WHITE PAPER

Building a **Retail Media** Business: Challenges and Solutions

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Introduction

Retail media has been called the "third wave of digital advertising," following search and social. But to enjoy the same growth trajectory as its successful predecessors, retail media will also have to address some growing pains.

Retailers looking to capitalize on this opportunity face a significant set of challenges in terms of organization, technology and competition. They need to create a media business within their existing operations, employing new skills supported by an unfamiliar culture, without alienating the rest of the company or, more importantly, having a negative impact on its revenue.

They also need to establish a new technology ecosystem at a time when there is no single end-to-end solution. As a result, they have to create their own platform from a mixture of off-the-shelf, bespoke and internally-created solutions, integrating all the elements so they not only work together but also align with the rest of the company's tech infrastructure.

And they have to do this as the initial period of experimentation is coming to an end. The market is poised on the edge of a period of consolidation; only those few players with sufficient scale, differentiation and first-mover advantage will end up dominant in each sector and market.

This white paper looks at these challenges in more detail as well as at some of the ways retailers can overcome them to build robust media businesses that contribute significantly to their bottom line.

"For the last couple of years, retail media for us has been very much: 'Here's some cash, go away and see what you can do with it.' Now, while there's still very much a desire to spend money within retail media, it's starting to be scrutinized more in terms of what it's driving. How does it compare across other channels that we play in? Does it deliver ROI? Without a doubt, there's now a desire to see strong returns."

HELEN BROWN
Retail Media Acceleration Lead, Kellogg's

The State of the Retail Media Sector

"The next big advertising channel."

"A unique way to reach consumers."

"A paradigm shift in digital advertising."

There's certainly no shortage of promising descriptors around the importance of retail media.

There's also no shortage of stratospheric predictions for its growth. According to Insider Intelligence, total US spending on digital retail media will grow to $61.2 billion by 2024, accounting for 19% of digital ad spending. Meanwhile the Statista Research Department expects worldwide digital retail media ad spend to rise to $133.06 billion by 2024, up from $97.84 billion in 2021.

This might have seemed overly optimistic, but then Walmart released figures for the 2022 fiscal year that showed its global revenue from advertising was worth $2.7 billion.

$61.2 billion
projected US spending on
digital retail media by 2024

$133.06 billion
projected worldwide digital
retail media ad spend by 2024

$2.7 billion
Walmart's FYE 2022 global ad revenue

> " "The Walmart figure is particularly impressive because Walmart is not Amazon. We all know that Amazon drives some $30 billion of revenue from its advertising business, but there's risk that Amazon is an outlier. Walmart is a traditional retailer — they're not a technology organization — but they've managed to develop a retail media business of this scale over the last couple of years. So, the question for other retailers is how they can replicate that success, even if they're a tenth of the size of Walmart. Because if you can drive 10% of your profit from this new business line, you're going to have a very happy CEO and very happy shareholders."

DAVID BILLINGS
VP, Global Head of Digital Media, EPAM

At the same time, retail media is changing rapidly. The original offer of advertising on a retailer's owned properties — using that retailer's first-party data for targeting — is being augmented by a growing move to "commerce everywhere." Brands are increasingly looking to target customers wherever they are on the open internet, once again using retailers' data.

This links back to the pre-history of retail media and the era of shopper marketing. Retailers have long used space in their stores to promote their supplier brands. Now part of the future of retail media looks very much like the bringing together of online and offline real estate to create an omnichannel approach.

" "Omnichannel is an area of focus and development right now. Retailers are investing in their CRM solutions and we're partnering closely with them to enable a single view of the customer, no matter which retail environment the customer is engaging with. And now the industry is focused on how this can translate to the commerce media opportunity to drive better outcomes for the brands and agencies."

