Criteo opens up its advertising platform

MAY 22 2019

By Scott Denne

The company has been expanding beyond its roots in retargeting. Now it has taken its boldest step yet by reorienting its business away from a managed service and into a platform for advertising on the open web. The release of several new products that make Criteo's technology available to advertisers in almost any format they wish to consume it plays on its strengths.

451 Research®

Introduction

For more than a year, Criteo has been expanding beyond its roots in retargeting. Now it has taken its boldest step yet by reorienting its business away from a managed service and into a platform for advertising on the open web. The release of several new products that make the vendor's technology available to advertisers in almost any format they wish to consume it plays on its strengths – an extensive repository of shopper data and the machine learning capabilities to make use of it. Although these changes play to Criteo's technical capabilities, being an open platform is a new twist for the performance advertising firm.

451 TAKE

Criteo is looking to return to growth by developing an array of self-service digital advertising offerings that play to its strength in online retail. In doing so, the company is stepping outside its roots in ad retargeting and positioning itself as a broad platform for the open web. To be successful, Criteo will need advertisers to shift advertising spending away from the internet giants (Facebook, Google and, increasingly, Amazon) in favor of transparency and other benefits of advertising on the open web. For now, the trend is not their friend. Yet, with a focus on retailers – which our surveys suggest are lacking in-house tech expertise and are eager for partners – Criteo has a chance to stand apart.

Context

On the strength of its retargeting products, Criteo generated $2.3bn in revenue last year as it struggled through a series of flat and down quarters. The Paris-based ad-tech firm opened the year with a 3% year-over-year rise in revenue. During that same period, Criteo's products beyond retargeting grew 74% and accounted for nearly 10% of its revenue. In a bid to recapture its earlier growth rates, the vendor brought back its founding CEO, JB Rudelle, to take the top spot last year.
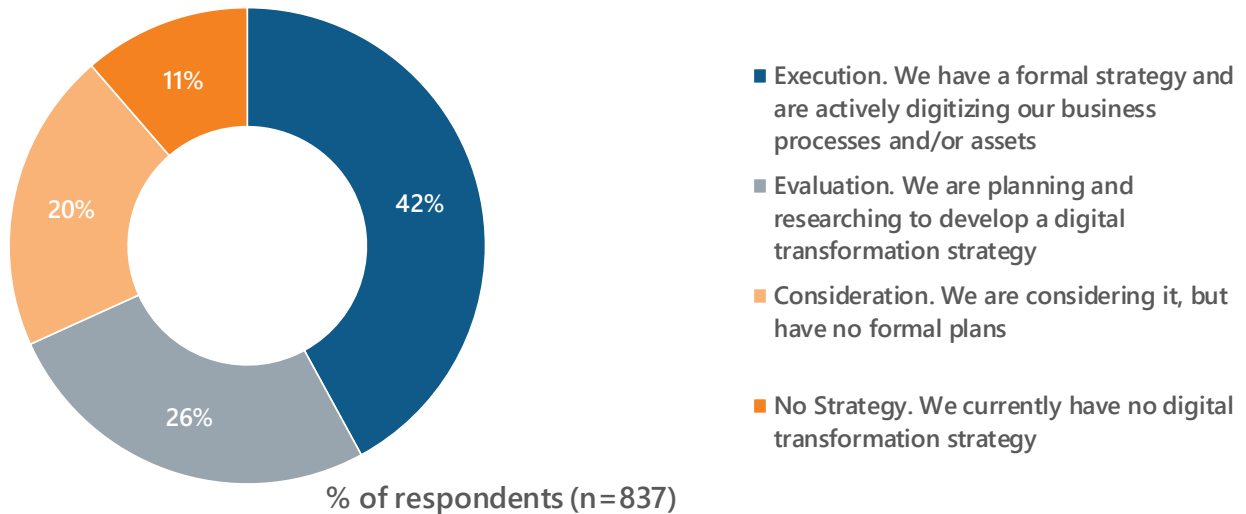
Despite the deceleration, Criteo remains one of the best-known names in ad-tech and one of only two independent businesses in the market to successfully transition into a public company. For most of its life, Criteo provided a cost-per-click (CPC) retargeting service. But as consumer privacy controls, particularly among Apple devices, have grown more sophisticated and advertisers have placed a premium on transparency among vendors, the company's revenue growth has slowed from the 27-33% annual rates it posted from 2015 to 2017.

