



The Evolution of Commerce Media in Europe

Mat Broughton
Senior Editor, ExchangeWire

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Contents

Executive summary	2
Key definitions	3
Key findings	4
Methodology	5
Commerce media revenue	6
Change in commerce media revenue in next 12 months.	9
Drivers and barriers to commerce media investment	11
• Drivers for commerce media investment	12
• Barriers against commerce media investment	15
• Concerns with granting advertisers access to customers	18
Retailer attitudes to third-party commerce media technology providers	20
• Openness to partnering with third-party technology providers for commerce media efforts.	21
• Factors for third-party selection	23
• Looking to the future	24
Acknowledgements	27
About PubMatic	27
About ExchangeWire	27

Executive summary

Commerce media has undoubtedly been one of the most eagerly-discussed emerging sectors in the advertising industry over the course of last year. Global and local brands are keenly exploring how to advertise through the channel, given that it offers marketers a method of meaningfully demonstrating return on investment (ROI), thus fulfilling the “closing of the loop” between media spend and actual sales data, which has become particularly prevalent against the backdrop of identifier deprecation across display and mobile environments.

While much has been made of these opportunities for marketers in commerce media, there have been fewer investigations examining attitudes to commerce media from the perspective of retailers and commerce media platforms, and how their investment in the sector is set to evolve accordingly. To that end, ExchangeWire has produced this Insights & Attitudes report, in association with PubMatic, to ascertain how sellers of goods and services within Europe are interacting with commerce media, the core drivers and barriers to increasing commerce media investment, and how retailers are working with technology partners to capitalise on opportunities within the sector. As detailed within this study, commerce media in Europe is thriving. Almost all (99%) retailers are either increasing or maintaining their commerce media investment in 2023, as they are embracing the channel as a method for expanding their owned media properties. The majority are also open to working with third-party technology providers to help them to fulfil these ambitions, with cost savings and enhancements in data activation cited as the key factors behind partner selection.

“In Europe, we know that domestic retailers are often growing faster than Amazon. We’re going to see category leaders emerge, we’re going to see national champions emerge. The diversity of the commerce media landscape in Europe means a lot of companies can win in this space.” — Babs Kehinde, Senior Director, Commerce Media at PubMatic.

Overall, these findings are highly bullish for the commerce media industry within Europe. The theoretical advantages that the medium offers are being actively explored by retailers across multiple verticals and within all surveyed markets as they seek to bolster profitability in uncertain economic conditions. This in turn will open up further opportunities across the buy side of the advertising supply chain, promoting the overall health of the digital advertising industry. Going forward, it is critical for marketers and retailers to work together, in collaboration with their technology partners, to ensure these opportunities are realised.

Key definitions

Commerce media: Commerce media is defined as advertising sold within digital properties in which products or services are also sold. This typically comprises retailer websites and apps, or online marketplaces, though it can also include on-site digital displays such as store entrance screens and in-store signage. Commerce media also comprises off-site campaigns run by retailers using their shopper data on behalf of third-party brands that have their products listed on the retailer's page or app.

Commerce media company: A commerce media company is any company that sells goods or services to customers, that has a view on the transaction data, and that makes those users available for targeting by advertisers onsite and/or offsite.

Retailer: An individual or company that sells goods and/or services to the public in physical stores (*physical retailer*), via the internet (*e-commerce retailer*), or both in-store and via the internet (*hybrid retailer*). For brevity, the term *retailer* is used interchangeably in this report with *commerce media company* (see above) – for a full breakdown of surveyed retailer verticals, please see “*Methodology*” below.



Key findings

80%

of European retailers are open to working with third-party providers for their commerce media efforts

67%

of retailers in Europe are increasing their commerce media investments

The overwhelming majority (99%) of European retailers that currently generate revenue from digital advertising are in-part gathering this via commerce media activity.

- Most retailers in Europe are either increasing their commerce media investments (67%) or maintaining current levels (24%) over the coming year.
- Direct media selling is set to be used by all surveyed European retailers for their commerce media efforts, while programmatic is also being embraced by retailers across the region on both programmatic direct and real-time bidding (RTB) bases.

Retailers are seeing commerce media as a way of enhancing their own media properties, with the expansion of owned advertising channels, provision of better targeting and personalisation of ads, and bolstering brand safety in commerce media channels, the joint-most cited drivers by European retailers.

Unsurprisingly in the current economic climate, concerns over the cost of the technology needed to be implemented and hiring people with the correct skill set were identified as the main barriers to commerce media investment across Europe.

- Concerns around user data are the primary cause of worry for commerce media companies when granting advertisers access to their customers, with over half of all surveyed firms indicating that they were concerned with issues surrounding their customers' data.

The overwhelming majority (80%) of European retailers are open to working with third-party providers for their commerce media efforts, with 20% of those surveyed stating that they are already working with partners.

- With cost cited by European retailers as a predominant barrier for commerce media investment as a whole, it was perhaps unsurprising that the cost of partnering with third-party technology providers was cited as a key influencing factor behind partner selection. This was closely followed by data activation, indicating that retailers are looking to maximise the value of their first-party data assets.

Methodology

The original quantitative findings in this Insights & Attitudes report were derived from a survey of 112 commerce media company professionals in Europe. The surveyed markets were France (FR); Germany (DE); Spain (ES); and the United Kingdom (UK).



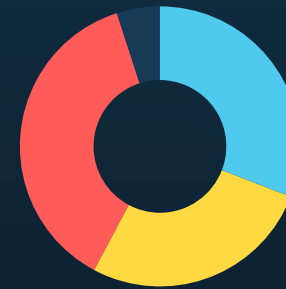
Commerce media company type:

- 32% E-COMMERCE
- 29% PHYSICAL
- 39% HYBRID (E-COMMERCE AND IN-STORE OPERATIONS)



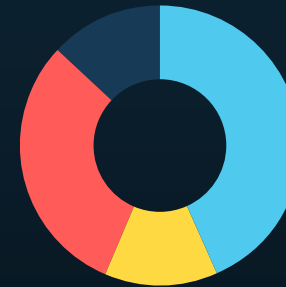
Company revenue:

- 31% SMALL (REVENUE <£5M)
- 27% MEDIUM (REVENUE £5M-£50M)
- 37% LARGE (REVENUE >£50M)
- 5% UNDISCLOSED



Respondent seniority:

