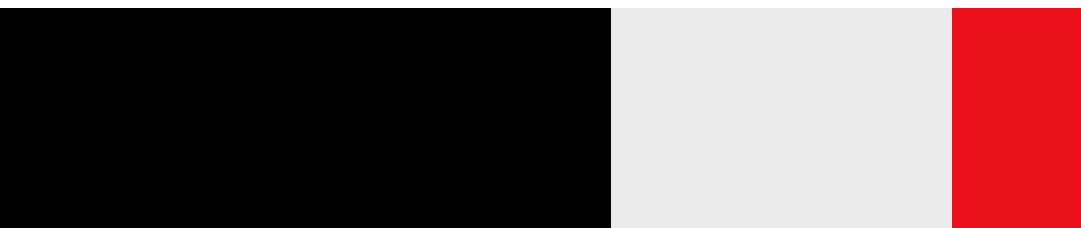


Retail Media Explainer

What Marketers Should Know About This Advertising Juggernaut

Retail media is the second-fastest-growing major ad format in the US, behind connected TV. It offers a huge break to marketers and advertisers seeking highly coveted first-party customer data and more precise targeting. This eMarketer report reveals our retail media ad spending projections through 2024, drivers behind the growth, and more.



Presented by

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Retail Media Explainer: What Marketers Should Know About This Advertising Juggernaut

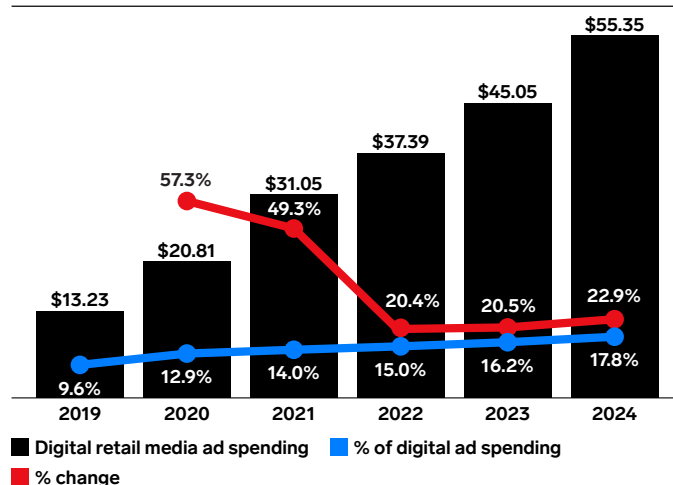
Retail media is one of the largest and fastest-growing ad markets in the US. It took only five years—from 2016 to 2021—for it to ramp up from \$1 billion to \$30 billion. That's on par with mobile (also five years) and considerably faster than video (9 years), social networks (11 years), and search (at least 15 years).

KEY QUESTIONS:

- 1 What is retail media?
- 2 How big is the market and what's driving growth?
- 3 What part of the purchase funnel does retail media reach?
- 4 Why is it important to advertisers, retailers, and ad tech companies?

KEY STAT: Retail media is the second-fastest-growing major ad format in the US, closely behind connected TV (CTV). If current trends hold, retail media ad spending will surpass traditional TV by mid-decade.

US Digital Retail Media Ad Spending, 2019-2024
billions, % change, and % of digital ad spending



Note: digital advertising that appears on websites or apps that are primarily engaged in retail ecommerce or is bought through a retailer's media network or demand-side platform (DSP); examples of websites or apps primarily engaged in retail ecommerce include advertising on Amazon, Walmart, and eBay; examples of retail media networks include Amazon's DSP and Etsy's Offsite Ads; includes ads purchased through retail media networks that may not appear on ecommerce sites or apps

Source: eMarketer, Oct 2022

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What is retail media?

Retail media is digital advertising that appears on a retailer's owned and operated assets or on third-party publishers' properties and other media content powered by the retailer's first-party shopper data.

Ads can exist within several of a retailer's properties:

- Websites
- Mobile apps
- Streaming services
- Email channels
- Stores
- And in venues serviced by the retailer's partners, such as social networks, publisher sites, streaming services, and digital billboards.

