Mi3

The rise of retailer media

Impacts for marketers, media owners & agencies

Australian retailer media market analysis supported by

Resolution Digital.

Executive summary

Retailer media – where retailers sell ads to brands across their own websites and other communications channels and provide a direct link to sales – is already displacing traditional publishers in the US fast moving consumer goods (FMCG) market.

Australian market dynamics differ, but early movers are ramping up, and agencies and consultants predict a second wave over the next 12 months – beyond FMCG and into other categories. Some predict Australian retailer-owned media channels will command $1 billion in ad revenue by 2025, others think retailers will be the first channel on the media plan.

That eventuality presents a major structural shift for media owners, agencies and brand marketers. This report aims to present a snapshot of the global shifts underway, and the local implications, with input from retailer media operators, FMCG brands, publishers and media asset owners, consultants and agencies.

Key findings:

- Goldman Sachs believes US retailers will collect US$15-20 billion in annual revenue from media by 2025 – with up to half of FMCG digital media budgets going to retailers.
- UBS says media can generate 1 percentage point of retail turnover as income, with a 50 per cent margin.
- Publicis CEO Arthur Sadoun predicts retailer media will overtake FMCG TV spend by 2025, hence the group acquiring Australian retailer media tech firm CitrusAd.
- Woolworths leading in Australian market, but Chemist Warehouse, Appliances Online also mature. Others now mulling market entry.
- Mohammad Heidari Far, General Manager at Resolution Digital: "We have a lot of retailers in our client portfolio and the general trend is that almost all retailers across all verticals are thinking about [building retailer media capability]. This is not necessarily just CPG or FMCG, but consumer electronics, home and garden, apparel and even fashion."
- PwC Partner Justin Papps: "We're seeing more and more advertisers or product owners looking to do direct deals with the retailers."
- Tumbleturn Media Managing Partner, Jen Davidson: "This will be the money you plan first. It will take more money from the market. The key [for all other media owners] will be making sure it doesn't take too much of the pie."
- Olivia Dickinson, Chobani's General Manager of Growth: "Retailers are essentially on a big data gold mine – and I think we're just seeing them get started."
- Brad Moran, Founder, CitrusAd: "Of a retailer's entire ecosystem, we probably monetise between five and 10 per cent of it. We've got that other 90 per cent to go."

How quickly and to what extent Australia's retailer media market scales remains to be seen. But if the industry experts interviewed for this report are on the money, the implications could be profound.

With thanks to report sponsors **Resolution Digital,** plus Andrew Brain, Brad Moran, Des Odell, Jack Myers, Jen Davidson, Joe Lunn, Jonathan Hopkins, Josh Slighting, Justin Papps, Kristiaan Kroon, Mark Burton, Mark Byrne, Michael Corry, Mike Tyquin, Mohammad Heidari Far, Natalie Harvey, Olia Krivtchoun, Olivia Dickinson, Roger Dunn, Sam Geer, Steve O'Connor, Suzie Cardwell, Sven Lindell, Thibault Hennion, Tim Murphy.

Lead author: Sam Buckingham-Jones
Editor: Brendan Coyne

Retailer media: Disruption in store?

Australia's major retailers are forecast to become a significant media channel over the next 12-24 months, part of a global shift threatening major disruption to traditional media owners, agencies – perhaps even Google and Facebook.

Goldman Sachs believes up to half of consumer packaged goods (CPG) digital ad budgets will go to retailer media by 2025, reaching $20bn a year in the US – substantially higher if other categories are factored in.

UBS believes retailer profit margins from media operations could comfortably be 50 per cent – versus the two to four per cent margins they take from high-turnover grocery retail.

Australian market dynamics differ. While accelerated by Covid, e-commerce is still maturing – and Amazon has not yet managed to steamroller competition. There are also fewer major retailers with the scale to command the lion's share of CPG digital ad budgets.

But early movers are making significant investments in a bid to dominate the retailer media landscape – and not just in FMCG. Agencies and consultants interviewed for this report say a second wave is imminent, with major impacts for Australia's media market dynamics.

Some predict a retailer media market totalling $1bn in ad revenue by 2025, and think brand dollars will move from media such as TV and outdoor as well as performance budgets as marketers face heightened pressure for short-term, quantifiable sales results.

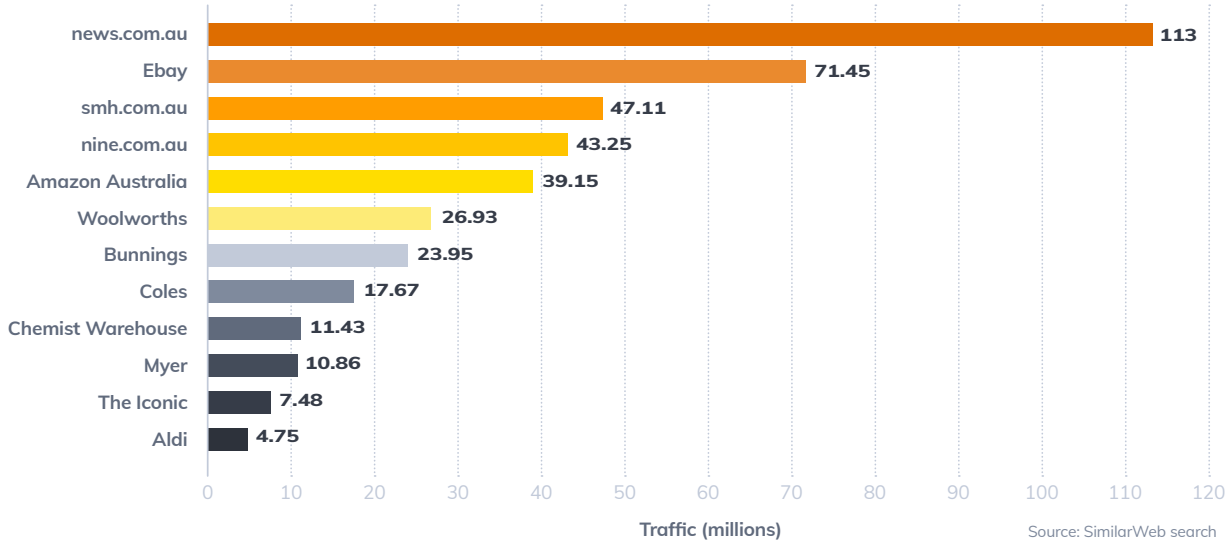
Why the money is moving

Google and Facebook currently take more than 80 per cent of Australia's digital ad spend. But consultants and agency execs believe retailers will ultimately take a double-digit share of Australia's digital ad dollars for three main reasons.