- 44% HEAD OF BUSINESS AND C-LEVEL
- 12% SVP/VP/GM
- 31% ADVERTISING/SALES DIRECTOR
- 13% HEAD OF TECHNOLOGY



Commerce media company vertical

- 7% AUTOMOTIVE
- 4% CPG
- 15% ELECTRONICS
- 4% FASHION, APPAREL, AND JEWELLERY
- 3% FURNITURE AND HOMEWARE
- 10% GROCERY
- 3% HARDWARE
- 4% PHARMACEUTICAL
- 35% RETAIL
- 11% SERVICES
- 5% SPORTS GOODS

Commerce media revenue

The overwhelming majority (99%) of European retailers that currently generate revenue from digital advertising are gathering this in part through commerce media activity, with approximately 16% of those surveyed generating more than 60% of their advertising revenue via commerce media. Moreover, where retailers are not currently running digital advertising on their properties, over two-thirds (69%) are planning on leveraging commerce media for monetisation in the future.

Figure 1: Percentage of advertising revenue attributable to commerce media

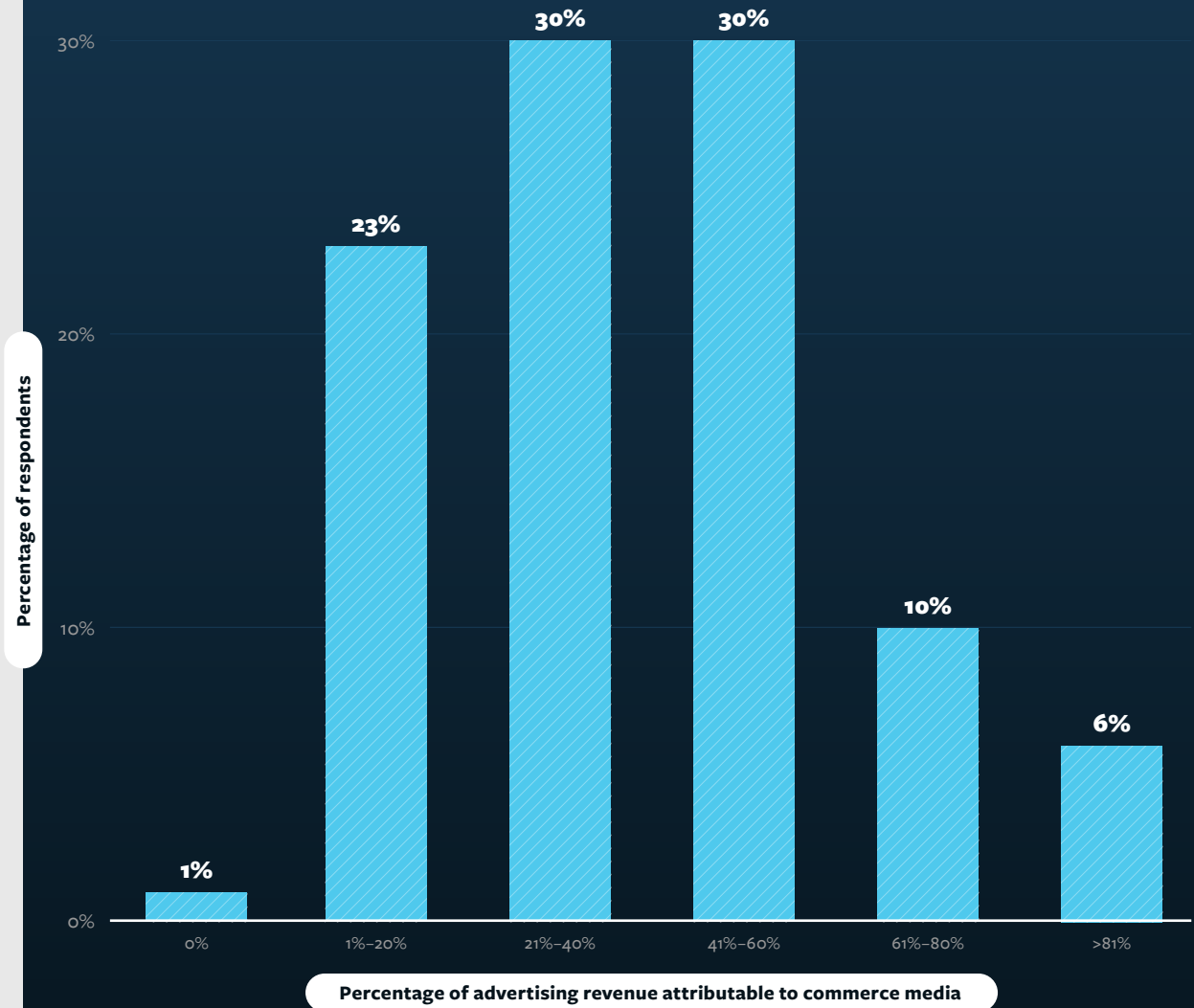
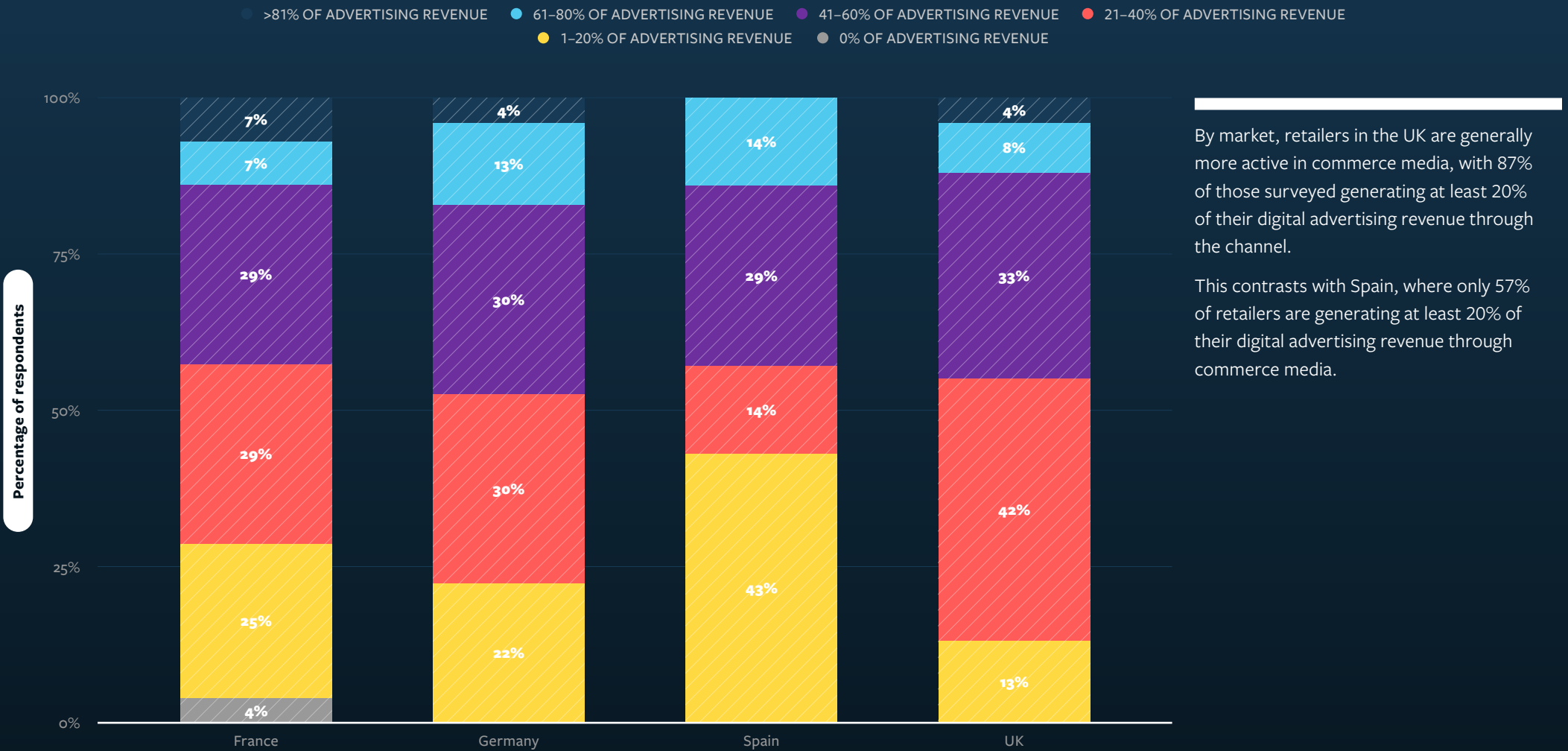


