WHITE PAPER

Harnessing Retail Media Networks and First-Party Customer Data

The strategies that underpin success

KEYSIGHT

The Value of First-Party Data in the Modern Media Landscape

Retail media networks are transforming retailers' P&L, offering an unprecedented opportunity to turn first-party data into billions in revenue.

And it's a significant revenue stream: in the US alone, it's estimated that retail media ad spend will reach $109.40 billion by 2027. [1]

Even more compelling are the profit margins that retailers can expect to see. Estimates put these at anywhere between 50% [2] and 90% [3]. These predictions are incredibly attractive for a sector built on margins in the low single digits.

- **$109.40 billion:** US retail media ad spend by 2027 [4]
- **50% [5] to 90% [6]:** Potential retail media network profit margins

From this perspective, it's hardly surprising that so many retailers are already on their retail media network journey.

But the difference between a profit margin of 50% and a profit margin of 90% is considerable. So, what must retailers do to ensure they're nearer the 90% than the 50%?

This whitepaper explores the answer.

In it, we:

- Recap the history of retail media networks to understand their appeal.
- Reiterate the opportunities for the forward-thinking retailer.
- Consider the barriers that prevent retailers from maximizing the potential profit margins.
- Assess the strategies for overcoming the barriers and driving success.

1. **EMARKETER:** Retail media ad spend will reach over $100B by 2027
2. **McKinsey and Company:** Commerce media: The new force transforming advertising
3. **Boston Consulting Group:** How Retail Media Is Reshaping Retail
4. **EMARKETER:** Retail media ad spend will reach over $100B by 2027
5. **McKinsey and Company:** Commerce media: The new force transforming advertising
6. **Boston Consulting Group:** How Retail Media Is Reshaping Retail

A changed landscape

In recent years, the landscape has changed significantly for both brands and retailers and introduced challenges that must be addressed.

For brands, changes in the media landscape make it harder to effectively reach their target audiences.

For retailers, tough trading conditions driven by post-COVID behavioral changes, global conflicts and persistent inflation have eaten into already slim margins.

Fortunately, retailers have been quietly building up a goldmine over the last couple of decades that can more than offset some of those headwinds: the first-party data retailers hold on their customers.

The challenges for brands

The traditional advertising landscape is rapidly disappearing, making effective marketing more challenging for brands.

Audiences are fragmenting across media, making them more complicated and more costly to target. As a result, FMCG / CPG companies have been shifting sizable chunks of their advertising spend away from traditional channels such as TV toward online, social and in-store base marketing.

And when audiences and spend are fragmented, it makes the perennial problem of measuring results even more difficult. The adage of, “Half the money I spend on advertising is wasted; the trouble is I don’t know which half” becomes even more relevant when spend is spread across so many channels.

This is especially true when we consider the increasing deprecation of data in the online environment. The steady deprecation of the third-party cookie is illustrative of a world in which user privacy is increasingly prized. It means a channel that previously provided a wealth of targeting options is much harder to leverage and justify.

We can see the impact these changes have had when we consider that only 26% of global marketers are fully confident in their audience data, [7] something that has clear implications for the success of their activity.

7. **Nielsen:** Nielsen’s Annual Marketing report uncovers only 26% of global marketers are confident in their audience data.

The challenges for retailers

Life is becoming more challenging for retailers too. The trading landscape has always been tough, but the past few years have been particularly difficult.

The impact of inflation on prices has severely impacted results. In the UK, for example, operating profits in the retail grocery sector fell by 41.5% in 2022 / 23, compared with the previous year. In the same period, average operating margins fell from 3.2% to 1.8%. [8]

These figures show that retailers have not passed the full effects of price increases on to consumers. It's a clear reminder of the strength of the competition for market share in the sector that means retailers have limited options for protecting their margins.

The ace that retailers hold

Despite the challenges, there is one bright spot that holds the key to helping brands and retailers adapt to their new landscapes.

The answer lies in loyalty card programs and, more specifically, the first-party customer data within them.

It's an interesting new development in the history of these programs.