First, retailers have customers, whereas traditional media companies have audiences. Additionally, five of the 10 most trusted brands in Australia, according to

Roy Morgan, are retailers: Bunnings, Aldi, Woolworths and Coles take the first four spots. Publishers do not figure.

Monthly Web Traffic to Retailers, Publishers, in July 2021



Second, many retailers have a screen or display network already set up. Given the lack of additional capital expenditure required to create screen networks in-store, profit margins on owned media can be as high as 90 per cent, claims Jonathan Hopkins, founding partner of Sonder, which works with brands to build owned media networks.

> If retail's going to hit the numbers that it could, I don't know how it's going to get there without ad dollars. And if that's the case, who has got most to lose and will they start discounting? So the short answer is, it's complicated, but I would say in the next six to 12 months, you'll see significant movement in that space.
>
> **— Marketing Consultant**

Third, retailers have access to customers at the point of purchase – enhanced by data. Retailers can access sales data instantly. They have first-party data from customers and can track how customers behave before, during and after an ad campaign or exposure.

"Traditional media can't do that," says Hopkins. "So if you're a media planner sitting in an agency, you want a part of that. If you're a vendor selling your product in Woolworths, Coles, Big W, it makes sense to advertise where your product is being sold, either physically or digitally. That is really powerful."

For proof that marketing investments are driving growth, hard sales directly linked to media activity usually trumps softer marketing metrics.

"The reporting, the case studies, the evidence-based sales results that come with that are worth their weight in gold," adds Hopkins. "That's why we're going to see this money shift."

Banking on retailer media

Australia's digital ad market hit $11.4bn for financial year 2021, according to the IAB. By 2024, PwC's central forecasts suggest it will stand north of $11.8bn, which already looks conservative.

Potential retailer media revenue

Supermarket	Grocery Sales Revenue ($)	Potential Media Income ($)
Woolworths	42,151m	421m
Coles	37,408m	374m
Metcash	11,791m	117m

Source: Annual Reports 2020

The most bullish retailer media proponents think retailers could take around a 10 per cent share of that market, taking some budgets currently poured into search and social, as well as above the line advertising now directed to publishers and TV networks.

In the US, that shift is already well underway.

In February this year, Goldman Sachs released a 39-page report that represented a deep dive into the "merchant-media model". The headline figure, based on analysis of the US market, was that retailers are poised to generate US$15-20 billion in revenue from retailer media by 2025.

> It's hard to predict because you've got two figures: the media asset value, and what that is worth if retailers leveraged 100 per cent; and then the commercial potential, which is about 50 to 60 per cent of total value ... I wouldn't want to put a number on it, but more than a billion dollars.
>
> **— Jonathan Hopkins, Sonder**

But what local industry figures noticed was where the money was coming from.

"We see a credible pathway to digital accounting for 75 per cent of CPG media budgets by 2025," Goldman Sachs wrote, "and a little more than a third to a half of those digital media investments being directed to retail media assets."

The figure would be "substantially higher" when adding the potential media streams from electronic, apparel, sporting goods and other categories for some retailers.

Retailer media has been on the rise in the US for the past five years, per Goldman Sachs, but is now accelerating hard: The second half of 2020 saw a "meaningful inflection" take hold.

Sonder's Jonathan Hopkins thinks "a billion dollars is undercooking it" for the Australian retailer media market by 2025.

Jonathan Hopkins
Sonder

"It's hard to predict because you've got two figures: the media asset value, and what that is worth if retailers leveraged 100 per cent; and then the commercial potential, which is about 50 to 60 per cent of total value, because retailers would never commercialise 100 per cent of their media with partners," says Hopkins. "I wouldn't want to put a number on it, but more than a billion dollars."

Goldman's "meaningful inflection" follows a report from UBS Global Research, published June 2020. The investment bank's 'Selling ads alongside apples' paper focused on the margins available to retailers that monetise their data.

It found retailer media is by far their most lucrative opportunity.

"We believe the retail industry is naturally data rich. Food retail in particular with its regular, big and predictable baskets offers an even richer stream of data," states UBS, with loyalty programs and credit card details adding deep value to audience segmentation.

The UBS analysis suggests: "Media... can generate 1 percentage point of retail turnover as media income. It also can drive an additional 1 per cent-2 per cent sales growth and help the advertising partners in FMCG realise value. In EMEA alone this opportunity is worth $16bn in gross revenue, and can contribute significantly to grocery retail profit margins."

> The biggest opportunity [for retailers] to monetise data lies in creating a digital marketing/advertising revenue stream ... It comes with a circa 50 per cent margin versus 3 per cent margin in retail. Retailers are just beginning to tap into this significant emerging opportunity.
>
> **— UBS Analyst**

Retailers with loyalty card data have "amassed petabytes" of first-party data. Meanwhile, a "substantial increase" in the ability to cheaply store, retrieve, process and analyse data means "retailers are in a position to lead the debate on advertising to consumers during the most crucial 'buying' part of the process", per the report.

"The biggest opportunity [for retailers] to monetise data lies in creating a digital marketing/advertising revenue stream," UBS concluded.