Our definition of retail media also comprises nonretail entities that sell ads connected to ecommerce activity, such as delivery services or hotels.

Retail media spans a broad and growing spectrum of merchants.

- Digital-first operations (Amazon, Wayfair)
- Marketplaces (eBay, Amazon)
- Mass merchandisers (Walmart, Target, Best Buy)
- Discount warehouses (Costco Wholesale)
- Grocers (The Kroger Co.)
- Department stores (Macy's)
- Category specialists (The Home Depot)
- Delivery services that support retailers (Instacart)

Retail media's scope is expanding as networks move further into video and CTV. While most spending is tied to performance-driven product searches on retail properties, a growing percentage consists of off-site ads. In 2023, \$6.54 billion will be spent on off-site retail media ads, making up 14.5% of retail media ad revenues. By contrast, the total was \$1.83 billion in 2020, or 8.8% of the total. Higher-funnel formats like video and CTV fall primarily into the off-site category, so the growth in off-site spending indicates that retail media is becoming increasingly relevant for brand-oriented campaigns.

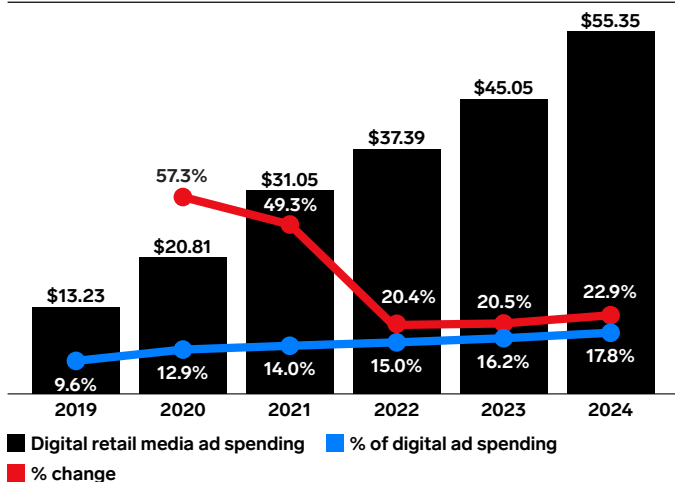
Why is retail media such a juggernaut?

- **For retailers, advertising is a logical extension of their core businesses and a higher-margin revenue source than selling goods in stores or online.** Julie Jeancolas, global head of media and customer engagement solutions at retail analytics firm dunnhumby, told VideoWeek in January 2022: "Because of the high margins that media delivers versus retailers' core business, this could add 10% to 15% of group EBIT from retail media." For context, Amazon's ad business earned \$37.74 billion in 2022, which amounted to 15.8% of its revenues from online and physical stores (not including third-party seller services).
- **For advertisers, retail media sits at or close to the point of purchase and gives visibility into retailers' rich first-party data.** This is even more valuable because legacy identifiers have significantly eroded and are expected to continue to do so. Companies that support retail media through programmatic ad tech, measurement, and other services are eager to tap into an opportunity for targeted advertising, especially now that other parts of the ad ecosystem, like social and traditional media, are struggling.

How big is the retail media market?

Retail media will be a \$45 billion business in the US by the end of this year, and it'll grow by just over \$10 billion next year. This forecast was revised downward in October 2022 because of rising inflation and lowered guidance in H2 2022 by bellwether retailers, including Amazon and Walmart. However, the market remains robust, with better than 20% growth expected this year and next.