JILL ORR
Managing Director for Enterprise, EMEA, Criteo
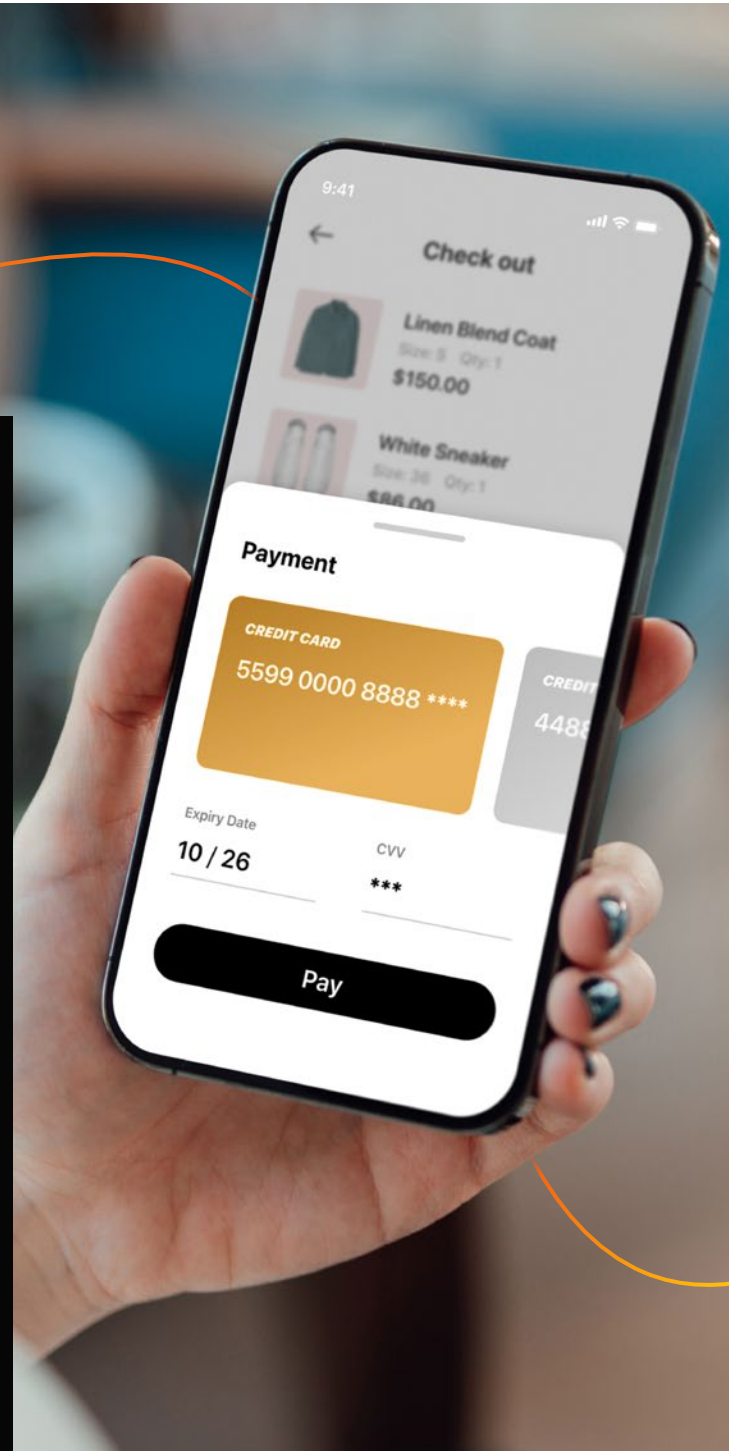
Consolidation Ahead

The other important shift that retailers need to be aware of is the impending end of the experimental phase of retail media's development. Up until now, CPG brands have been happy to work with multiple retailers as part of a test-and-learn approach. However, this has created a level of complexity for brands and their agencies that is not sustainable as they start to scale their activity in the channel. We're now predicting that, over the next 12 to 24 months, a small number of retailers — maybe no more than five per vertical, per market — are going to end up dominating. The rest will form a long tail looking to capture what they can of the remainder of each market.

In order to be one of these few market leaders, a retailer will need three things:

SCALE

Brands will want to work with the biggest players in the market because they'll have the most data, which means they should be able to deliver the most valuable insights and the most accurate targeting. In addition, the sheer size of their audience means any campaign they run should have the best chance of creating an impact for the brand. Smaller retailers will be under more pressure to standardize their inventory so it can be sold through an aggregator or retail media network (which could be owned and operated by one of the larger retailers, as we have seen with Carrefour's recent launch of Unlimitail).

FIRST-MOVER ADVANTAGE

Building strong relationships with suppliers in the early phases of retail media's growth will make it harder for late-comers to take market share from you. In addition, it means you'll have learned what your suppliers want from you and refined your offering to meet their needs. This, in turn, leads to...

DIFFERENTIATION

What's more, proving the value of retail media investment to your board early on should mean you're scaling while potential rivals are still on the launch pad. It also means the offering that you're building is increasingly differentiated, attracting further suppliers to work with you.