"It comes with a circa 50 per cent margin versus 3 per cent margin in retail. Retailers are just beginning to tap into this significant emerging opportunity."

US market: retailers displace legacy publishers

New York-based MediaVillage has been conducting media research for 40 years, asking media agencies and advertisers about the value proposition of individual media companies. Founder Jack Myers says its most recent findings show how quickly retailers have displaced publishers.

Jack Myers
MediaVillage

"We're seeing a huge shift of budgets from 'legacy media' to commerce-based relationships," says Myers. "What we're seeing is Amazon connecting media with part-commerce partnerships. We're seeing Walmart introduce a similar model. Target has Roundel. Kohl's, Kroger, CVS, Walgreens and a growing number of retailers are connecting product sales or product purchases to media," he adds.

"They're going out to P&G, Unilever, all the major packaged goods companies, every merchant that sells their product through their stores and they're connecting up promotional dollars with media dollars on their online platforms. And we're seeing a huge shift of budgets."

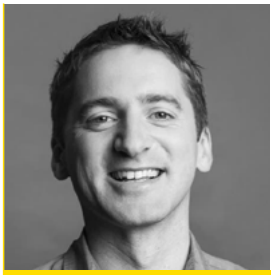
"This year, Amazon was ranked by agencies and advertisers as their number one media partner. The next dozen or so were digital sellers. We didn't see a television network until down in the second tier," says Myers.

"If you look at Amazon on a standalone basis, you see this mega monster that cuts across all categories eating a lot of people's lunches," he adds.

"But when you add together Target, Walmart, the drug chains CVS and Walgreens, add in a number of the large grocery chains and begin to look at the other categories where they have a strong online presence of their own and they have media inventory, it becomes a huge pool."

> For everyone who sells through retail ... That pool is going to be the first investment, the priority investment – and the rest will be distributed. The companies most impacted by the shifts taking place are the legacy publishers.
>
> **— Jack Myers, MediaVillage**

Australia's retailer media vanguard



Mark Byrne
Dentsu

Building a media company is expensive and requires integrated resources to do properly, suggests Dentsu's digital growth and commerce lead Mark Byrne. The best-placed retailers are the current duopoly: Coles and Woolworths. Can other retailers rival them, outside of Amazon?

"Very unlikely," says Byrne. "For retailer media networks to be effective and scale, they need to build an internal organisation, technology infrastructure and media solution and then sell it to the marketplace in a convincing way.

"Outside of Woolworths and Coles, there's only a handful of retailers in Australia that have the size to take this on and make it a success."

But others disagree, and think the market is starting to move (see p24).

Meanwhile, Amazon's slow but steady rollout in Australia has given other retailers time to prepare themselves, according to Michael Corry, 303MullenLowe's Head of Digital Strategy. He thinks other retailers are already further ahead than some realise.

> For retailer media networks to be effective and scale, they need to build an internal organisation, technology infrastructure and media solution and then sell it to the marketplace in a convincing way.
>
> — **Mark Byrne, Dentsu**

"[Amazon] is playing a long game – and that has given local incumbents time to improve their omnichannel experiences," says Corry. "Coles, Woolworths, Kogan, Chemist Warehouse. They've had time to compete."

Coles launched Synergy in early 2020, a "retailer-supplier engagement and collaboration program" intended to put customer and data-driven insights at the front of decision-making. Flybuys, which claims 8.6 million active members, turns customer transaction data into insights for businesses and provides data enrichment services.

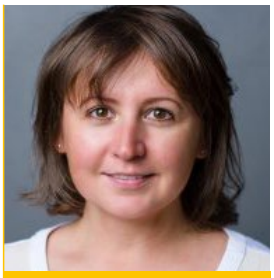
Michael Corry
303MullenLowe

Coles declined interview requests, but an industry exec who has worked with the supermarket said Coles is "extremely effective at monetising its site – but runs extremely lean".

While less developed than Woolworths, Coles is increasingly aggressive in pushing its own media channels in negotiations with brand clients, according to another media agency executive.

Loyalty programs are powerful sources of data that can be leveraged across digital and physical assets. Woolworths says it has 13.1 million Everyday Rewards members. Australian Pharmaceutical Industries (API), which runs Priceline, has more than seven million members in its Priceline Sister Club; Myer One has more than five million members that could help advance moves into retailer media.

> Amazon is playing a long game – and that has given local incumbents time to improve their omnichannel experiences. Coles, Woolworths, Kogan, Chemist Warehouse. They've had time to compete.
>
> **— Michael Corry, 303MullenLowe**



Olia Krivtchoun
Publicis

Publicis Groupe's Olia Krivtchoun says Ebay is also prominent in the mix. "I think the major players are Amazon, eBay, Coles and Woolworths, with the underpinning of the tech partner CitrusAd," she says. (Citrus is now owned by Publicis, which sees retailer media overtaking TV ad dollars by 2025, see p23.)

"In terms of who's doing well, we see success across the board... There are smaller ones, online performers, like Chemist Warehouse online."

Ebay is a sizeable media player and remains the number one marketplace in Australia, says GroupM Commerce General Manager, Roger Dunn. "But Amazon is hot on its heels and grocery retailers are also rapidly evolving."

Roger Dunn
GroupM

Meanwhile, marketplaces such as Appliances Online are already forging ahead (see p14) while Wesfarmer-owned Bunnings is tipped as a potential next mover (see p24).

Size of the prize

Customer data science company, Dunnhumby, a subsidiary of UK supermarket giant Tesco, has built a media calculator to predict how much retailers could potentially earn from media.

The calculator included five large Australian groups: Australian Pharmaceutical Industries (which owns Priceline), Metcash (IGA, Mitre10), Harvey Norman, Wesfarmers (Bunnings, Kmart, Target, Officeworks), and Woolworths Group (Woolworths, Big W, BWS). Across those five, Dunnhumby calculated their maximum potential media revenue at $1.563 billion.