Strategy

Criteo has embraced the movement toward transparency by making its offerings available on a self-service basis and with a wider variety of pricing strategies, positioning itself to take a larger share of the ad dollars that flow through the open internet (i.e., not on proprietary platforms like Google and Facebook). In building a black-box service, the vendor developed and acquired sophisticated machine learning technology and tested it on a wealth of internet shopping data. For that to give it an edge, however, Criteo will need to dedicate resources to communicate its latest mantra of openness with new and old customers.
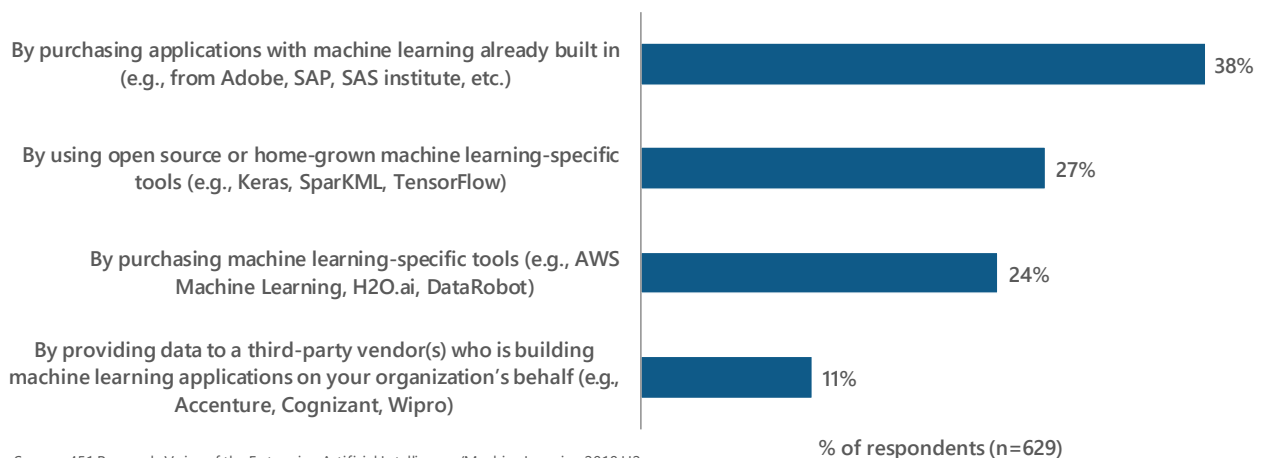
While many ad-tech firms have floundered and flatlined as Google, Facebook and, most recently, Amazon have gobbled up a greater share of advertising budgets, Criteo's focus on e-commerce and retail provides it with applications and expertise in a market that's in need of both, according to our surveys. Despite the existential threat from Amazon, retailers lag other verticals in efforts to digitally transform their businesses. According to 451 Research's Voice of the Enterprise: Digital Pulse, Budgets and Outlook 2019, 32% of retailers are considering developing a digital transformation strategy but have not yet formally begun to research or execute such a move. That's at least 10 percentage points higher than our reading for any other segment, with the exception of government/education.

- **Execution. We have a formal strategy and are actively digitizing our business processes and/or assets**
- **Evaluation. We are planning and researching to develop a digital transformation strategy**
- **Consideration. We are considering it, but have no formal plans**
- **No Strategy. We currently have no digital transformation strategy**

% of respondents (n=837)

of the Enterprise: Digital Pulse, Budgets and Outlook 2018

As players in that industry begin to develop those strategies, they'll likely lean on software specialists like Criteo to help get them there. In a separate survey on machine learning adoption, 451 Research found that the retail industry is more likely than other sectors to turn to software providers for deployment of machine learning. In our Voice of the Enterprise: AI & Machine Learning survey, 52% said that their primary strategy for machine learning was to buy software with those capabilities already built in. Among all respondents, just 38% said that was their primary strategy.