All of this tells us retailers have yet to capitalize on their potential as media owners, and data providers have a huge opportunity to make a difference to their business, but they need to move fast to be a market leader.

Key Challenges Retailers Face

Retailers face a number of significant obstacles in capitalizing on the retail media opportunity. Most of them spring from the fact that publishing is a very different business to the one they're used to. It's also a sector that is well stocked with established organizations that have been building their skills and experience over many years.

Among other things, a retail media network is expected to deal with at least eight types of ad inventory, compared to a publisher's one. These include:

01 Paid Search

02 Sponsored Product Ads

03 Onsite Display

04 Offsite Display

05 Offsite Social

06 Digital Screens

07 Point-of-Sale

08 Magazine

" "What retailers are missing the most is general experience in ad sales and understanding of the media landscape: how agencies work and how brands work with agencies."

J. R. CROSBY
Senior Manager, Ad Tech and Partnerships, Go Puff Ads
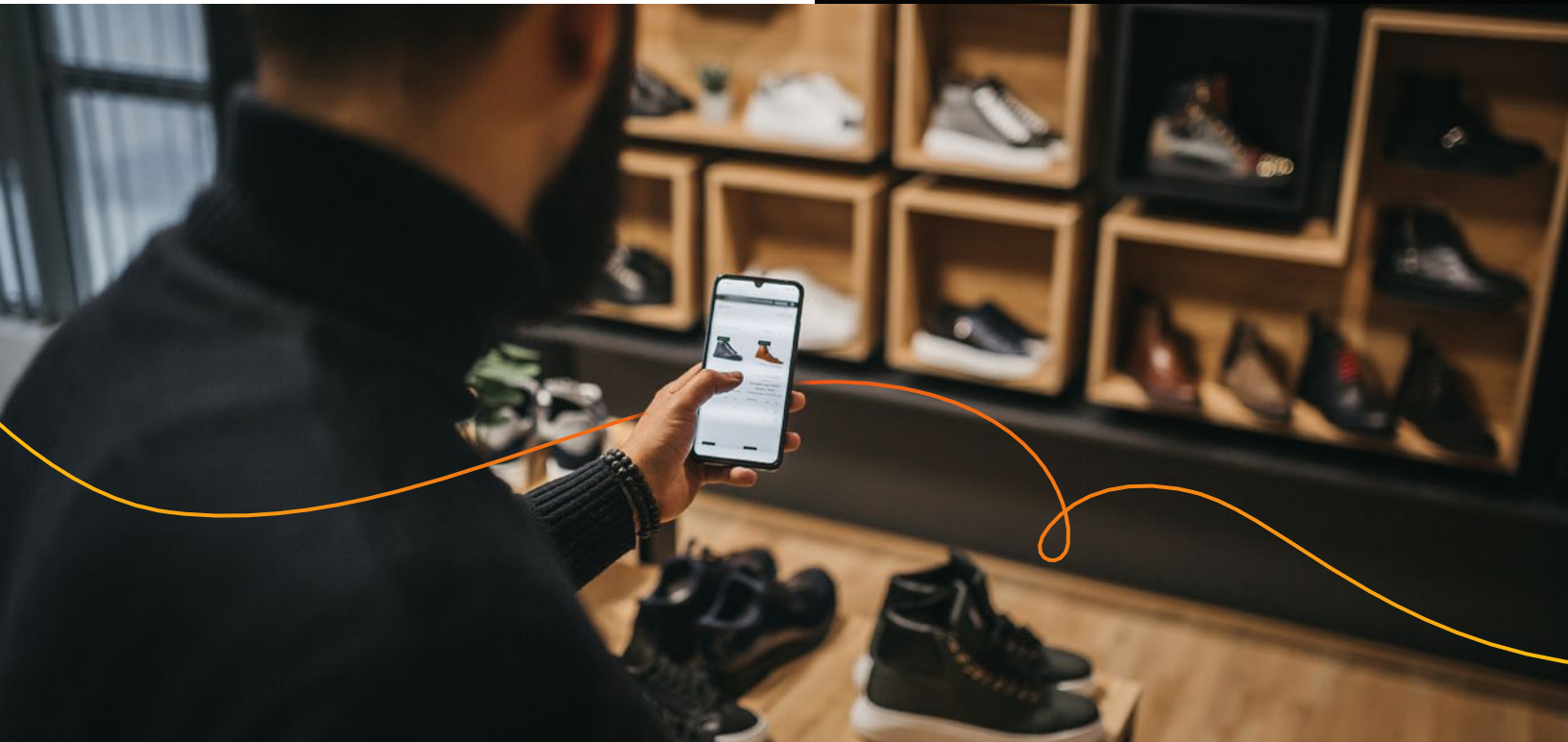
Retailers obviously have a lot of extremely valuable data, but they're expected to drive value from that data in a much more complex way than the average digital publisher. For example, not only are they expected to be able to build descriptive audience segments — ones that detail what people did or purchased over the last 12 months — but increasingly they're expected to be building predictive models that can indicate what people might do in the future.