The calculator also provides a breakdown of companies with an Australian presence. These include Aldi, Costco, Lush, The Body Shop, Ikea, and L'Occitane, with headline revenue potential ranging from $1m to tens of millions.

Dunnhumby described five characteristics that govern retailer media revenue: customer affluence, multichannel presence, media coverage, branding creative freedom and data maturity.

Harvey Norman could earn $3m, API could earn $40m, Metcash could earn $254m, Wesfarmers could earn $569m, and Woolworths could earn $697m – if those five characteristics are fully aligned and the retailers have appetite to go all in. But even Dunnhumby appears sceptical of that eventuality.

"The values represented in this calculator are based on the Planet Retail data and Dunnhumby media methodology," the company notes. "These are no way a guarantee of expected revenues. Actual revenues may be impacted by various other factors."

In the US, Amazon is a dominant force – and growing substantially year on year. One Feedvisor report from the US found 42 per cent more brands decided to sell on Amazon in 2020, and suggested 44 per cent of brands see 7x to 10x return on Amazon Advertising.

"Just as consumers can no longer be without e-commerce, brands and retailers can no longer be without Amazon and e-marketplaces," per Feedvisor President and COO Dani Nadel.

No surprise then that the cost of ads on Amazon has soared in the wake of the pandemic. Industry researcher Marketplace Pulse found the cost per click for Amazon search advertising was $1.16 in May, up from $0.75 a year earlier, a 55 per cent hike.

Price inflation – which is also significant across search and social over the last year in Australia – could also drive advertisers to look for alternatives.

Globally, not including Amazon, UBS predicts Kroger and Walmart will lead the US market, Sainsbury's and Tesco will do the same in the UK, X5 will be on top in Russia, and CBD will dominate in Brazil.

"In the Australian grocer space we like Woolworths," UBS wrote. "We believe Woolworths has been the most proactive in shaping its business model towards a supermarket of the future."

Case study:

Cartology plots rise to power

On launching Cartology in March 2019, Woolworths CEO Brad Banducci said the business needed to do better connecting customers to brands and products.

"We've been watching closely how other large-scale retail businesses internationally are better engaging customers along the path to purchase," he said. "Many are leveraging new digital and data technologies to become major media businesses in their own right."

Cartology, Woolworths' standalone retailer media business, is maturing fast. It now runs 15 channels across four areas: out of store, front of store, in aisle and at shelf. Out of store includes its Fresh magazine, personalised emails, plus capability across TV, radio, out of home (including its own screen network) and social. It also still has a catalogue.

Mike Tyquin Cartology

Managing Director Mike Tyquin, a 25-year media industry veteran, says breadth of media and integrated data capability sets it apart.

"We are omni-channel and we operate in-store. This is really important because we know, for example, that 68 per cent of customers that start their journey digitally convert to purchase within four days. So the join-up between the physical and digital is critically important."

Cartology now has the ability to plan and buy media on the open web for brands, while taking a margin: It recently hired Willem Paling, IAG's former Head of Customer Growth and Analytics, to boost its "brand activation" capability across owned and external assets and in March launched targeting and integration products that extend to media channels outside Woolworths' own platforms. It calls these 'off canvas' media as opposed to owned media assets, which are 'on canvas'.

A month later, Woolworths increased its 50 per cent stake in data analytics firm Quantium to 75 per cent, paying $223m.

> "I would argue that retail media has a stronger proposition than any of the other legacy media for a share of that $3bn [total Australian TV revenue] by financial year 2023.
>
> — **Mike Tyquin, Cartology**

"For us, the opportunity now... is to be able to work more closely with clients as well as external publishers, as partners, to be able to take really rich data that we've got to be able to build those customer audiences and help brands activate 'off canvas'," says Tyquin.

While Cartology is looking to take ad dollars across the piste, Tyquin has made no bones about where he sees the biggest opportunity – with budgets moving sooner than some might think.

"TV at the moment is holding about 70 per cent of FMCG advertisers," he told Mi3 last year.

"I would argue that retail media has a stronger proposition than any of the other legacy media for a share of that $3bn [total Australian TV revenue] by financial year 2023," said Tyquin. "I would argue... what we can provide through multiple touchpoints creates a superior proposition to what is currently available on television."

TV networks argue otherwise – and some are building data-driven countermeasures (see p18).

Case study:

Chobani's retailer-powered rise

As retailers globally become media businesses, some brands are shifting spend in tandem – and driving significant growth.

> "As people start to move online, we want to be in those first baskets ... [Retailers] are essentially on a big data gold mine – and I think we're just seeing them get started.
>
> **— Olivia Dickinson, Chobani**

Ten years ago, Chobani was unheard of in Australia. Now, one in five Australians eat its yoghurt every month, driving local revenues of $188m.

Olivia Dickinson
Chobani

Olivia Dickinson, Chobani's General Manager of Growth, cites four key drivers behind its substantial push into retailer media, and Chobani's subsequent growth:

- First, the average online basket size at Coles and Woolworths is 2.2 times the average in-store, according to IRi panel research.
- Second, the same IRi research shows that loyalty is much more pronounced in online stores: while 91 per cent of Australians "cross shop" in the two major supermarkets in-store, just 22 per cent shop at both Coles and Woolworths online.
- Third, research in the US has shown 75 per cent of repeat online shoppers start with their previous basket, known as basket "stickiness", making it more difficult for new brands to be "discovered" at the shelf on the website.

- Finally, as Woolworths Group CEO Brad Banducci told investors in May, almost half – 48 per cent – of online shoppers add three extra items using the "have you forgotten" function at the end of their shop.

Those are compelling incentives for brands to dedicate resources to retailer media.

"As people start to move online, we want to be in those first baskets," Dickinson says. "[Retailers] are essentially on a big data gold mine – and I think we're just seeing them get started."

While brands have always spent money with retailers, Dickinson says it is retailers' ability to piece together disparate data to drive sales and prove attribution that is now moving the needle in retailer media.

