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European retailers should get smarter than Amazon about data monetization

Digital advertising represents a huge potential additional revenue stream for retailers. However, most have been slow to explore what it can do for their business. There are several reasons for this, including a lack of a data-centric culture and limited technical resources. However, with new solutions hitting the market, retailers should become more aggressive in reinforcing their ties with brands in order to prevent the major platforms from capturing the end-to-end value chain.

Expert View level: Strategic

Sectors concerned: Retail, wholesale & CPG

Topics covered: Digital CX & IoT; AI & analytics

Priority: ●●○

3 levers to monetize data

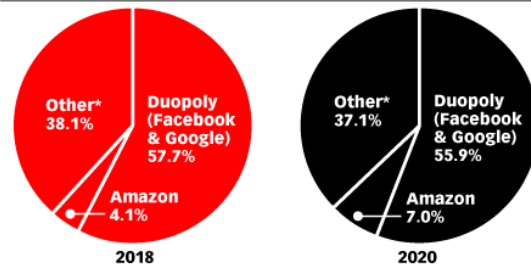
The majority of retailers now understand that data is at the core of their business, and that their future growth and survival depend on how successfully it is leveraged and monetized. There are three clear ways to achieve this:

- Leveraging data for internal projects such as sales optimization (with personalized offerings and coupons), sales prediction, and supply chain optimization (with predictive systems for inventory and replenishment). Most, if not all, retailers are already engaged in such programs.
- Proposing new data-based services, often outside of the traditional business model, for consumers or businesses. Some retailers are already operating banking, insurance, utilities, or travel services, but this remains a largely unexplored area.
- Partnering with brands to create a smarter, targeted advertising platform. This third option has been tested by many large retailers such as Walmart, Target, Carrefour, or Auchan, which have driven it from a dedicated advertising function.

The third option is not being taken as seriously as it should be. In France, one of the top three retailers recently recruited a data analyst to foster a data culture and provide some insights for the advertising business. As a result, traditional retailers are losing further ground to Google and Facebook, the champions of data monetization and advertising, which do a lot of business with major brands.

Amazon on the heels of Google and Facebook

Duopoly vs. Amazon Share of Total US Digital Ad Spending, 2018 & 2020
 % of total digital ad spending



*Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices, and includes all the various formats of advertising on those platforms; net ad revenues after paying traffic acquisition costs (TAC) to partner sites; numbers may not add up to 100% due to rounding; *includes US digital ad spending outside Amazon, Facebook and Google*
 Source: eMarketer, Sep 2018

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www.eMarketer.com

However, Google and Facebook’s domination is being challenged: Amazon is making large inroads into that space. In the US, according to specialist firm eMarketer, Amazon has already outranked both Oath and Microsoft to take the n°3 position behind the duopoly. Its market share should grow from 4.1% in 2018 to 7.0% in 2020.

Amazon benefits from a new consumer behavior; many people now look directly on the Amazon website or app for a specific product instead of using a Web search engine. This has allowed the e-commerce giant to evolve its business model to promote the “pay-to-play” model, encouraging

brands to spend money to be well positioned. This explains why the marketplace attracts more and more advertising investment from the brands and is bound to gain market share in the next couple of years. As a side effect, this push from Amazon has also encouraged Google to extend its shopping system in Europe, allowing people to buy directly from within the search engine rather than sending people off to e-commerce websites: another great reason for brands to spend their money on the Google platform rather than on retailers' websites.

Time for retailers to fight back

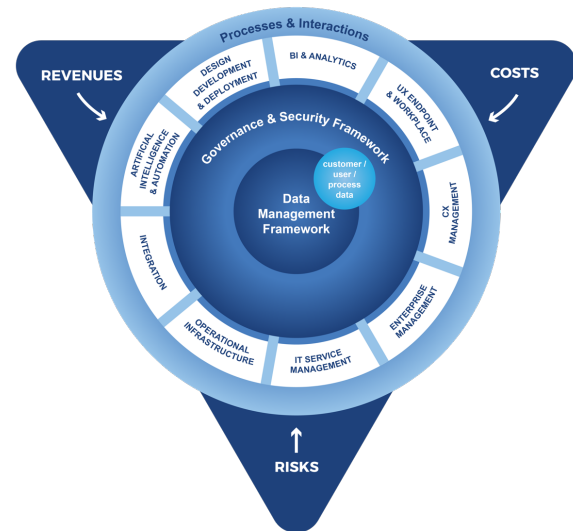
If retailers do not hold their ground or, better still, innovate to attract brands, they will be wiped out by Google, Amazon, and Facebook, which will capture most of the value, leaving them with nothing but crumbs.

Both services and products dedicated to retailers for performance marketing have existed for some time: companies such as Hivewyre, HookLogic, Diablo Media, or Temelio are helping retailers to better harness their data. But still, retailers appear shy about pushing this forward, towards digital advertising. So the question is, are traditional retailers mature enough to react to e-commerce giants and propose an alternative?

French retargeting company Criteo seems to think so: two and a half years after it bought HookLogic (used by Macy's, Target, Walmart, Staples, Best Buy, etc.) for \$250m, and a few months after it acquired Storetail, the digital advertising company recently opened a second business, with a platform dedicated to retailers to help them collaborate with brands and execute retail media campaigns. At teknowlogy, we also believe the time has come for retailers, with three main drivers in action. Firstly, they have gathered tons of data on their customers,

thanks to digital loyalty programs. Secondly, brands are not particularly happy to become so dependent on Google, Facebook, and Amazon, which capture the data and a large part of its value. And lastly, banners on e-commerce websites are becoming more engaging, thanks to new, creative tools able to combine rich media and real-time personalization with direct links to buy products.

Retailers should position themselves as data-based platforms



More generally speaking, retailers should really start considering themselves as data-based platforms – as illustrated by our Business Innovation Architecture (see above). We believe that this configuration is much better suited to provide the best customer experience and to optimize logistics and the supply chain, while opening up new revenue streams coming from data-based services. It is also flexible enough to prepare for the changes lying ahead in the industry.

Conclusion and recommendations

The retail industry is moving very fast. Retailers are multiplying initiatives to adapt to new consumer behavior and counter the growing domination of large platforms. However, the struggle is fierce and Google, Facebook, and Amazon are already several steps ahead in digital marketing and advertising. If these platforms are allowed to progress unchallenged, merchants will become completely dependent. And yet retailers possess the most crucial element – customer knowledge.

We strongly believe that retailers should reconsider their business and start thinking of themselves as data-based platforms. They have started to leverage this data to enhance logistics and optimize sales. It is now time to consider online advertising as a serious business not only in driving new revenue streams, but also preventing their business from being further marginalized by the e-commerce giants.

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