Ten years ago, many were predicting that their time had passed – the headline "the death of the loyalty card" was everywhere. Retailers were downgrading the rewards on offer and quietly leaving programs to wither and as a result, the 'swipe rate' in constant decline.

The deprecation of data and the demise of the third-party cookie has changed all that. Organizations that hold first-party customer data are now in the driving seat because they hold the information that all marketers want.

Monetizing the first-party data in customer loyalty programs therefore unlocks a huge new revenue stream for retailers – and a huge new advertising segment for brands.

It's led to the meteoric rise of retail media networks, as we explore in the next section.

8. **Competition and Markets Authority:** CMA updates on action to contain cost-of-living pressures in groceries sector.

The opportunities of retail media networks

It's easy to see the appeal of retail media networks for brands: they offer highly targeted and highly measurable advertising opportunities that have disappeared elsewhere.

The appeal is reflected in the numbers. It's estimated that retail media ad spend will reach $109 billion by 2027 [9] and retail media ad spend is predicted to be on track to overtake linear TV within a few years. [10]

The benefits are similarly exciting for retailers.

Retail media ad spend translates directly into a new revenue stream. Even more exciting are the profit margins this new revenue stream offers. Estimates put the potential at anywhere between 50% [11] and 90% [12].

Tactical thinking versus strategic insight

Retailers have a clear understanding of the possibilities retail media networks offer and are enthusiastically embracing the opportunities.

But in the rush to seize the opportunity, many have reacted tactically. In doing so, there's a danger they are embedding inefficient processes that will prove difficult to scale and eat into the potential profit margins.

Before these processes become too embedded, now is the time to start thinking strategically. By learning the lessons from the journey so far, retailers can move forward with the highly efficient, highly effective retail media networks needed to maximize the potential gains.

To understand what these strategies might look like, let's consider the problems retailers are uncovering as they start their retail media network journey – and look at how to solve them.

The barriers to profitable Retail Media Networks – and how to overcome them

The barriers to profitable retail media networks, both now and as retailers start to scale them, typically fall into one of three categories: strategic, systems, and people. We explore each of these barriers in this section.

9. **EMARKETER:** Retail media ad spend will reach over $100B by 2027
10. **WARC:** Retail media's path to consolidation
11. **McKinsey and Company:** Commerce media: The new force transforming advertising
12. **Boston Consulting Group:** How Retail Media Is Reshaping Retail

Strategic barriers

As the saying goes, "Preparation is 80% of success." Retailers need a clear grasp of the what, why, where, who, and how of their retail media network plan to ensure it is built for long-term success.

Defining the Go-to-Market-strategy

A retailer's media network may have started ad hoc to 'test the water'. But it represents an entirely new way of doing business for retailers. For that reason, it needs to be approached in the same way as setting up a new business and it requires the same level of strategic thinking. This means thinking through the fundamentals such as:

- What's the unique selling point?
- What's the sales and marketing strategy?
- What are the key performance indicators?
- What new skills and capabilities are needed?

Defining the correct business model

Alongside the strategy, the business model also needs careful thought, not least the operating model. A fully in-house model may work for some; for others, a completely outsourced or a hybrid model may be preferable. What are the risks and benefits of each approach? What are the revenue implications in the short, medium, and long terms? What are the risks and trade-offs? Which are acceptable and which aren't?