By purchasing applications with machine learning already built in (e.g., from Adobe, SAP, SAS institute, etc.)	38%
By using open source or home-grown machine learning-specific tools (e.g., Keras, SparKML, TensorFlow)	27%
By purchasing machine learning-specific tools (e.g., AWS Machine Learning, H2O.ai, DataRobot)	24%
By providing data to a third-party vendor(s) who is building machine learning applications on your organization's behalf (e.g., Accenture, Cognizant, Wipro)	11%

Source: 451 Research, Voice of the Enterprise: Artificial Intelligence/Machine Learning 2018 H2

% of respondents (n=629)

Products

Criteo offers two categories of products to serve retailers: marketing services and retail media. The former includes products that e-commerce vendors use to acquire, upsell and convert customers. (To be clear, we mean 'e-commerce' in the broadest sense of any organization selling a large number of SKUs online, such as traditional retail, as well as travel). The latter category, retail media, enables e-commerce companies to act as publishers, selling space on their websites and mobile apps for product advertisements. Across both product lines, Criteo seeks to provide advertisers with offerings for all objectives: awareness, consideration and conversion.

The vendor's marketing services consist of four key capabilities:

- Audience generation – This gives Criteo's customers the ability to build audience segments for a campaign around shopping behaviors, similar to existing audience and other custom criteria. It is sold to advertisers as either a managed service or self-serve based on cost per impression or cost per action.

- Shopper graph – The company collects extensive audience data around shopper behavior and device usage. It is available for CRM onboarding, reach extension and measurement. Criteo claims that its data set includes over 1.5 billion matched user IDs, with more than 120 intent signals for each one.

- AI Engine – The vendor's machine learning technology powers product recommendations, predictive bidding (for both first-price and second-price ad auctions) and dynamic creative optimization (for both branding and product ads). It also plans to roll out a creative studio for brand ads.

- Supply connections – Criteo has header-bidding partnerships with 3,500+ publishers. It also connects to 65 global and regional ad exchanges and offers its mobile SDK free of charge.

The company's retail media business combines a SKU-level native ad exchange and SKU-level ad server to give retailers an opportunity to sell ads on their digital properties. It is offered to retailers as both a self-service and managed service platform. Like its media products, those ads address the full purchase cycle (awareness to conversion). Criteo entered the retail media business with the $250m acquisition of Hook Logic in 2016 and added to it with last year's purchase of Storetail, bringing cost-per-impression capabilities into the platform.

Criteo's acquisitions

Date announced	Target	Description	Deal value
October 31, 2018	Manage	Mobile app marketing software	$60m
August 1, 2018	Storetail Marketing Services	Retail media technology	$48m
October 4, 2016	HookLogic	Retail media technology	$250m
February 18, 2015	Datapop	Dynamic creative optimization	$22m
April 10, 2014	AdQuantic	Search engine advertising	$25.9m
February 20, 2014	Tedemis	Email marketing software	$23.3m
July 16, 2013	AD-X Tracking	Mobile ad attribution	$7.2m

Source: 451 Research's M&A KnowledgeBase

Competition

As much of its revenue still comes from retargeting, Criteo competes with other retargeting specialists such as AdRoll and Steelhouse. (Like Criteo, those vendors are also looking for ways to expand beyond display retargeting.) More broadly, almost every buyside ad-tech firm offers some flavor of retargeting. Amazon's advertising is Criteo's main rival for retail media ad dollars. For retail customers, it vies with WPP's Triad Retail Media.

But for Criteo's vision of becoming a platform for the open web, the list of competitors is far more expansive. In trying to pull ad dollars onto the open web, it offers an ideology that contrasts with the closed platforms of Google and Facebook. By providing a broad set of self-service capabilities, Criteo presses into multiple categories. It potentially encounters audience data management platforms such as Adobe Audience Manager and Salesforce Data Management Platform; demand-side platforms like Amobee, MediaMath and Trade Desk; and data suppliers that fuel digital ad campaigns across those two segments.

SWOT Analysis

STRENGTHS

Criteo's legacy of retargeting gives it experience in e-commerce and extensive data on the behavior and interests of online shoppers that will be hard for others to match.

WEAKNESSES

With a legacy as a black-box ad-tech service provider, Criteo doesn't have an established reputation for openness. Building that reputation will take time.

OPPORTUNITIES

Retail and e-commerce vendors must transform their businesses to counter threats from Amazon and adapt to changing consumer behavior. To do so, they will seek help from software firms.

THREATS

Despite advertisers' recent calls for greater transparency from their agencies and ad-tech tools, budgets continue to flow toward closed platforms such as Google and Facebook.