US Digital Retail Media Ad Spending, 2019-2024 billions, % change, and % of digital ad spending

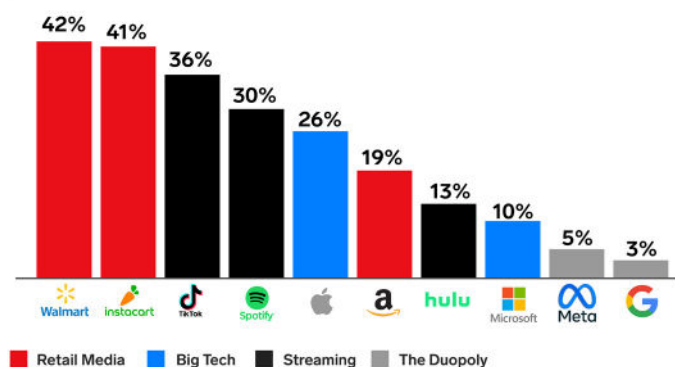


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Source: eMarketer, Oct 2022

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- **Retail media is the second-fastest-growing major ad format in the US.** It trails only CTV, and by a small margin. On a compound annual basis, retail media ad spending will grow by 21.7% from 2022 through 2024, compared with 22.5% for CTV.
- **The two fastest-growing US digital ad businesses this year will be retail media networks.** Walmart's ad business will grow by 42.0% in 2023 and Instacart's will increase by 41.3%. These growth rates top TikTok's (36.0%) as well as those of direct competitors, like Amazon (18.8%).

US Digital Ad Revenue Growth, by Company, 2023 % change

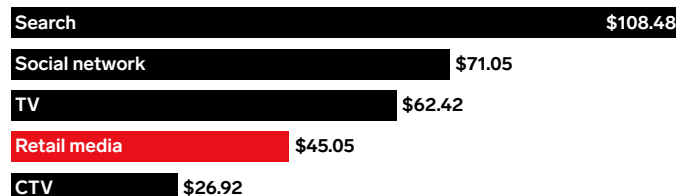


Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices; and includes all the various formats of advertising on those platforms; net ad revenues after companies pay traffic acquisition costs (TAC) to partner sites
Source: eMarketer, Nov 2022

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- **Retail media ad spending will likely surpass traditional TV ad spending.** At \$45.05 billion, retail media is appreciably larger than the \$26.92 billion CTV ad market but smaller than traditional TV's \$62.42 billion market. However, even if retail media's growth slows to 12% in 2025, it will leapfrog TV at that point.

US Connected TV (CTV), Retail Media, TV, Social Network, and Search Ad Spending, 2023 billions



Note: search ad spending includes contextual text links, paid inclusion, paid listings, and SEO; social network ad spending includes paid advertising appearing within social networks, social network games, and social network apps; TV ad spending includes broadcast TV (network, syndication, and spot) and cable TV; excludes digital; retail media ad spending includes digital advertising that appears on websites or apps that are primarily engaged in retail ecommerce or is bought through a retailer's media network or demand-side platform (DSP); CTV ad spending includes digital advertising that appears on CTV devices
Source: eMarketer, Oct 2022

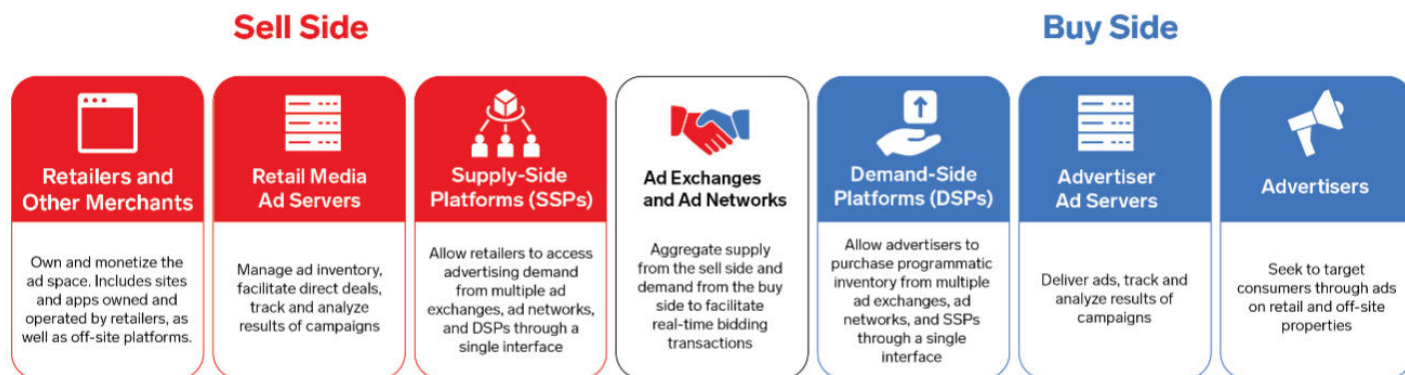
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- **Adverse market conditions led us to lower our forecasts for overall retail media ad spending.** In October 2022, we lowered our forecast for US retail media ad spending to \$45.05 billion—a 12.3% cut from our previous estimate of \$51.36 billion. This reduction was smaller than the 18.6% cut we made to our social network ad spending forecast. But, in the same time frame, we raised our CTV outlook by essentially the same margin as we lowered retail media: 12.6%.
- **Retail media is susceptible to macro-influences.** These include inflation, high interest rates, supply chain disruptions, global conflict, and general economic malaise. Despite the forecast adjustment, retail media is on track to grow, largely because ad budgets are gravitating toward performance-driven, closed-loop ads—a sweet spot for retail media networks.