"Woolworths has always sold media. I guess the more recent shifts just mean they've advanced their offerings and what they do," says Dickinson.

"Historically, it was one of the early challenges when I started in this business – trying to work out how do we marry our marketing efforts and our advertising with what's happening with brick-and-mortar in-store," she adds.

"We still leverage third party data as a brand. We still buy media above the line, below the line and have ways to access insights to try and measure that. But it has been extremely fragmented and challenging to stitch it all together.

"I think what we're finding now with Cartology is that that is all shifting. They have the ability to link all of that together and provide that value to suppliers."

Sven Lindell
Winning Group

Beyond FMCG: Woolworths and Coles 'playing catch-up' on retailer media, says Winning Group CMO

While Australia's supermarkets are seen as retailer media leaders, Winning Group CMO Sven Lindell suggests they are some years behind.

Appliances Online is Winning Group's biggest retail brand. Lindell, a former Woolworths digital strategy exec and CMO of online retailer Temple & Webster, says the group has a far more sophisticated model than its competitors have grasped.

It uses an in-house production studio to create its own ads as well as ads for suppliers, and works on media strategy with brands before moving to execution. It also removes the silos between trade and marketing budgets, according to Lindell.

"We didn't want to work with the traditional co-op model, which is, 'how do I extract as much money as possible?' What we're working on is joint value that we extract into the market. We're work on consolidated plans together," Lindell says.

Profitable promotion

Instead of the traditional retailer-supplier relationship, Appliances Online prizes the top spots on its online stores, which brands can bid, build campaigns, and negotiate for.

But the "secret sauce" is how those campaigns drive profitable sales for both the retailer and the supplier.

"We have a way to maximise profits for the business that I think some of the big guys don't yet understand," Lindell says.

"They might try to push San Remo pasta. But what happens if there are four or five other pasta brands that actually deliver higher margin impact? They've now given away all these ad spots. Do they know the value of that ad spot based on the projected uplift from a profitability standpoint for their business, and have they then priced that media appropriately?

"What I find is that some of the internal rate cards from suppliers, they're still saying, 'that's $1,000, that's $10,000, that's $20,000 for this ad spot'. It doesn't take into account the fact that there is an opportunity cost for giving up that spot."

Rather, Appliances Online sells packages to improve a product's position in the category – fridges, for example. A new model of fridge can't become 'popular' overnight, so the supplier and retailer develop a strategy to boost the number of sales and reviews that product has until it can legitimately be listed as 'popular'. That may include social media, emails, Winning Group's glossy magazine, or other channels.

Not every campaign is an overnight success, admits Lindell, but the retailer is transparent and shares learning with each supplier via post-campaign analysis.

"We're not selling pixels on a page, but a marketing program that helps you move [product] and adjusts the models within your business based on goals."

Media owners acknowledge new threat – but say their brand dollars are safe

> I think retail media is going to be very strong. There's no doubt about that ... Trying to encourage sales at the point of purchase has always been a big play for marketers.
>
> **— Steve O'Connor, JCDecaux**

Media owners acknowledge new threat – but say their brand dollars are safe

"The acquisitions space is very strong for Coles and Woolworths. They know more about their customers than a lot of actual brands do, because [brands] don't have that same level of data," says Natalie Harvey, Network Sales Director at Seven West Media.

JCDecaux CEO Steve O'Connor agrees: "I think retail media is going to be very strong. There's no doubt about that," he says. "Trying to encourage sales at the point of purchase has always been a big play for marketers."

> I'm not nervous about it, because I'm confident about our ability to sell more product. And I think Woolworths and Coles agree, which is the reason they still spend so much on our platforms.
>
> **— Natalie Harvey, Seven**

Natalie Harvey
Seven

Both Harvey and O'Connor suggest retailer media operations will struggle to build brands. They think their brand dollars are safe.

Seven's Harvey cited Binet & Field's 60:40 rule on brand to performance media, which shows that brands that spend more on top of funnel brand ads over lower funnel performance media drive stronger long term growth.

"FMCGs still very much fit within that 60-40 mentality... so I'm not nervous about it, because I'm confident about our ability to sell more product. And I think Woolworths and Coles agree, which is the reason they still spend so much on our platforms."

> There's no point in spending at the bottom of the funnel unless you've done a good job at the top of the funnel. People aren't going to buy products they don't know.
>
> **— Steve O'Connor, JCDecaux**

Steve O'Connor
JCDecaux

JCDecaux's O'Connor agrees.

"It's purely a transactional medium. It's purely there to drive sales at the point of sale. It's not a medium in my mind that builds brands," O'Connor says.

"To my mind, it doesn't operate at the top of the funnel where awareness is built, brands are built, consideration is made. For a product to be successful, they need to transact at every stage of the funnel. For people to say that [out of home] or even TV will be a loser [from retailer media], it's very naive, because advertisers need more than ever to build brands.

"There's no point in spending at the bottom of the funnel unless you've done a good job at the top of the funnel. People aren't going to buy products they don't know."

Which is why News Corp thinks retailer media may be more of an opportunity than a threat.

Suzie Cardwell
News Corp

"It's actually very complementary to the role that we play for FMCG customers," says Suzie Cardwell, News Corp's General Manager of data and ad products.

"Retailer media is going to be far more effective at that lower end of the funnel, at that decision making point. But we can work very nicely with a retailer media outlet to help generate consideration."

So where's the money coming from?

"If we're right in saying that retailer media is purely transactional, it's got to come out of that 40 per cent (short-term activation budget)," says JCDecaux's O'Connor.

"It's search, it's a lot of online, it's mobile. They'll have some of their lunch cut, I would suggest. I think that's where most of it's going to come from."