Digital publishers are still measured largely on outputs, such as the cost of ad impressions. Suppliers expect retail networks to be able to show attribution and to measure incremental sales, repeat purchases, lifetime value and return on ad spend (ROAS).

"A key difference between retail media and more traditional media is that, with the latter, the brand holds most of the control, whereas with the former, the retailer holds a lot of power. They control the digital shelf and therefore the brand's share of voice in their digital store. This puts pressure on CPGs to outspend their competitors, all the while driving up investment and decreasing return. This dynamic will shift as brands demand control and access to the more standardized measurement supported by traditional media channels, so that they can more accurately assess value beyond ROAS, using metrics such as incremental ROAS and lifetime value (LTV). "

LIZ SALWAY
Principal, Digital Media Consulting, EPAM

Digital publishers also tend to work with media agencies rather than directly with brands, while retail media networks also have to deal with shopper marketing and eCommerce teams — all three of which have different requirements. And this reaches beyond just CPG advertisers. Other verticals are primed to invest in retail media if they can see the value of the opportunity compared to their current media choices.

"For retail media to be the third wave of digital advertising, it must provide compelling value to brands beyond the CPG vertical. Retail media platforms will have to showcase a sales and technical proficiency on par with traditional publishers and ad technology, along with industry-relevant opportunities compelling enough to pull brand and direct response budgets away from their tried-and-true digital partners."

MATT MARTIN
Director, Digital Media Consulting, EPAM

Finally, retail media networks have to manage all of this — and deliver revenue — without damaging the retail side of the business.

"Because this is a retail environment and ultimately the retail space is king, it's really important that any advertising doesn't intrude onto the retail environment, or if it does, it does so in a way that's very aligned with the retailer and that helps engage the consumer more, rather than put the consumer off in any way."

JILL ORR
Managing Director for Enterprise, EMEA, Criteo

Technological and Organizational Challenges

Addressing this business complexity requires a complex technology ecosystem. Adding to the challenge, the technology involved is both nascent and highly competitive. More and more companies are offering retail media solutions or platforms, so retailers face the problem of navigating this quickly-evolving retail media technology landscape. But many of these technologies won't integrate with each other or with existing corporate tech infrastructure, making the goal of an end-to-end platform extremely difficult to achieve.

"You need to have a tech ecosystem that powers as much of that end-to-end process as possible, because it gives you the ability to pull all your insight into one place. Having a joined-up platform, which serves as much media as possible, means it's all measured in the same way, and you get real-time reporting, which enables you to optimize in-flight. Having multiple platforms power multiple different channels within retail media doesn't allow you to do any of that."