Who are the key players in retail media?

At its core, the retail media market is simple: An advertiser buys an ad on a retail property, and that ad is served to visitors of that property. Beneath the surface, though, it's a complex and tangled value chain that involves not just advertisers and retailers, but also agencies, aggregators, nonretail merchants, delivery services that partner with retailers, social networks, publishers, streaming services, demand-side platforms (DSPs), supply-side platforms (SSPs), and other ad tech providers.

Key Retail Media Players



Source: Insider Intelligence, 2022
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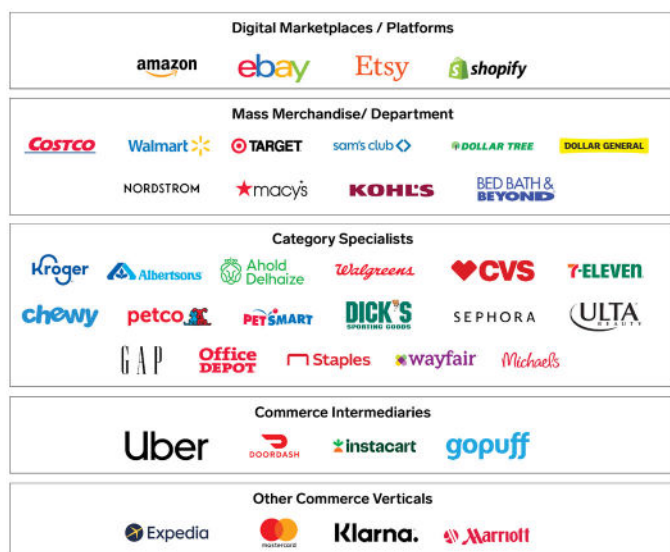
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- **Buyers have options that meet their targeting, attribution, and measurement KPIs.** Depending on an advertiser's objectives, it may choose a path as simple as buying directly from a retailer with a media network, or as complex as partnering with a buy-side platform that serves ads across a wide range of retail and nonretail properties. New retail media players and partnerships are constantly emerging, so buyers may be overwhelmed with choices.
- **Retailers are bringing functions they'd previously outsourced to partners in-house.** Amazon went from partnering with vendors like dataxu and The Trade Desk—both of which supported the retailer's effort to sell inventory on its Fire TV platform—to phasing out those alliances and building what is essentially a walled garden. Others, like Target, Kroger, and Walmart, are currently working with partners but may bring more of their retail media businesses in-house if having more control over their media operations serves them better. The market is in rapid flux, and more consolidation is likely.

Which categories of retailers have media networks?

The short answer is pretty much all of them. The universe of retailers with media inventory runs from digital-only operations to brick-and-mortar chains, from mass merchandisers to category specialists, from discounters to luxury merchants—and it includes commerce intermediaries and nonretail players that sell goods or services and have ad inventory.

Every Retailer Is Becoming an Ad Network ... But Which Ones Have What It Takes to Scale?