Figure 2: Percentage of advertising revenue attributable to commerce media — by country



By market, retailers in the UK are generally more active in commerce media, with 87% of those surveyed generating at least 20% of their digital advertising revenue through the channel.

This contrasts with Spain, where only 57% of retailers are generating at least 20% of their digital advertising revenue through commerce media.

While direct media selling is set to be used by all surveyed European retailers for their commerce media efforts, programmatic is also being embraced by retailers across the region on both programmatic direct and real-time bidding (RTB) bases. While a minority (10%) are eschewing selling inventory via RTB, a larger proportion (11%) aim to generate 61%-80% of their commerce media revenue on the RTB marketplace.



10%

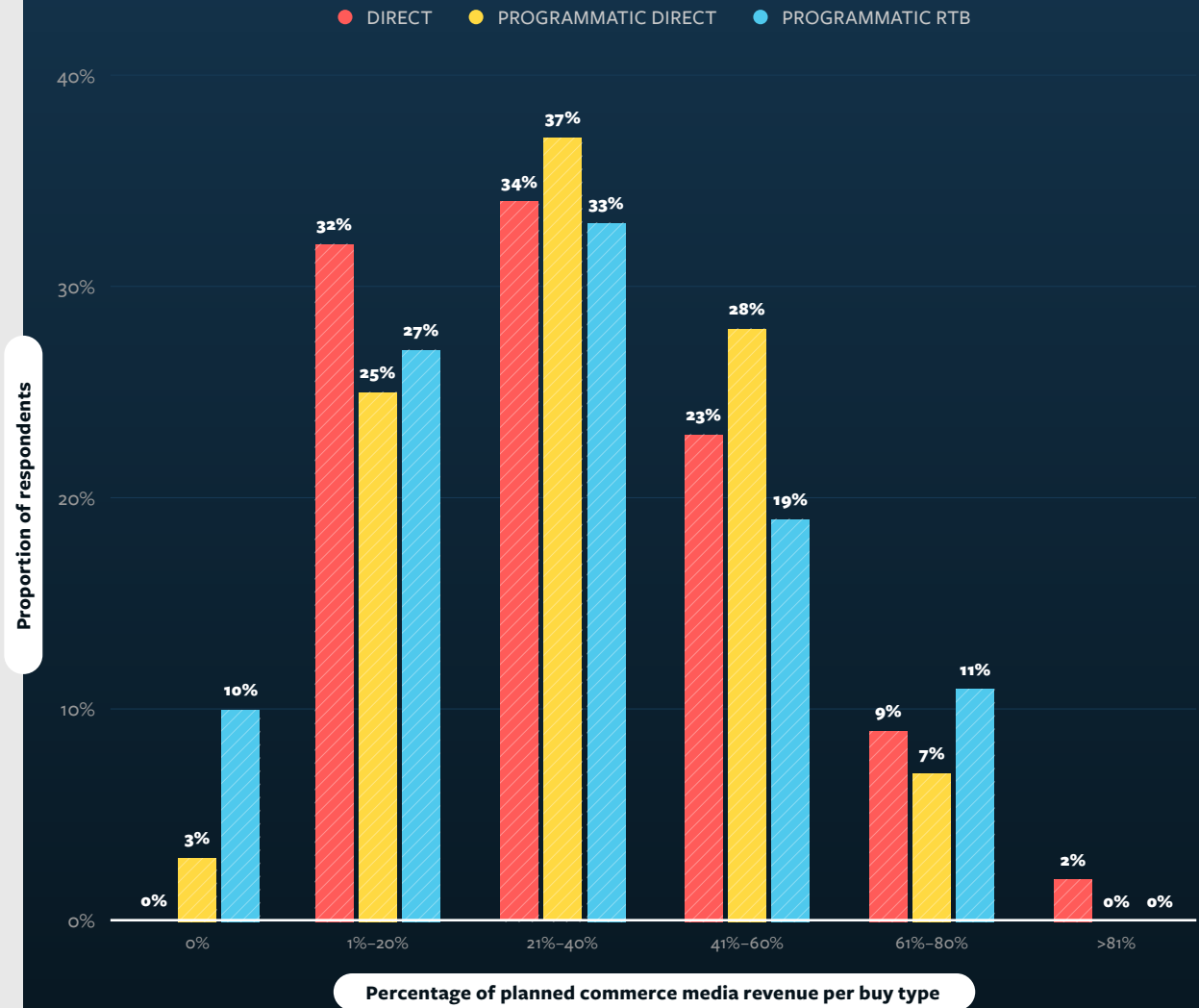
of European retailers are avoiding selling inventory via RTB