HELEN BROWN
Retail Media Acceleration Lead, Kellogg's
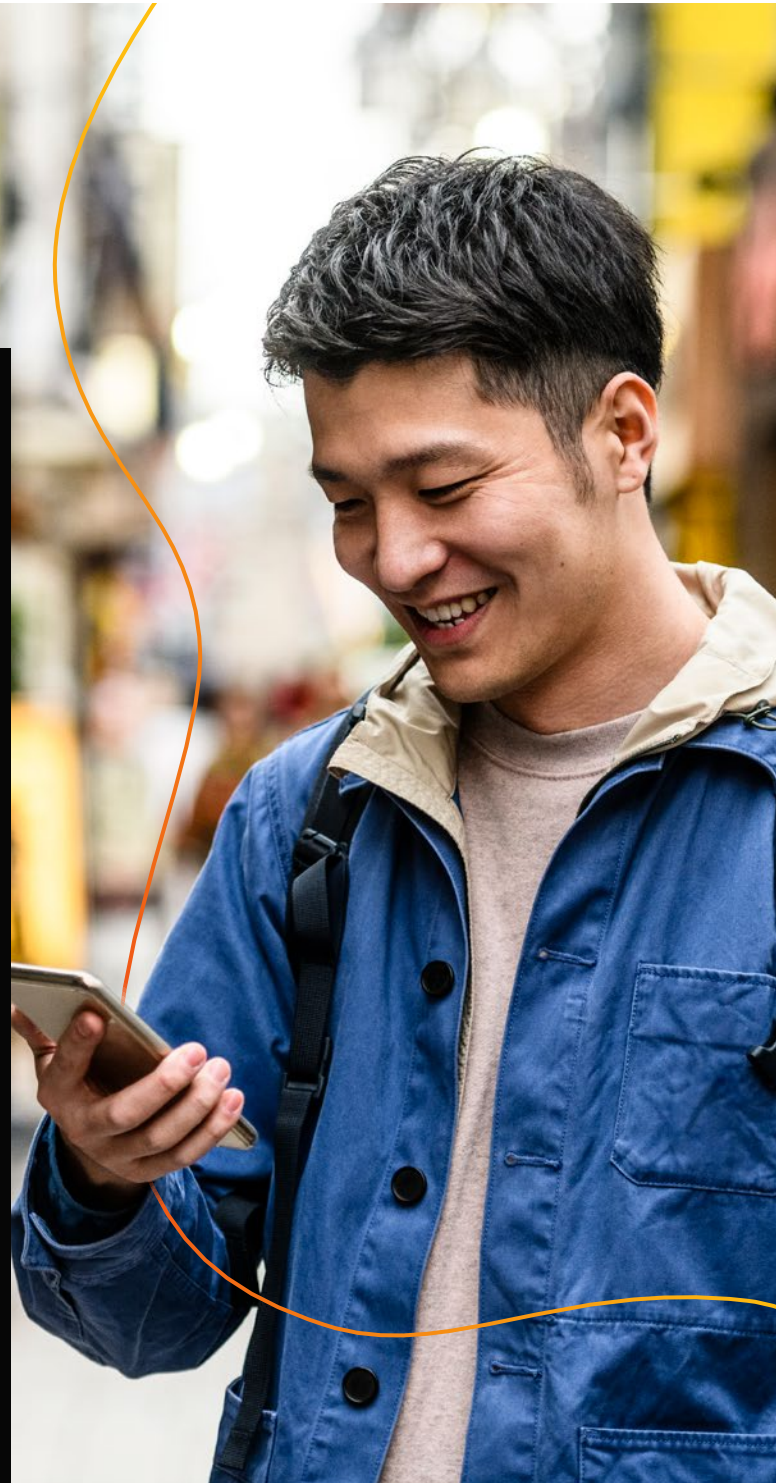
There are also many organizational questions that need to be addressed on the road to building a fully-functioning retail media network. As noted, this involves building a whole new business unit, with new skills and a new culture. It needs to be protected, but it also has to be seen — and see itself — as part of the organization.

This recognition needs to go right to the top of the parent company, because at that level the media business also has to be integrated. It shouldn't have a negative impact on the retail operations, but equally, skepticism from retail management can't be allowed to hinder the development of a potentially very significant revenue stream.

"Many retail media organizations are legitimate media companies but, since media is not the core business, when they have needs from the rest of the organization, it's a bit of a challenge because there's a gap there. For example, who owns the consumer and merchandising data? The retail media division needs data to be able to support targeting, analytics, all the different things they need to do. But if it's owned by the IT department, it can be difficult to get at. It can almost be easier to go externally. I see it all the time where people say, 'Yeah, we have this data, but we can't get at it, so we're going to have to improvise.'"

J. R. CROSBY
Senior Manager, Ad Tech and Partnerships, Go Puff Ads

Along the way, the organization will also have to address issues around commercial strategy, pricing, financial process and the establishment of a managed services offering alongside self-serve, with all the resourcing that implies.

"Don't just stumble into this; sit down, think and plan. The first piece of advice we often give to a retailer is to step back and think about where they want to be in two years' time, in five years' time."