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The common denominators are scale, actionable first-party data, and digital properties that lend themselves to ad inventory. Without those criteria, it's questionable whether a retailer should be building its own media network rather than outsourcing it to third-party vendors.

- **Scale:** In a June 2022 LiveRamp survey of consumer packaged goods (CPG) advertisers, 99% of respondents said a viable retail media network requires access to a minimum audience of 6 million. Retailers that don't meet that requirement aren't necessarily shut out of the ad market if their media networks are interoperable with others; if small, local retailers pool their audiences, they could achieve the kind of scale CPG marketers look for.
- **Actionable first-party data:** The erosion of third-party cookies and mobile identifiers has put a premium

on first-party data. Retailers have troves of this data from transactional histories, loyalty programs, email lists, coupons, and other touchpoints with customers. This data is critical for advertisers and is a huge part of what's driving growth in retail media spending.

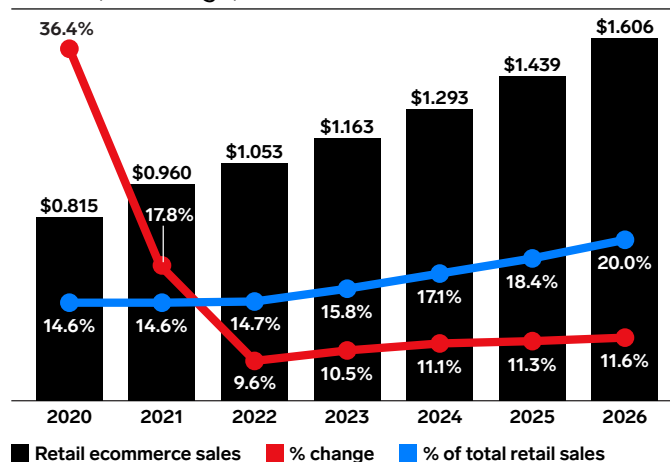
- **Digital properties that lend themselves to ad inventory:** An environment where ads are a natural part of the customer experience is a big plus for retail media networks. Mass merchandisers and marketplaces are inherently built to support product and category ads, so they're well suited for ad placements. By contrast, some specialty retailers, particularly in segments like luxury goods, don't typically carry advertising on their sites or apps, so their retail media opportunity lies mainly in partnering with luxury department stores.

What's driving retail media growth?

Ecommerce and digital ad spending track closely with retail media growth.

US Retail Ecommerce Sales, 2020-2026

trillions, % change, and % of total retail sales



Note: includes products or services ordered using the internet, regardless of the method of payment or fulfillment; excludes travel and event tickets, payments such as bill pay, taxes, or money transfers, restaurant sales, food services and drinking place sales, gambling and other vice goods sales

Source: eMarketer, Nov 2022

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- **US retail ecommerce sales will reach \$1.163 trillion in 2023, growing 10.5% YoY.** We expect growth to accelerate to more than 11% each year through 2026. As long as ecommerce remains healthy, retail media is likely to benefit since most retail media ads are tied to digital shopping and buying activity.

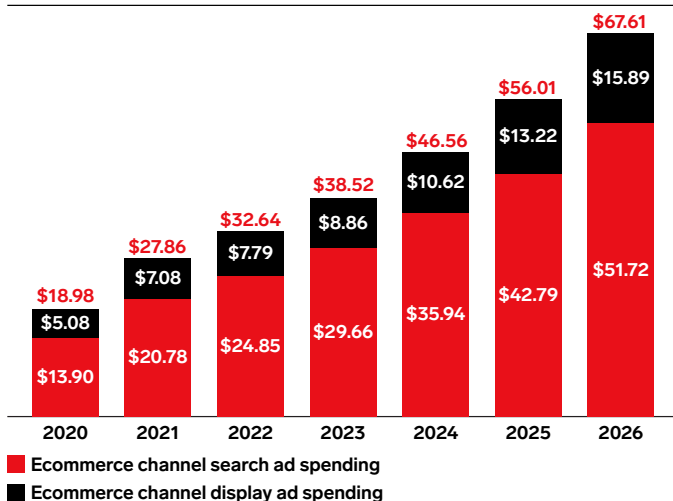
- **On the media side, digital ad spending will grow by 12.0% in 2023.** Further, digital ad spending will maintain relatively high levels of growth, tapering down only slightly to 10.8% by 2026.
- **Retail media will increase by more than 20% in 2023 and 2024—almost double the rates of the other forecasts cited.** This is a natural function of retail media being an emerging category, whereas the other two are more mature.