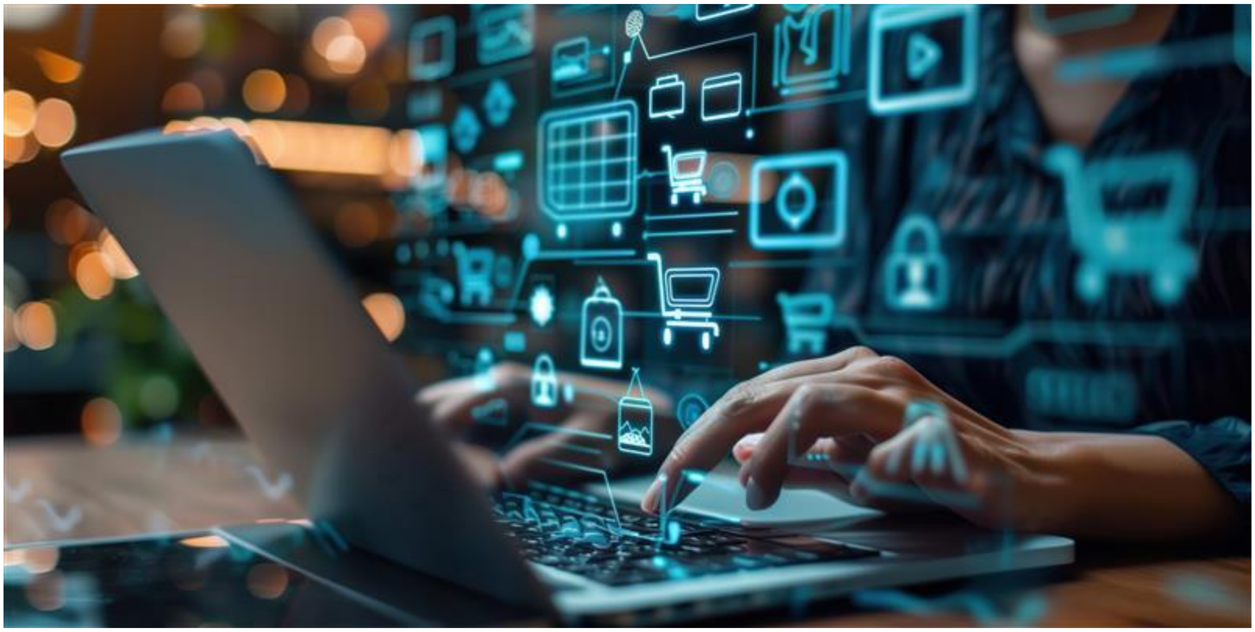
Understanding and organizing the data that's available

The most important element in any retail media network is the quality of the first-party customer data. For this reason, it's likely the most significant area of focus for retailers. To maximize the monetization opportunities, retailers need to have a clear understanding of this data:

- How is the data being collected?
- How is the data being collated?
- How is the data structured?
- How is the data stored?
- How is the data being secured?
- What are the data governance processes?

Every aspect must be robust and resilient – success depends on it.

Research suggests retailers are not as prepared as they could be – many report that their biggest problems are data quality and data management, with information that is siloed and not managed in an organized way. [13] In such set-ups, retailers don't have the joined-up picture that will set them apart from their competitors.



Systems barriers

We can think of systems barriers as the practicalities that get in the way of the effective roll-out of a successful retail media network.

Finding the bandwidth needed to develop effective platforms

Retail is incredibly fast-paced, and retail organizations manage incredible complexity with incredibly lean teams. A successful retail media network will touch every part of a retailer's set-up and require fundamental shifts in how they operate. In this context, attempting to embed a retail network, which could in future account for more than 20% of company profit, while simultaneously conducting business as usual can be likened to changing a car's engine while still driving it. Managing this process without impacting business-as-usual requires careful planning and preparation.

13. **Harvard Business Review:** Why Retailers Fail to Adopt Advanced Data Analytics

Handling the IT implications and retail technology integration

IT is central to a retail media network and there will be considerable implications for a retailer's IT architecture and infrastructure.

Of the 700 or 800 systems a retailer may have embedded in their set-up, some will be more robust than others. How will retail technology integration be handled to ensure systems will interact seamlessly and successfully?

Further, will they be able to cope with the additional load and functionality that will be needed? For example, systems will need to handle deals in multiple configurations, from individual SKUs to sub-categories, categories, and even brands.

Validating activity to deliver ROI to brands

Because they're leveraging first-party data, brands will expect retailers to be able to share detailed metrics that help them assess return on investment.