DAVID BILLINGS
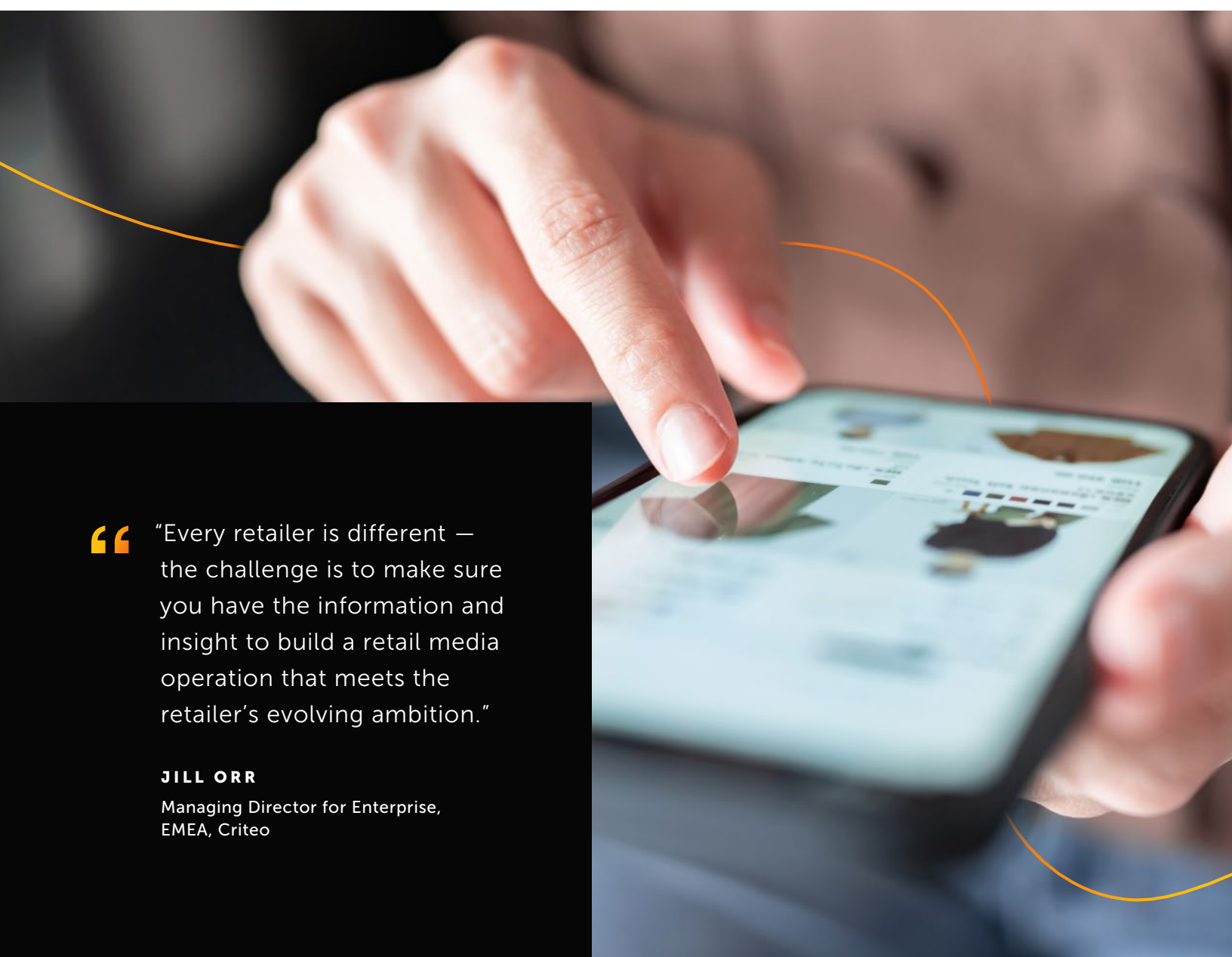VP, Global Head of Digital Media, EPAM

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Solutions

Building a Strategy and Reducing Complexity

Before you can start building a strategy, you need to understand where you want to go. The first step, which many businesses skip, should be to have structured, in-depth conversations with all your users and stakeholders, internal and external.

Within the organization, this will include your commercial team, your operations team, ad operations, data science teams and possibly creative production. It should also include your back-office staff: finance team, legal stakeholders and those responsible for data governance. All of these stakeholders will have a point of view on either the process or the structure of your platform — or both.

Then, externally, agencies and brands will usually be very happy to work with existing or potential retail networks to discuss what they need from you, now and in the future, as well as what your competitors are up to.

"Every retailer is different — the challenge is to make sure you have the information and insight to build a retail media operation that meets the retailer's evolving ambition."

JILL ORR
Managing Director for Enterprise, EMEA, Criteo

Mapping Technology Against Functionality

Once you know what functionality you need to deliver, you can start to map that against the technology required to deliver it. Selecting best-in-breed platforms and combining them with custom development can often be the best approach. Define what you intend to buy, what you would like to develop with a partner and what you want to build yourself.