How does retail media ad spending break down by format?

While we don't specifically segment retail media spending by ad format, we do so for ecommerce channel ad spending—a large subset and close proxy of retail media. Retail media encompasses off-site ads, while ecommerce channel ad spending is limited to inventory on retailers' own properties.

US Ecommerce Channel Ad Spending, by Format, 2020-2026

billions



Note: digital advertising that appears on websites or apps that are primarily engaged in retail ecommerce; examples include advertising on Amazon, Walmart, and eBay; excludes advertising on social networks or search engines; includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets, and other internet-connected devices, and includes all the various formats of advertising on those platforms

Source: eMarketer, Oct 2022

- **The relative share of search and display is fairly constant, with both growing rapidly.** From 2022 to 2026, search's share of ecommerce channel ad spending will range from 76.1% to 77.2%, or roughly

three-quarters of the total. Conversely, the display ad share will range from 22.8% to 23.9%.

- **These numbers don't tell the whole story of how retail media is evolving.** Because display is a broad category that includes video, knowing that display's share will stay constant doesn't preclude video from taking on a greater presence within retail media display, especially as companies like Amazon and Kroger double down on CTV ads. Display spending in the ecommerce channel will approach \$9 billion this year and grow to nearly \$16 billion by 2026; there's plenty of room for video to make inroads there—and it likely will.

Where are retail media dollars coming from?

Not all ad dollars flowing to retail networks are new revenues. A substantial portion is money reallocated from other revenue pools already on retailers' balance sheets.

Between 60% and 70% of retail media dollars in 2026 will be "net new to retailers," according to estimates from a March 2022 study by Boston Consulting Group (BCG) and Google. Original growth in digital, shifts from other digital channels, and shifts from traditional spending will fuel this. That indicates 30% to 40% of retail media spending will be reallocated from existing retail revenues, including trade budgets, sponsorships, events, and promotions.