11%

of European retailers are generating 61%–81% of their commerce media revenue via RTB

Figure 3: Percentage of planned commerce media revenue per buy type



Change in commerce media revenue in next 12 months

The majority of retailers within Europe are either increasing their commerce media investments (67%) or maintaining current levels (24%) over the coming year. Only 9% of those surveyed suggested they were looking to decrease commerce media investment over the course of 2023.

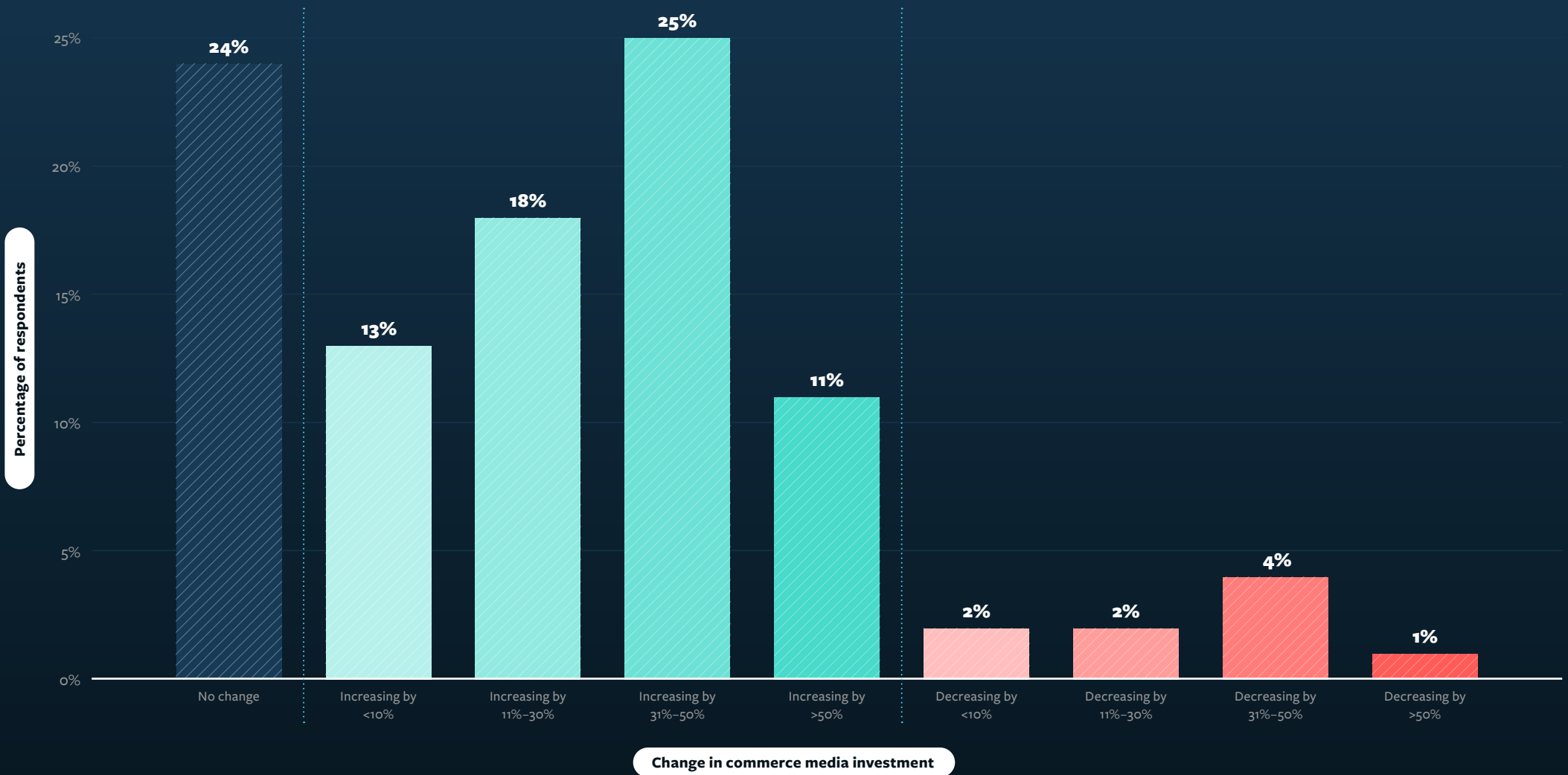
76%

of large retailers (revenue greater than £50m) are likely to increase commerce media investment in the next year

This trend of the majority of retailers increasing their investments in commerce media was observed in all surveyed markets, with Germany commanding the largest proportion of commerce media companies aiming to increase their spend through 2023, at 76% of surveyed respondents. While 15% of retailers within France are aiming to reduce their commerce media investment in the next 12 months, the market was also the most aggressive in terms of increasing commerce media investment: 18% of respondents stated that they aimed to increase their commerce media investment by at least 50%.

Likewise, the majority of retailers are looking to increase commerce media investment through 2023, irrespective of company size. While large retailers (revenue greater than £50m) are most likely to increase commerce media investment in the next year (76%), medium-sized businesses (revenue between £5m and £50m) are most aggressive in their commerce media investment increase, with 50% of these retailers increasing their commerce media investment by 30% or more.

Figure 4: Change in commerce media investment in next 12 months



Drivers and barriers to commerce media investment

Drivers for commerce media investment

A wide variety of factors were cited by retailers as being key drivers towards increasing their commerce media investment, indicating that the channel is not simply being viewed as an alternative to channels facing stricter privacy controls. Most prevalently, retailers are seeing commerce media as a way of enhancing their own media properties, with expanding owned advertising channels, providing better targeting and personalisation of ads, and the minimal concerns around brand safety in commerce media channels the joint-most cited drivers (32%) by European retailers.