In most cases, it makes sense to partner in those areas that are more heavily commoditized. For example, if there are plenty of good third-party solutions focusing on sponsored search ad serving, you shouldn't attempt to build your own. It'll cost a lot of money, and it will probably be inferior to what's already out there. However, there will be areas where you want to create differentiation in the market — that's where you should look at developing your own intellectual property.

"Scaling revenue is virtually impossible without a robust technology platform underpinning the business. Every retailer has different requirements and there is no single off-the-shelf platform that will meet all the needs of an individual retailer. This is particularly true as retailers build out their intelligence engine to support customer targeting, insights and measurement across both internal and monetized marketing activity. Very few retailers will be willing to release such highly sensitive data externally, and so they must look to partners to help them build their own insights solution, integrated with their marketing, data and ad platforms, to ensure compliance with corporate customer targeting guidelines and to generate accurate multi-touch attribution data."

DAVID BILLINGS
VP, Global Head of Digital Media, EPAM

The other advantage of partnering with experts who have worked with other retailers is that you can learn from the market and effectively benefit from others' mistakes. They should also help future-proof your offering, since it's part of their job to be aware of emerging trends and technologies in the space, from connected TV to artificial intelligence (AI).

Integration is Key

Systems integration is another vital area for partnering. An expert engineering partner should already have experience in all the most common integrations, saving you the trouble of trying to hire new people — or educate your existing team — every time you add a new element to your ecosystem.

And while integration is obviously critical to making all the disparate elements of your retail tech portfolio work together, proper integration with the rest of your corporate systems will also solve all sorts of problems that you may not have even identified yet.

"One of the simplest things that we did at a retailer, but which got the most positive feedback from the users, was integrating four different ad servers with their invoicing platform. That saved two days of time for four people who previously had to spend their time doing that horrible manual data entry at the end of each month."

OSAMA ALI
Head of Media Products, EPAM

This might sound trivial but, without automation, retailers can find it hard to scale their media offerings. They can't decouple revenue from organizational size. So, for every campaign they sell, they must go out and hire more people. Not only do they end up with a large, expensive team eating into their margins, but they're also constrained by the difficulty of hiring skilled people in this area.

This is made worse by the fact that if a lot of your workforce is doing dull, repetitive work manually — reconciling delivery data and transferring it into your finance system, for example — they're not going to hang around for very long. If you don't have that level of automation within your business, you'll have a lot of employee churn, which means that when you're hiring, you're just trying to fill a leaky bucket.

Deliver Via an Integrated Team

Lastly, it's important to think about your delivery team. You need to consider the types of skills they need and how you're going to bring those skills together.

You'll want business experts who can identify emerging challenges and opportunities, build business cases and design organizational models.

The people running things day-to-day will be too close to the operations, so you want someone in more of a consulting role — a product manager who will think about processes, business cases, operating models and so on. A good product manager can translate the needs and requirements of the business to a scalable, structured, phased product architecture.

And, of course, you'll need some engineering resources. How much will depend on what you intend to offer, where in the market you sit and how ambitious you are. But even five engineers who can do basic integration and automation can create a huge impact. Look at your tech ecosystem, identify your key skills gaps and decide whether you need to hire or partner in order to fill them.

BUSINESS EXPERTS

PRODUCT MANAGER

ENGINEERS

> "There are a lot of challenges facing retailers looking to build a media network. The solution is to plan and to think. Define your strategy; talk to your users; map your requirements and think about them in a structured manner; build assets that allow you to structure your business; and plan for how it will change. Then, if you deliver through an integrated team, you'll be in a really good position to overcome all of those barriers to scale and hopefully be in that top group of retailers who are able to secure serious market share."

DAVID BILLINGS
VP, Global Head of Digital Media, EPAM

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The Future of Retail Media

These are exciting times for retail media. The huge focus on this sector from retailers, brands and tech companies alike is powering innovation at pace.