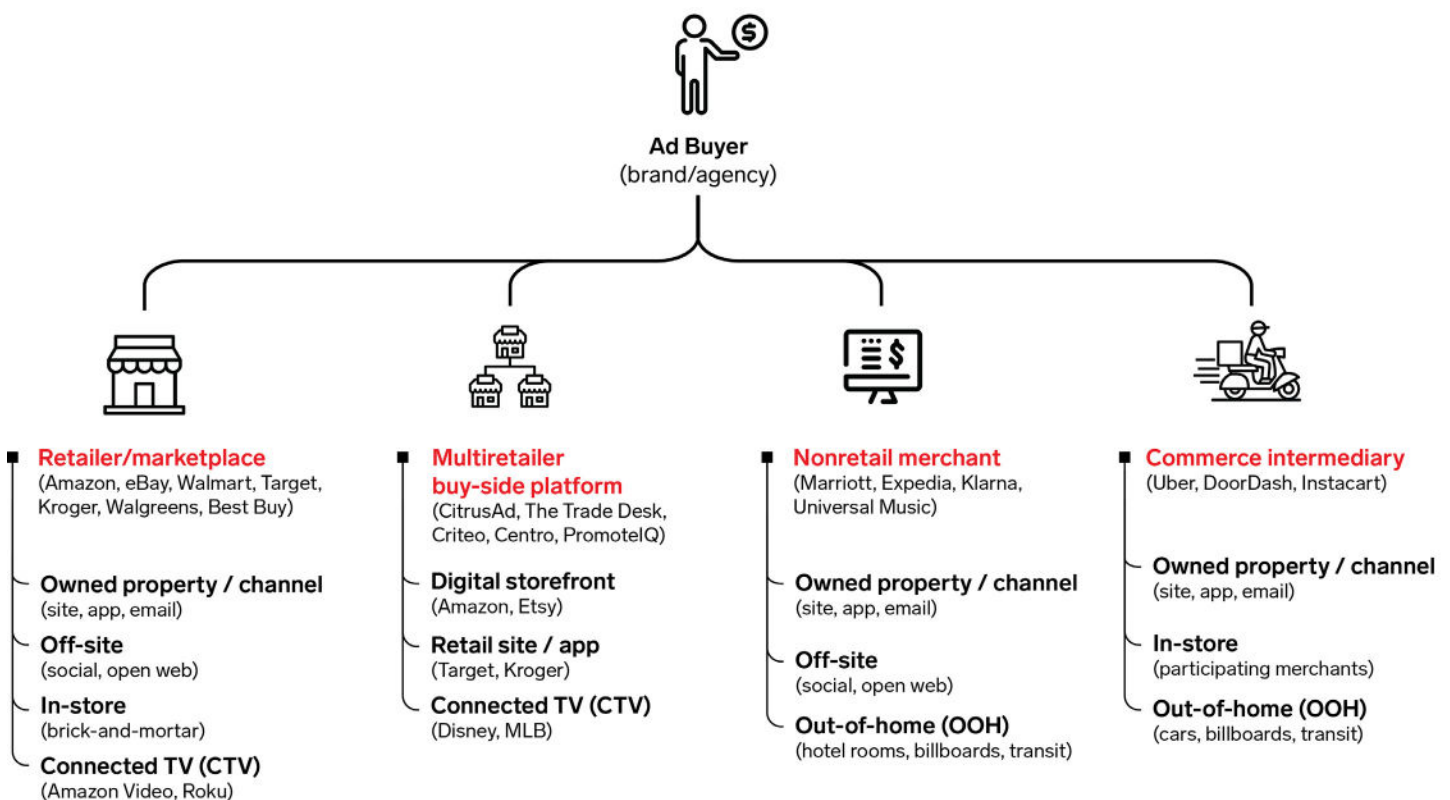
- **Even allowing for "cannibalization" from existing budgets, retail media is a quantum leap from trade ads.** In many cases, brands that sell into mass merchandise stores are contractually obligated to reinvest a percentage of their sales (5% to 10%) into trade marketing with that retailer. Historically, those trade ads have taken the form of coupon deals, in-store displays, and preferential shelf space. As those traditional ads evolve into digital ones, there's a greater opportunity for brands to improve return on investment through better targeting, measurement, and attribution capabilities.
- **As retail media moves up the funnel, look for it to draw budgets from unlikely places, like traditional TV.** It may be years into the future, but it's not far-fetched to envision brands shifting budgets from linear television to retail media, especially if the latter continues to muscle into the video space through streaming services, in-store displays, and other digital out-of-home formats.

How are retail media ads bought and sold?

Retail media ads can be bought in a variety of ways:

- Directly through a retailer with a media network
- Through buy-side platforms that tap into multiple retail properties via programmatic exchanges
- Through companies that aren't strictly retailers but sell goods or services online
- Through companies that facilitate digital commerce via services such as food and grocery delivery

Paths to Purchasing Retail Media



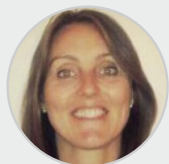
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All of those businesses have valuable first-party data drawn from direct relationships with their customers, so they're fertile ground for precise targeting in environments that are theoretically privacy compliant. US retail media buyers rated targeting options as the top capability offered by retail media networks, according to a May 2022 survey by the Path to Purchase Institute and Criteo.

Retail media myths: What's holding up network adoption?

This sponsored article was contributed by [Equativ](#).



Lucie Laurendon

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With first-party data more valuable than ever, retail walled gardens are well placed to win budget share. But three key myths are keeping many from seizing the opportunity.