ROUND-NECK T-SHIRT

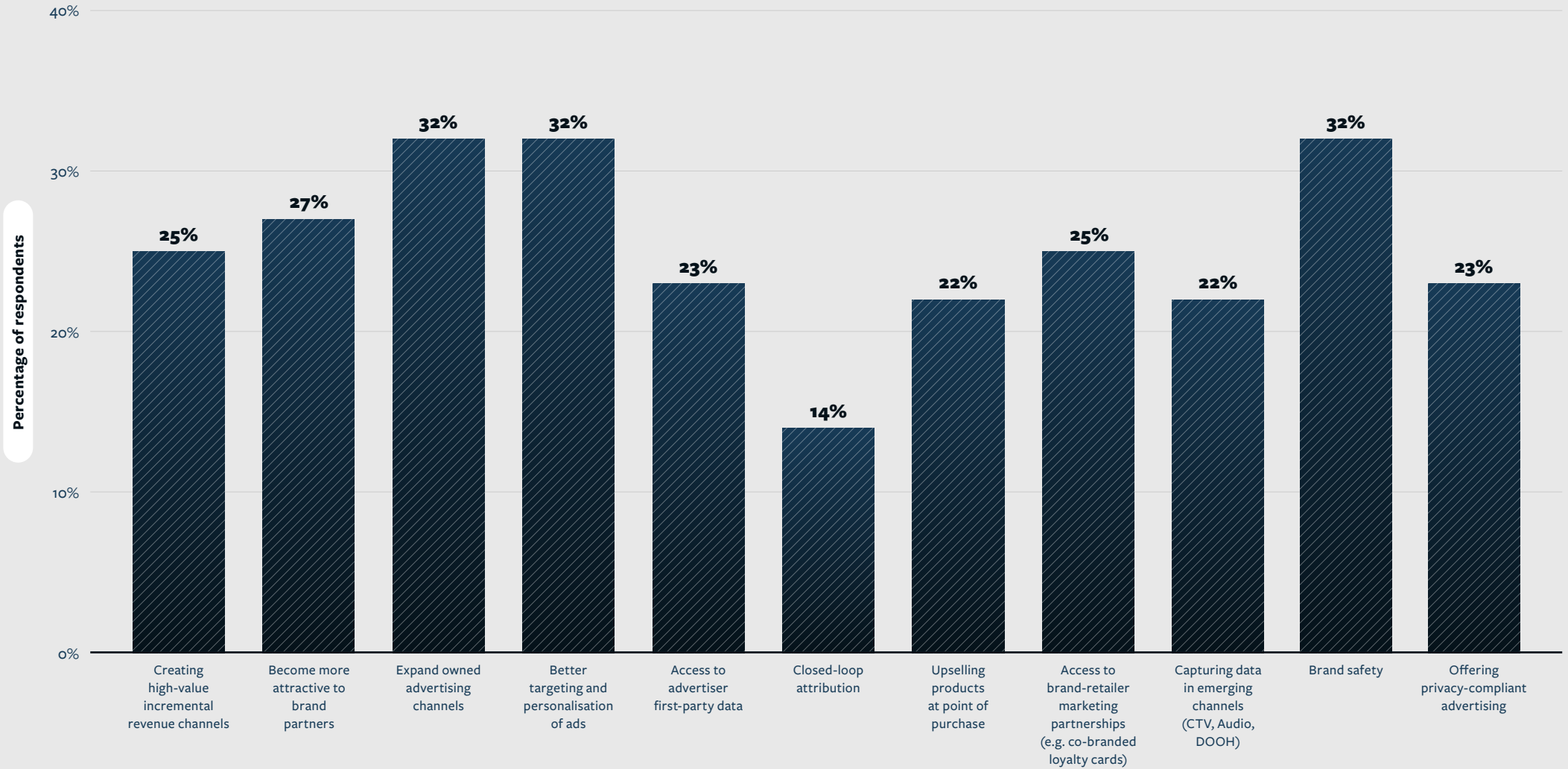
\$49 ~~\$10~~



32%

of European retailers highlighted expanding owned advertising channels, better targeting and personalisation of ads, or minimal concerns around brand safety in commerce media channels as key drivers for commerce media investment

Figure 5: Drivers for commerce media investment



There were again dramatic differences in key drivers for increased commerce media investment across the surveyed European markets. While expansion of owned operating channels was cited as a key driver across Europe in general, most heavily in Spain (48% of respondents), this was not as important a factor for respondents in the UK, with only 14% of respondents citing it.

Similarly, though offering privacy compliant advertising was the equal-most important driver for commerce media investment in France (36%), this was a minor factor for UK respondents, with just 3% of respondents identifying this as a key motive. This can also be observed with attractiveness to brand partners, something which was identified as a key driver by 36% of respondents in France, but only by 16% of respondents in Germany. Finally, capturing data from emerging channels was significantly more important to respondents in France (33%) and Germany (32%) than their counterparts within Spain (8%) and the UK (10%).



48%

of respondents in Spain cited expansion of owned channels as a key driver for increased commerce media investment



14%

of UK respondents pointed to expansion of owned channels as a key factor for increasing commerce media investment

Figure 6: European retailer drivers towards increasing commerce media investment — by market

Driver	● France	● Germany	● Spain	● UK
Creating high-value incremental revenue channels	30%	24%	24%	21%
Become more attractive to brand partners	36%	16%	24%	28%
Expand owned advertising channels	30%	40%	48%	14%
Better targeting and personalisation of ads	24%	36%	28%	38%
Access to advertiser first-party data	33%	28%	20%	10%
Closed-loop attribution	12%	20%	12%	14%
Upselling products at point of purchase	27%	16%	24%	17%
Access to brand-retailer marketing partnerships (e.g. co-branded loyalty cards)	30%	24%	20%	24%
Capturing data in emerging channels (CTV, Audio, DOOH)	33%	32%	8%	10%
Brand safety	36%	24%	32%	34%
Offering privacy-compliant advertising	36%	20%	32%	3%

There were also marked differences in motivations for increased commerce media investment according to company size. For small retailers (revenue <£5m), brand safety advantages (44%) and better targeting of advertisements (41%) were cited as the key drivers, while for scaled retailers (revenue >£50m), expansion of owned advertising channels was cited as the predominant factor driving commerce media investment (32%). Meanwhile, for medium-sized retailers falling between these revenue ranges, access to brand-retailer marketing partnerships was the leading driver (43%), closely followed by opportunities to create high-value incremental revenue channels (40%).

