps that would smooth the way as RMNs move into the next phase of their existence, hopefully skipping over Gartner's Trough of Disillusionment on the way to the Plateau of Productivity.

Better understanding of how retail media works and what it can deliver. At present, retail media knowledge is concentrated at an operational level. Educating other areas of the business – whether it's a retailer, a brand or an agency – is the vital first step in achieving the level of alignment required to drive the best possible results for all parties.

Better integration within retailers. Retail businesses that operate media networks are struggling to reconcile two very different business models within the same organisation. The result is conflict between media and commercial teams, and frustration for brands trying to optimise their overall spend. Many brands feel that, in an ideal world, the retail and media arms should be separate. Retailers should be running their retail business, and media should be an add-on to propel the growth. But because of the commercial agreements they make, it's a difficult problem to overcome.

More data from retailers. Perhaps the simplest step to unlocking further brand spend would be for retailers to be more open about the performance of campaigns on their networks. There's no point in adopting a test-and-learn approach if your experiments don't deliver anything to learn from.

Standards. Following on from this, the work being done by the IAB to introduce measurement standards has been widely welcomed by advertisers. However, marketers are also sceptical that such standards can be implemented and enforced.

Digital Skills. Brands currently rely heavily on their agencies for the data and analytics skills they require. Further forward, bringing those skills in-house will be vital to extracting insights from retailer data, and then actioning it.

Acknowledgements

This whitepaper is based on conversations with a number of shopper marketing managers at CPG brands in May 2023. SMG would like to thank the following people in particular for their contributions:

Michele Dainty,
Head of Shopper & Display,
Pladis Global

Claire Fryatt,
Shopper Marketing Manager,
Warburtons

Jayne Sawyer,
Shopper Marketing Manager,
McCain Foods



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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