1. Opportunities are only for giants

Amazon is the poster retail media network brand. While its increasingly open reporting approach proves how profitable on-platform and in-app advertising can be, such success can fuel the perception that significant gains are exclusively for mega-platforms.

Many diverse and medium-sized networks have shown that substantial revenues aren't limited to big players. Regardless of size, ad placements across media properties and offsite channels come with much lower costs and higher profits, potentially driving up to 40% margins, according to dunnhumby.

Most retailers have the advantage of an existing customer base for advertising offerings through their brand partners. The opportunity to serve ads that bring more users to sites and increase sales benefits firms already selling goods on retail platforms.

2. Profitability depends only on data volumes

One draw of retail media networks is first-party data access. Collecting shopper insights via purchases and loyalty cards means retailers are data-rich by design, holding coveted assets that can help plug the gap left by third-party cookies and Apple's AppTrackingTransparency framework. However, the belief that data only has value in bulk is a misconception.

Those unable to match Amazon's scale often feel niche audiences and lower traffic levels aren't worth activating. It's true that retailers need a certain quantity of data to offer sufficiently enticing and efficient reach. While data scope matters, retail media giants don't set the minimum volume baseline for all players.

Maximizing the value of first-party data depends on the right mix of elements, including quality and usability. Data directly collated from consenting users has intrinsic value since it provides the ability to hyper-target based on individual activity.

The steady collection of relevant data, including granular information about onsite engagement and conversion data, informs more effective targeting over time and facilitates accurate closed-loop measurement throughout end-to-end customer journeys.

Amassing enough data to offer personalized advertising is vital, but its use will be limited if it's not actionable. A solid fundamental layer of organized data is essential.

3. Implementation is a Big Tech endeavor

The universal need for robust data management helps level the network playing field but also drives setup concerns. Even many retail media advocates believe it will involve complicated data fusion processes.

The fact is, implementation can be as convoluted as retailers choose. It's probable the do-it-yourself path will require significant time, budget, and team expansion. But, despite carrying its own cost, partnering with third-party technology providers is less intensive overall, making it possible to tap into advanced capabilities and tools without developing internal systems.

Taking the prebuilt route means most of the work for retailers will focus on communications. Cultivating relationships with established forces who offer useful insight and the chance to test media strategies through agile partnerships is key.

Retail media will drive a fresh wave of transformation across the digital landscape. Retailers who move past the myths are set to lead the way.

[Reach out](#) to discuss how Equativ can help you set your retail media strategy.

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Other key aspects of retail media networks include:

- **Proximity to the point of purchase.** Most retail ads are display units connected to product or category searches, so they're served to site and app visitors when they're predisposed to making a purchase. This tight connection between the ad and the transaction is one of the most powerful attributes of retail media.
- **Versatility to deliver against brand and performance KPIs.** There's a growing opportunity to use this medium for brand-oriented campaigns. Market leader Amazon is doubling down on ad-supported CTV through its sports licensing strategy, which includes exclusive rights to the NFL's Thursday Night Football franchise. Other retailers, like Kroger, are stretching their media networks into the CTV space through partnerships with the likes of Roku. Expect more of this.
- **The potential for closed-loop attribution.** The tight link between retail media ads and transactions, in addition to the availability of the first-party data that accompanies those transactions, offer marketers the ability to attribute sales and other conversions directly to their ads. However, there are some caveats here regarding consumer privacy and the standardization of measurement practices.
 - In January 2023, Canada's privacy watchdog found that The Home Depot had improperly shared consumer data gathered from its media ads with Meta.
 - Also in January, Soumya Donkada, Unilever's head of digital, media, and ecommerce for beauty brands, called for retail media networks to adopt measurement standards.

Despite measurement challenges and growing competition in the space, retailers see plenty of upside in leveraging their first-party data through media networks. The attractive profit margins that media typically deliver, compared with brick-and-mortar and ecommerce sales, only heighten the appeal for retailers. Retail media offers the potential to reach customers up and down the purchase funnel and across a rich variety of digital and physical locations.

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