Barriers against commerce media investment

Similarly to drivers for increasing commerce media investment, a wide variety of barriers to expanding commerce media budgets were also identified by European retailers.

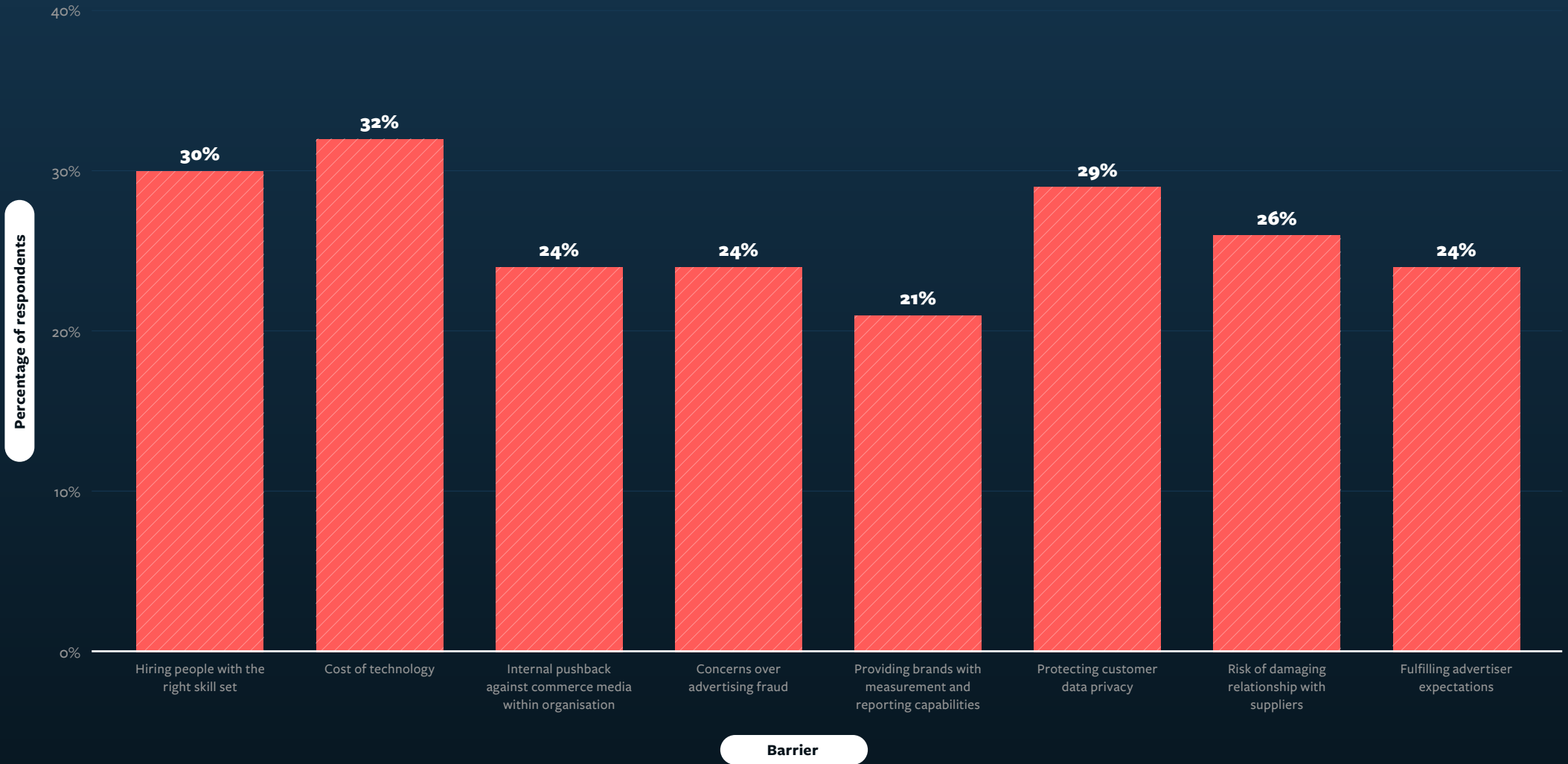
Unsurprisingly in the current economic climate, concerns over the cost of the technology needed to be implemented and hiring people with the correct skill set were identified as the main barriers across Europe in general, at 32% and 30% of respondents respectively. Given the prevalent level of concern around granting advertisers access to user data (see “Concerns with granting advertisers access to customers”), protecting customer data privacy was also unsurprisingly cited as a key barrier (29%) to commerce media investment.



29%

of surveyed retailers cited protecting customer data privacy as a key barrier to commerce media investment

Figure 7: Retailer barriers to commerce media investment



While there were substantial differences in drivers for commerce media investment according to company size, there was remarkable consistency in barriers to commerce media investment by revenue. Cost of technology and protecting customer data privacy were cited as the most important barriers to commerce media investment for each revenue grouping.

