REPORT REPRINT

Criteo opens up its retail media platform

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Introduction

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451 TAKE

With its roots in retargeting, Criteo's been a longtime partner to retailers. Now, with the launch of an open platform for retail media, the company hopes to leverage those relationships to build a large-scale software business that enables retailers to sell ad inventory on e-commerce sites. The chance to increase margins without raising prices will be compelling to retailers – particularly now that the new offering gives them greater control over their inventory. Still, scale matters in advertising, and it will be a challenge for Criteo to continue to accelerate this business as Amazon gorges on much of the available budget in this nascent category.

Context

Criteo first moved into retail media with its acquisition of HookLogic, a provider of sponsored-product ads, back in 2016. Since that time, the offering, expanded organically and via the 2018 purchase of Storetail, has become a pillar of the Paris-based company's move beyond retargeting. Criteo's retailer partners include Best Buy, Costco, CVS, Macy's and Kohl's. Its retail media offering attracts advertisers in consumer-packaged goods, and increasingly, electronics and apparel make up a rising amount of its sales.

Criteo doesn't break out the exact size of its retail media business, yet an estimate can be made based on hints the company has dropped. In the first quarter, the unit expanded its top line by 41% from the same period a year earlier – an acceleration from 2019, when it grew 20-30%. Retail sits in what Criteo calls its 'new solutions,' which brought in $65m in sales last quarter. It's a safe bet that most of that revenue came via retail media.

Overall, Criteo shrank in the last quarter, to $503m in revenue from $558m a year earlier. The expected and continued decline of its retargeting business was a factor, as was the sudden and widespread drop in digital advertising on the heels of COVID-19.

Products

Prior to this announcement, Criteo operated its retail media business – which enables advertisers to purchase sponsored-product and display ads on retailers' online properties – with an ad-network model, where Criteo acted as a middleman between retailers and advertisers.

Although that managed service remains available, the new software platform enables advertisers to choose which retailers to include in their campaigns. The launch of its new platform gives brands, advertisers and agencies more flexible controls over campaigns and inventory. It also makes both ad formats (sponsored products and display) available in the same place.

Through the self-service platform, brands have more transparency and control over where their dollars are being spent. Retailers gain more controls for which brands are spending on their sites. Other new capabilities include:

- Detailed campaign performance reporting
- Account permission based on role
- Portfolio-level visibility
- Optimization of ad bids around clicks or sales
- Adjustable attribution settings

Strategy

Criteo has long positioned itself as the open-web advertising alternative to the closed ecosystems of Facebook and Google. Opening up its retail media business is a necessary step in this positioning. But the move has many potential benefits besides lining up retail media with Criteo's stated strategy.

The new platform enables Criteo to build an open ecosystem for retail media, potentially adding new sources of demand that would like to buy inventory from retailers and leverage Criteo's Shopper Graph – a proprietary set of purchase-intent data that's drawn from Criteo's relationships with retailers. An open platform also enables Criteo to work with service providers that are helping retailers build media practices.

Competition

Criteo's most direct competitor in retail media (and across its business) is Google. Although Google doesn't appear to have a dedicated retail media product, its Ads Manager is commonly used by retailers looking to build their own media business.

The competitive set scales down rapidly from there. Microsoft acquired a similar offering, PromoteIQ, a company that was doing less than $10m in revenue at the time (subscribers to 451 Research's M&A KnowledgeBase can see our proprietary estimate of the terms of that deal here). It also competes with CitrusAd and Mabaya, retail media platforms that mostly operate internationally, and are similarly sized as PromoteIQ.

Amazon has been the largest beneficiary of the sudden expansion of retail media, with an advertising business that's gone from zero to $10bn in just a few years. The sheer scale of its audience and inventory will likely make it the first stop for most brand advertisers looking to enter retail media. Although Amazon doesn't offer a platform that competes directly with Criteo, any advertising dollars spent there aren't flowing to Criteo.

In the future that could change, if, for example, Amazon were to use Criteo's platform to extend campaigns beyond its own site. To be clear, this is a hypothetical and not part of Criteo's stated strategy, but it shows that the line between competitor and potential partner is ill-defined in this emerging market.

SWOT Analysis

STRENGTHS Thanks to its roots in retargeting and, more recently, its header-bidding technology, Criteo has many partnerships with retailers to help grow its retail media inventory.	**WEAKNESSES** As a longtime provider of a retargeting service, Criteo has little experience running or selling ad management software.
OPPORTUNITIES Retailers are eager for ways to improve their margins as they continue to fend off Amazon. Retail media gives them a way to expand margins without raising prices.	**THREATS** The sheer scale of Amazon's audience and inventory will likely make it the first stop for most brand advertisers looking to enter retail media.