> Retailer media is going to be far more effective at the lower end of the funnel, at the decision-making point. But we can work very nicely with a retailer media outlet to help generate consideration.
>
> **— Suzie Cardwell, News Corp**

Seven offloaded its magazines division last year and Natalie Harvey thinks "probably magazines" will take the biggest hit, and "maybe outdoor".

But JCDecaux's O'Connor says there is little erosion yet, even with likes of Woolworths building out a significant out of home screen network.

"It may be happening in pockets and bits and pieces, but FMCG in out of home is actually growing, if you look at the SMI data," O'Connor says. "I think if that's the case, then the suggestion that they're putting forward about retail media cutting out of home's lunches is in fact not founded on fact."

Ooh! Media Chief Sales Officer Tim Murphy agrees: "I don't think we've got real concerns that out of home is going to be overly disrupted."

Andrew Brain
Seven

Seven aims to beat supermarkets at own game

While retailers are aiming to own shopper media ecosystems – publishers are attempting to build alternatives that also show a clear path from media buy to product purchase for FMCG firms.

Seven is working with Flybuys to match its proprietary audience IDs with Flybuys purchase data to quickly show FMCG brands whether their connected TV ads have driven a sale, according to Seven West Media Audience Intelligence Director, Andrew Brain.

"It means we are closing the loop with true sales uplift and in-store conversion." he said. He claims the network is "the first to actually put ID to ID, so we can track the measurement and attribution all the way through. So it becomes a 360-degree wheel for brands; they can essentially look at the ID and see if [their intended target] actually shifted from a lapsed to an active buyer, giving more reliable outputs of what's working and what isn't."

For FMCG advertisers, Brain said the aim is to deliver those results "potentially faster than what they currently get from a supermarket".

Josh Slighting
10ViacomCBS

Retailer walled gardens to win?

Josh Slighting, Head of Data & Digital Audience at 10ViacomCBS, thinks TV networks have to keep doing what they do best – create great shows while building out digital platforms and first party data. But he thinks incoming regulatory and privacy changes could favour the walled gardens that some retailers are attempting to build over data partnerships that others are currently harnessing.

"[Woolworths-Cartology] can sell things and keep making money. They can own the data and they can own those relationships. So it's quite a well thought-out business model. You could argue that the likes of Flybuys are going with a different model, a very open partnership and collaborative-led approach."

While such partnerships can bear fruit in the short to medium term, "I just don't know how much longevity there is in that type of business model, given the way the rest of the ecosystem is changing."

Agencies and consultants: Retailer media eyeing all budget pots

> Everyone will take a hit. This will be the money you plan first. It will take more money from the market. The key [for all other media owners] will be making sure it doesn't take too much of the pie.
>
> **— Jen Davidson, Tumbleturn Media**

Jen Davidson
Tumbleturn Media

Consultants and agencies have a different view to traditional media owners. They say brand marketing budgets are squarely in retailers' sights, as well as performance dollars.

"Everyone will take a hit. This will be the money you plan first. It will take more money from the market. The key [for all other media owners] will be making sure it doesn't take too much of the pie," according to Jen Davidson, Managing Partner at Tumbleturn Media.

"We don't see this as just bottom of the funnel. We don't see performance budgets as the clear place these budgets will take from," says Olia Krivtchoun, Publicis Groupe's National Head of Product Innovation.

Publicis is positioning itself to take a slice of the action, acquiring CitrusAd in July (see p23).

Justin Papps
PwC Australia

"Right now, [the money] is coming from different places. It's coming from redirecting and reducing online video. Some is from allocating performance budget, some [FMCG brands] are allocating test and learn budgets, some are pulling from trade budgets [as] part of the agreements they're having with retailers," adds Krivtchoun.

Justin Papps, Head of CMO Advisory, PwC Australia sees some FMCGs cutting out middlemen – and says more Australian retailers are starting to seriously consider the prospect of adding ad dollars to their income.

"There is no doubt that retailer media is growing in significance and revenue. The question we continue to look at is where the money will come from," he says.

> If you're an advertiser or a product owner with a limited budget, the thought of going to one retailer and doing a deal I think has a big appeal. And so if that's money that's going directly to a retailer and it's not going through [an intermediary], then that's actually quite an interesting scenario to play out.
>
> **— Justin Papps, PwC Australia**

"What is clear is that … we're seeing more and more advertisers or product owners looking to do direct deals with the retailers. And it's not just buying space on a digital screen, it's actually a really integrated deal, which is everything from shelf facings to digital catalogue to display, to promotion, to integration into a loyalty program," adds Papps.

"So if you're an advertiser or a product owner with a limited budget, the thought of going to one retailer and doing a deal I think has a big appeal. And so if that's money that's going directly to a retailer and it's not going through [an intermediary], then that's actually quite an interesting scenario to play out."

Agencies: Retailers cannot handle thousands of media relationships; brands will not want to negotiate direct

Agencies question whether FMCG brands have the appetite to negotiate on media direct with large retailers, given their experiences as suppliers. They also doubt retailers will have the capability to deal directly with brands.

Kristiaan Kroon
Omnicom Media Group

Some 5,000 brands in Australia supply Coles and Woolworths alone.

"I believe retail media companies are looking to scale and can't physically manage individual relationships with each advertiser," says GroupM's Roger Dunn.

Publicis's Olia Krivtchoun says that brands can already buy direct from social platforms – but many use their agencies to transact with them as part of their broader buy.

Omnicom Media Group Chief Investment Officer, Kristiaan Kroon questions whether retailers buying external media on behalf of brands have the appetite to submit to the scrutiny and disclosure increasingly being asked of agencies.

"I'm always interested when a publisher or retailer talks about buying media beyond their own. Being a custodian of a client's money, being audited financially and on media, being subjected to benchmarks, showing financial invoicing – if a client says they want to enter into that, that's a whole different world," he suggests.

He also thinks retailer media operators may face questions around conflicts of interest.