It's therefore vital for retailers to understand:

- How value is measured and tracked both online and offline
- The accuracy and reliability of metrics
- The scalability of tracking
- The sustainability of tracking

Going beyond the basics to deliver best-in-class analytics will provide retailers a strong differentiator, helping them secure more of the market. For example, research shows that just 23% of retailers share data and analysis with brand advertisers in real time during ad campaigns. Yet 97% of brands said that real-time data sharing would prompt them to increase their advertising investments. [14]

The advantage of automated retail testing strategies

For a typical retailer, more than half of their IT resources will be aimed toward keeping the lights on. With various competing priorities for new solutions, this leaves very little room for the large-scale system changes that retail media networks require.

The solution to freeing up the resource needed is to make more effective use of automated retail testing strategies that remove as much manual, labor-intensive work from end-to-end processes as possible.

For example, automating end-to-end testing has the potential to unlock considerable gains. One US grocery retailer with 150+ stores and 14,000 employees reduced the turnaround time for smoke and regression testing of its point-of-sale systems from five to ten calendar days to five to six hours. For more on this read, Elevating Grocery Store Testing Efficiency with Eggplant Test Automation and Services.

It is also important to harness technology and automation into retail media network activity right from the start. For example, avoiding costly errors in promotions will depend on robust testing. How could automating end-to-end testing help to achieve the scale and coverage needed? (For more on this, see Improved Customer Satisfaction Through Optimized Data.)

People barriers

People barriers fall into two categories: employees and customers. Both require careful consideration.

Developing people

Retail media networks touch every part of an organization, which makes rolling one out a significant change management challenge. And, of course, in every change management process, it's people who sit at the heart.

A retail media network will often require teams to learn new skills. For example, the commercial team’s remit will extend into roles traditionally fulfilled by sales and marketing teams. How will they develop the new skills needed?

14. **NIQ:** The US Retail Media Market: Understanding the Ad Buyer’s Perspective in CPG

A retail media network will also change teams' hierarchies within the business. For example, technology teams will grow in importance because their skills are essential to successfully executing the strategy. How will these changes be managed?

The all-encompassing nature of retail media network activity means that often siloed teams will need to work together more closely and cohesively. How will this culture shift be managed?

New roles and new capabilities may also be needed to ensure success. Where will they sit in the organizational structure? How will they be embedded into the organization?

Prioritizing customer experience optimization

The deprecation of data (and the temporary demise of loyalty schemes) happened in large part because of customer concern about how their data was being used and a decreasing value proposition from retailers.

This should be viewed as a cautionary tale.

To avoid the same fate for first-party data, retailers need to be very aware of the ethics of data monetization. Retailers therefore need to have robust data governance and data security protocols in place so they can prove they are handling data responsibly. They also need to focus on customer experience optimization, so the consumer benefits of retail media networks are evident in every customer interaction.

Why overcoming these barriers is essential to success

Overcoming these barriers is essential for retailers wanting to maximize profit margins. After all, 50% is very different to 90%.

There's another reason it's important to get it right. The potential market is huge. It's also shaping up to be just as competitive as every other part of a retailer's operation.

This is because research shows that only 17% of brands' retail media network spend is new money. Most is reallocated from existing ad spend. [15] This indicates the size of the market is not infinite, so retailers will need to fight for share just as they already fight for share in their existing markets.

Plus, brands use an average of just six retail media networks. It seems likely this number will shrink too: 56% of brands expect to consolidate spending into fewer networks, up from 52% in 2022. [16] It suggests that opportunities for retailers to seize share are shrinking fast.

A clearly defined, well-executed retail media network offering puts a retailer in the strongest possible position to secure the share they seek.

15. **Bain & Company:** Retail Media: An Evolving Growth Opportunity That Won't Wait
16. **Bain & Company:** Retail Media: An Evolving Growth Opportunity That Won't Wait

The Future

The landscape for both brands and retailers has fundamentally changed in recent years. These changes are driving the growth in retail media networks and the harnessing of first-party data. Quite simply, the old world no longer exists, and the opportunities in the new world are too big to ignore.

For that reason, now is the time to think strategically and put in place the robust and resilient structures, systems, and processes needed to secure the biggest retail media network wins.

Because competition is fierce, and every retailer wants to secure market share.

The retailers who invest in strategic execution today will lead the market tomorrow.

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