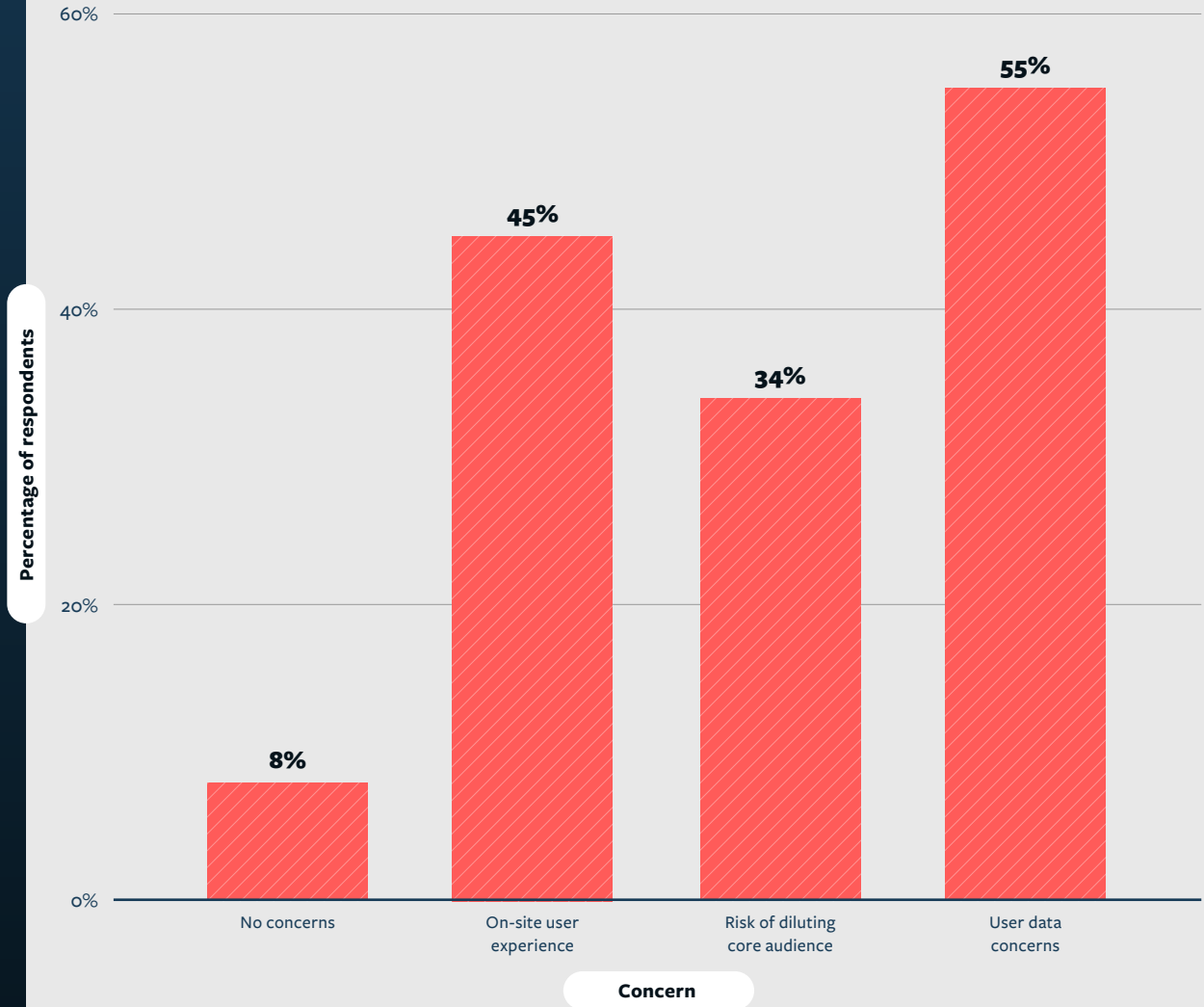
Figure 8: European retailer drivers towards increasing commerce media investment — by market

Barrier	● France	● Germany	● Spain	● UK
Hiring people with the right skill set	39%	40%	16%	21%
Cost of technology	24%	40%	44%	24%
Internal pushback against commerce media within organisation	24%	28%	24%	21%
Concerns over advertising fraud	36%	28%	20%	10%
Providing brands with measurement and reporting capabilities	21%	32%	16%	14%
Protecting customer data privacy	36%	24%	28%	24%
Risk of damaging relationship with suppliers	27%	40%	16%	21%
Fulfilling advertiser expectations	21%	16%	20%	38%

Concerns with granting advertisers access to customers

Concerns around user data are the primary cause of worry for commerce media companies when granting advertisers access to their customers, with over half of all surveyed respondents indicating that they were concerned with issues surrounding their customers' data. However, many also express concerns regarding on-site user experience (45%) and risks of diluting core audience (34%), indicating that the advertising industry needs to adopt a multifaceted approach to encourage retailers to invest in commerce media.