> Do I think they can challenge us in certain areas? Absolutely. Do I think they represent a threat to agencies? No.
>
> **— Kristiaan Kroon, Omnicom Media Group**

"As a client you're looking for independent advice on decision making that will deliver your results. If you work with anyone with a horse in the race, you'll struggle to convince them you can manage their entire advertising portfolio."

Which is why Kroon is not too worried about retailers cutting out agencies any time soon.

"Do I think they can challenge us in certain areas? Absolutely. Do I think they represent a threat to agencies? No."

Des Odell
Resolution Digital

Facebook and Google have more to lose

Des Odell, CEO at Resolution Digital, thinks agencies with advanced e-commerce capabilities will benefit from the growth of retailer media. He also suggests that while retailer media will accelerate the flow of dollars from media channels already underway, it may be Australia's digital duopoly that has most to lose.

"I don't see the entry of Cartology and other retailers coming to this space as a threat to agencies or holdcos. Actually, I think it makes the environment and the ecosystem more complex. The more complex it is and the more players there are in the market, generally, the more need there is for advanced digital planning, attribution, decision making and all that sort of stuff that agencies do. So I don't see [retailer media] as necessarily taking business away from agencies."

On the flipside, he says, "It's good that Google and Facebook are going to have some competition."

> I really believe you'll be planning from the bottom up. That's probably the big shift. FMCGs won't start negotiating with TV, they'll start negotiating with retailers and determine spend for the rest of the year after that.
>
> **— Jen Davidson, Tumbleturn Media**

Agencies: this will change the way we pitch...

Retailer media will form a crucial part of pitching for FMCG accounts, according to agencies and consultants, with many building specialist retailer expertise – or racing to catch up.

"The days of TV solving all your brand problems are over. There will be other formats," says Tumbleturn Media's Jen Davidson.

"I really believe you'll be planning from the bottom up. That's probably the big shift. FMCGs won't start negotiating with TV, they'll start negotiating with retailers and determine spend for the rest of the year after that. That won't be a popular view, but that's my view."

Sam Geer
Initiative

Some agency groups appear to agree. Initiative, for example, is beefing up retailer media capability.

"We've got extra people, extra hands on deck, and if you look overseas it's only going to grow," says Managing Director Sam Geer.

"[We're hiring] e-comm specialists, specific search craft capabilities for customer search platforms – they're new skills. We've looked at hiring people from shopper marketing agencies... it's so detailed. It's not like adding another couple of channels. Everything is different. Bread has a different convention in-store – they love wobblers [stick on shelf promo labels] – versus mayonnaise. Every category needs its own playbook."

Joe Lunn
Mindshare

Mindshare's Chief Strategy Officer Joe Lunn says it's an active part of new business pitches.

"We're already talking to our clients about it and we're already including it within new business pitches where it's relevant because our role is to look at every possible opportunity to engage with our audience and drive the business and brand objectives," he says.

"When you see that something like 80 per cent of clicks and impressions are coming from the top two rows on e-commerce platforms, it's so crucial to actually get that digital basket incumbency."

...but not yet

Yet while some agencies are investing in retailer media teams as part of broader e-commerce units, Tumbleturn's Jen Davidson says the bulk of the market is yet to move; it is barely on the radar of the pitches that she oversees – from client or agency side.

"The retail component is such a critical part of our overall customer journey," she says. "Traditional media brought customers to the front door. Whoever can plan end-to-end and plan in the e-commerce trade activity, that's where success will be. I'm surprised more agencies aren't really diving into it."

Most of the holding groups state they have retailer media expertise, some more developed than others (see holdcos boxout, p26).

Hybrid model: Stratosphere and Chemist Warehouse

Some standalone agencies have adopted a hybrid model – such as Melbourne agency Stratosphere, funded by Chemist Warehouse.

A full-service shop that works with other clients, it mainly handles creative, production and media placement across owned and external assets for Chemist Warehouse suppliers, with some packages exceeding $1 million/month.

Stratosphere is also responsible for the House of Wellness, an hour-long programme on Seven sponsored by Chemist Warehouse. Chemist Warehouse negotiates rates, which can include promoted spots on the show – which also has a spin-off Nine Radio show, News Corp newspaper lift-out and podcast – and Stratosphere produces the television content. Suppliers can pay for this, along with promoted positions on the Chemist Warehouse website and key positions in-store.

The agency plans and buys more than $130 million of media a year, is opening an NZ office and has expansion plans for Europe.

Arthur Sadoun
Publicis Groupe

All-in: Publicis CEO Arthur Sadoun says retailer media bigger than TV by 2025

Publicis Groupe swooped in July for Australian retailer media software company CitrusAd, which sells suppliers' ads on e-commerce sites. Publicis CEO Arthur Sadoun is bullish on retailer media's growth prospects:

"This acquisition will give Publicis a strong competitive advantage in a channel that by 2025 should surpass traditional TV spend," he said.

CitrusAd will operate as a separate brand under Publicis' Epsilon unit. Thibault Hennion, Director of International Operations for Epsilon, told Mi3 the group sees a growing digital shift from brand to performance-based marketing.

> "All of the biggest CPG brands of the world have spent billions and billions in traditional TV and this channel is expected to remain flat in the next few years. At the same time, retail media is booming so we are seeing the share of media investments shifting progressively into a new channel for us.
>
> **— Thibault Hennion, Publicis Groupe**

"[That is] because ultimately, CMOs are under massive pressure. They need immediate results and they need to justify the media investment they are asking of the CFO or to the CEO or of the board. So adding the ability to tie marketing spend to purchase is for them extremely important. This is exactly what Citrus is doing."

Hennion said major global clients are increasingly demanding the ability to go directly to retailers.

"All of the biggest CPG brands of the world have spent billions and billions in traditional TV and this channel is expected to remain flat in the next few years. At the same time, retail media is booming so we are seeing the share of media investments shifting progressively into a new channel for us," he said.

Hennion and CitrusAd founder, Brad Moran, did not rule out some of the rapid growth in retailer media advertising coming from other digital channels and platforms including search and social.