Concepts we only dreamed about a few years ago — such as shoppable connected TV (CTV), personalized digital-out-of-home (DOOH),and dynamic creative optimization (DCO) — have now become a reality. And enabling true omnichannel campaigns where we target the customer, not the channel or the audience, is the next frontier. The IAB has launched retail media workstreams across its key regions and markets, and will soon start to publish standards across formats, pricing and, most importantly, measurement. Retail media will be forced to grow up and retailers must be ready to adapt. The key will be to create a flexible, agile and future-facing tech ecosystem.
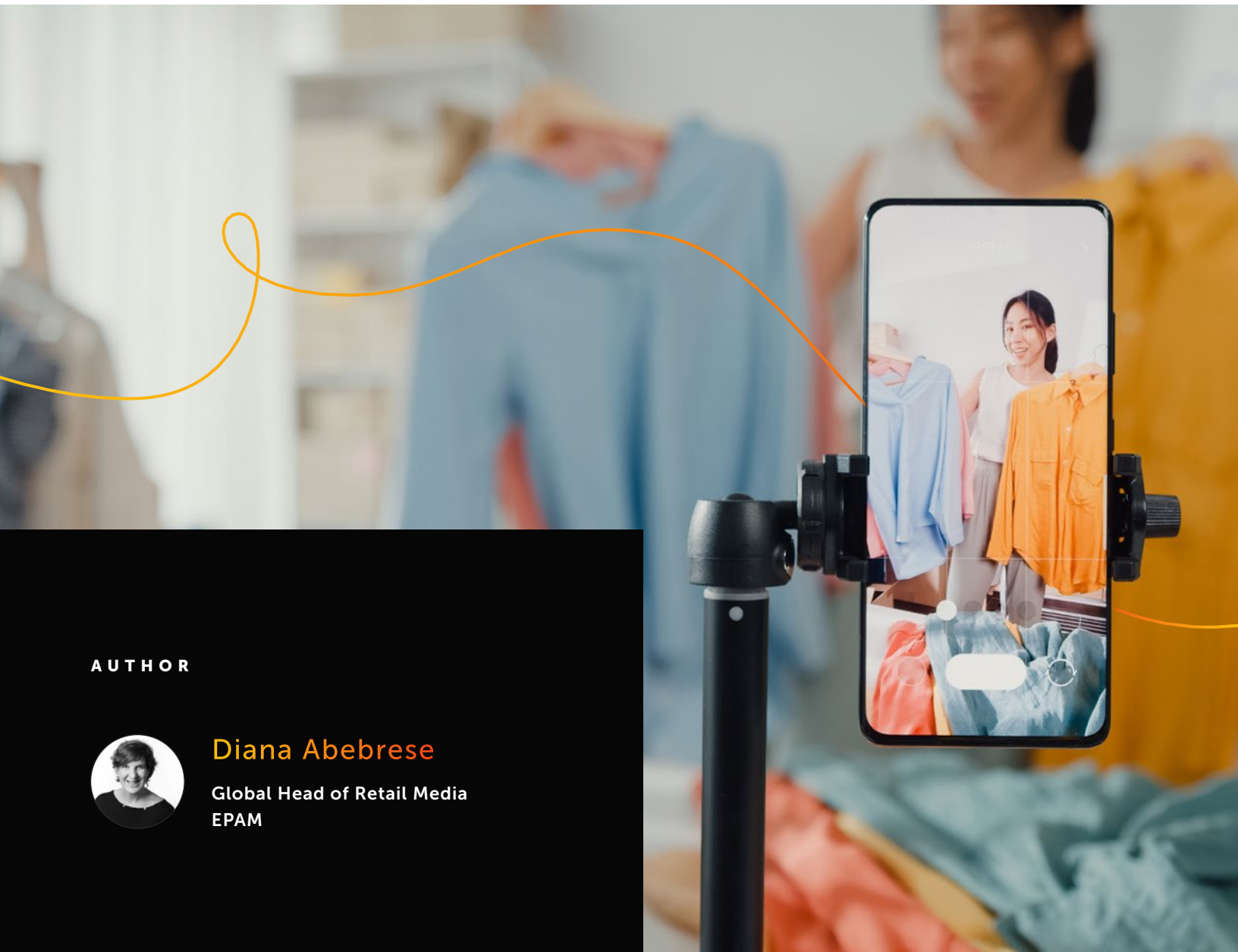
AUTHOR

Diana Abebrese
Global Head of Retail Media
EPAM

About EPAM Continuum

EPAM Continuum's retail media experts help some of the largest retailers and brands maximize the retail media opportunity through a combination of custom technology and business consulting. Its unique combination of innovative strategic thinking, integrated advisory, consulting and design capabilities, and unique "Engineering DNA," mean that EPAM's globally deployed hybrid teams make the future a reality for clients and communities around the world.

Learn more at www.epam.com/epam-continuum and follow us on LinkedIn.

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