Thibault Hennion
Publicis Groupe

Brad Moran
CitrusAd

While CitrusAd has some 70 major global retailers on its books, Moran said it is barely scratching the surface. "I would say of a retailer's entire ecosystem, we probably monetise between five and 10 per cent of it," he said. "We've got that other 90 per cent to go."

Retailer media operators: Prepare for the next wave

Predictions of a billion dollar retailer media market in the medium term are not overly ambitious, according to Mohammad Heidari Far, General Manager at Resolution Digital.

The Omnicom-owned agency has broad e-commerce capability, but sees growing interest from retailers in adding media revenue to their balance sheets.

> We have a lot of retailers in our client portfolio and the general trend is that almost all retailers across all verticals are thinking about [building retailer media capability]. This is not necessarily just CPG or FMCG, but consumer electronics, home and garden, apparel and even fashion.
>
> **— Mohammad Heidari Far, Resolution Digital**

"We have a lot of retailers in our client portfolio and the general trend is that almost all retailers across all verticals are thinking about [building retailer media capability]," says Heidari Far. "This is not necessarily just CPG or FMCG, but consumer electronics, home and garden, apparel and even fashion.

Which retailers are next?

"I see a lot of value in the home and garden [vertical], if a business like Bunnings wanted to enter this area," says Heidari Far.

He also thinks conglomerates like Wesfarmers could take a group-wide approach with dedicated resource.

"With the portfolio Wesfarmers has, this would create a huge opportunity for them to structurally actually look at this as another business unit that brings all of that together."

"I think from a vertical point of view, whoever has the scale and diversity of products is looking at retailer media and monetisation of their assets very seriously, because of the margins that are involved."

But it may take a year or so for the next wave of retailer media operators to emerge, says Heidari Far.

"From thinking to going live, the technical element of it is really easy. It's a two-to-three-month process, depending on what level of your channels you want to monetise. But strategically, making that decision is easily a 12-month conversation."

But he thinks the market is starting to mobilise – and the likes of Woolworths and Chemist Warehouse will soon have competition.

"As we see other players and retailers entering different verticals, I think that will create a sense of urgency for other retailers, because of the margins involved in retail: it's a game of trying to diversify and improve those margins."

Challenges: All media operators take a different approach

Mohammad Heidari Far
Resolution Digital

The challenges for FMCGs and other brands eyeing retailer media channels will be fragmentation, suggests Heidari Far.

"The way you run a Citrus campaign with Coles is completely different from how you do it with Woolworths – because their implementations are different. Coles' implementation is on a product grid. The first two rows are driven by CitrusAds, versus Woolworths where you have a pay then organic [aspect] in each of those areas," he says. "That has profound impacts on the auction competition, the cost per clicks across those and also the customer experience."

Likewise, he says the way retailers provide data to brands varies widely: "For teams to have a holistic view of how their e-commerce is performing is really difficult."

Heidari Far says Resolution has built "API hooks" to extract data where allowed to by retailers, but in some cases the agency has to perform manual exports and uploads to visualise data in one place and determine performance on a channel by channel basis.

> With the portfolio Wesfarmers has, this would create a huge opportunity for them to structurally actually look at this as another business unit that brings all of that together.
>
> — **Mohammad Heidari Far, Resolution Digital**

Standalone retailer media agencies? Not likely

Des Odell
Resolution Digital

While specialist Amazon and retailer media agencies exist overseas, Resolution CEO Des Odell sees no genuine scope for them in Australia – and thinks even standalone e-commerce shops will struggle.

"Firstly, there is just not the scale. Secondly, the path to purchase and the approach in Australia is multichannel. I struggle to understand how you can just provide a service around Amazon. The real value [agencies provide to clients] is the entire journey, and understanding the journeys that are doing better than others," says Odell. "I'd feel very compromised telling a client to put all their spend into Amazon."

Odell says brands will always need a full picture of the options available to attract and convert customers.

"If you are purely an e-commerce agency, how do you have those broader discussions around connected TV, digital radio, national TV? Our big clients are still spending on those channels. So I struggle to see how small standalone e-commerce agencies are going to be long-term players."

Mohammad Heidari Far agrees.

"If we narrow down to individual retailers or retailer media, we might be missing the bigger piece – the total journey."

Holdcos: Retailer media capability?

Publicis: Individual agencies trade retailer media, advised by Publicis Commerce division (140 staff). "Our recent acquisition of CitrusAd adds an unparalleled level of retail media technology solutions and understanding of this landscape," claims ANZ CEO Michael Rebelo.

GroupM: Individual agencies trade retailer media, supported by GroupM Commerce specialists. "Commerce and retail media capabilities are part of our agency DNA and the broader marketing communications strategy as opposed to a standalone tactic," per Chief Technology & Transformation Officer Ryan Menezes.

Omnicom: Individual agencies have autonomy, with holdco advice: Resolution Digital is e-comm focused with retailer media specialists; OMG launched TransAct, an end-to-end e-commerce practice, in 2017.

Dentsu: Has a retailer media unit set up for Woolworths@DAN.

Havas: Launched H/Commerce in 2019 in Australia to combine retail, creative, shopper and data while Havas Market is the group's global e-commerce wing.

Mediabrands: Creates custom media arrangements for retailers and brands, either via stand-alone units like Rufus Powered by Initiative, or dedicated teams within group agencies.

Report partner:

Resolution Digital is a full-service digital agency employing 260 dedicated staff across Sydney, Melbourne and Brisbane. Part of the global Omnicom Media Group, Resolution has built advanced commerce and retailer media capabilities. It houses TransAct, a comprehensive e-commerce framework designed to drive maximum ROI from online sales ventures for both brands and retailers.

Resolution Digital.

www.resolutiondigital.com.au

Mi3

www.mi-3.com.au

Resolution Digital.

www.resolutiondigital.com.au