Figure 9: Concerns with granting advertisers access to users — Europe





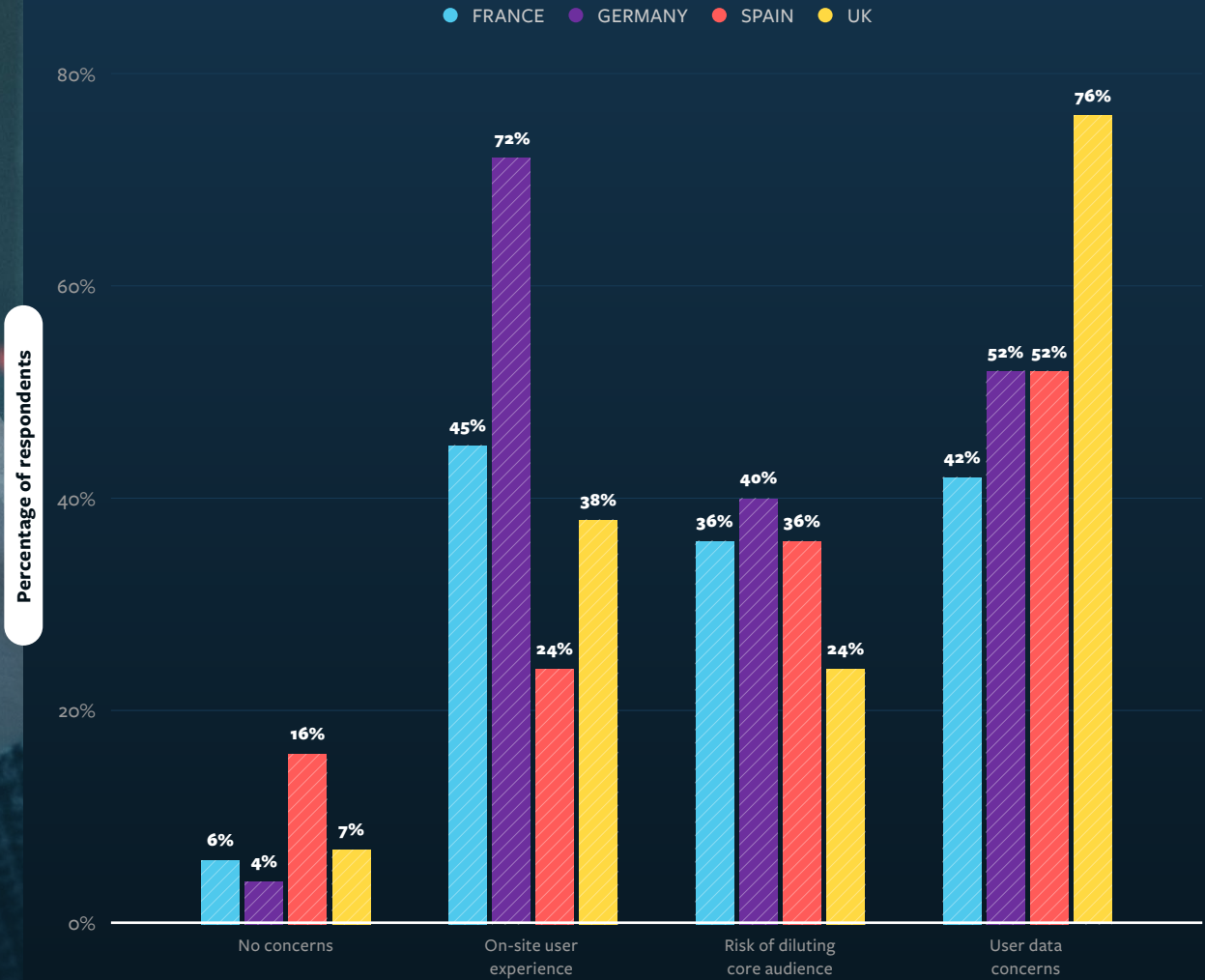
76%

of UK retailers expressed concerns over user data

72%

of surveyed retailers in Germany were significantly more concerned with on-site user experience

Figure 10: Concerns with granting advertisers access to users — by country



Retailer attitudes to third-party commerce media technology providers



Openness to partnering with third-party technology providers for commerce media efforts

The overwhelming majority (80%) of European retailers are open to working with third-party technology providers for their commerce media efforts, with 20% of those surveyed stating that they are already working with such partners.

This interest in partnering with third parties on commerce media was consistently held across markets. Respondents in France were more confident to work with third parties, with 27% compared to their counterparts' 16% (DE and ES) and 17% (UK). France also saw the lowest proportion of surveyed retailers already working with third-party providers for commerce media efforts (9%), contrasting with the United Kingdom, where 31% of retailers stated that they are already partnered with third-party providers for their commerce media initiatives.

Figure 11: Retailer openness to working with third-party technology providers for commerce media efforts — by company size

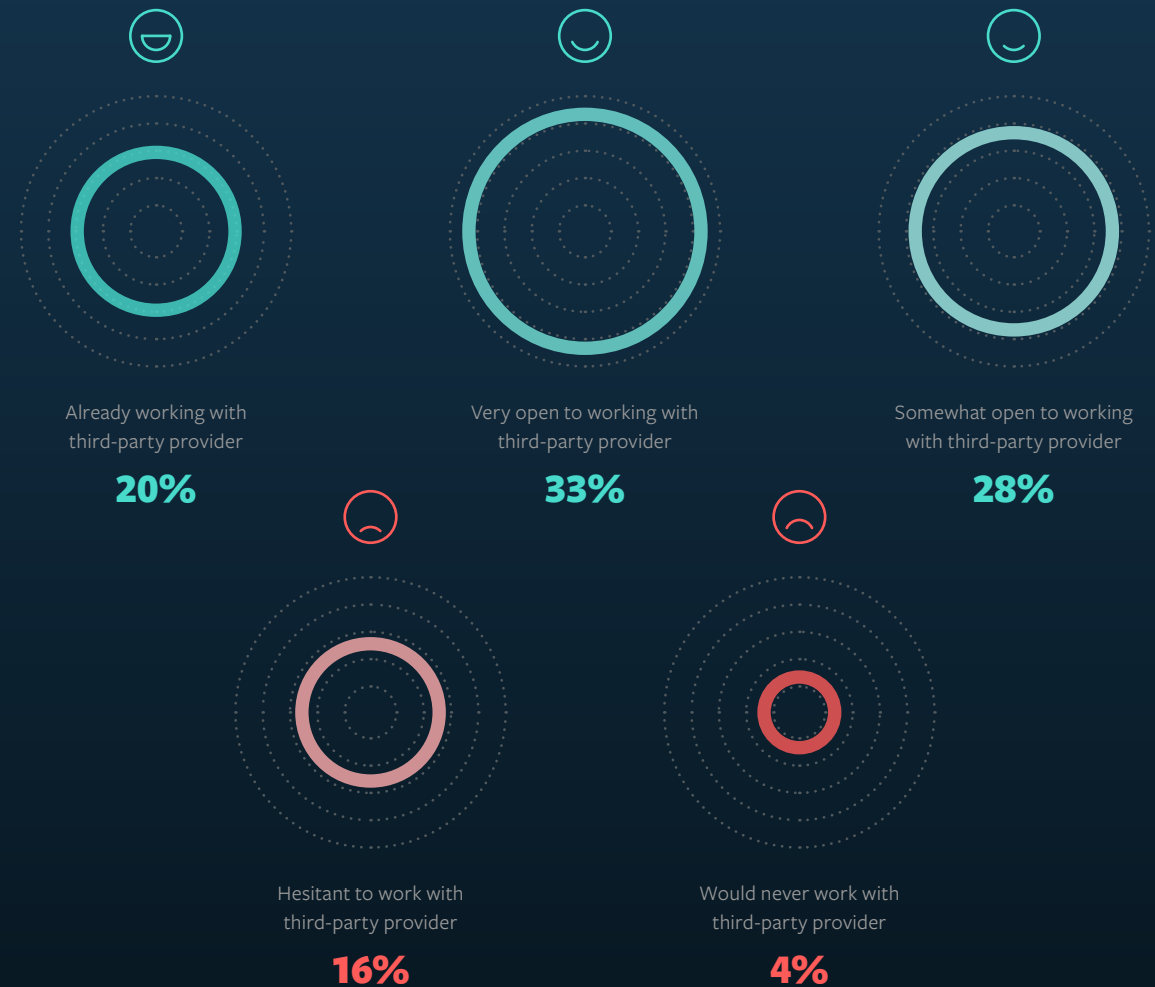
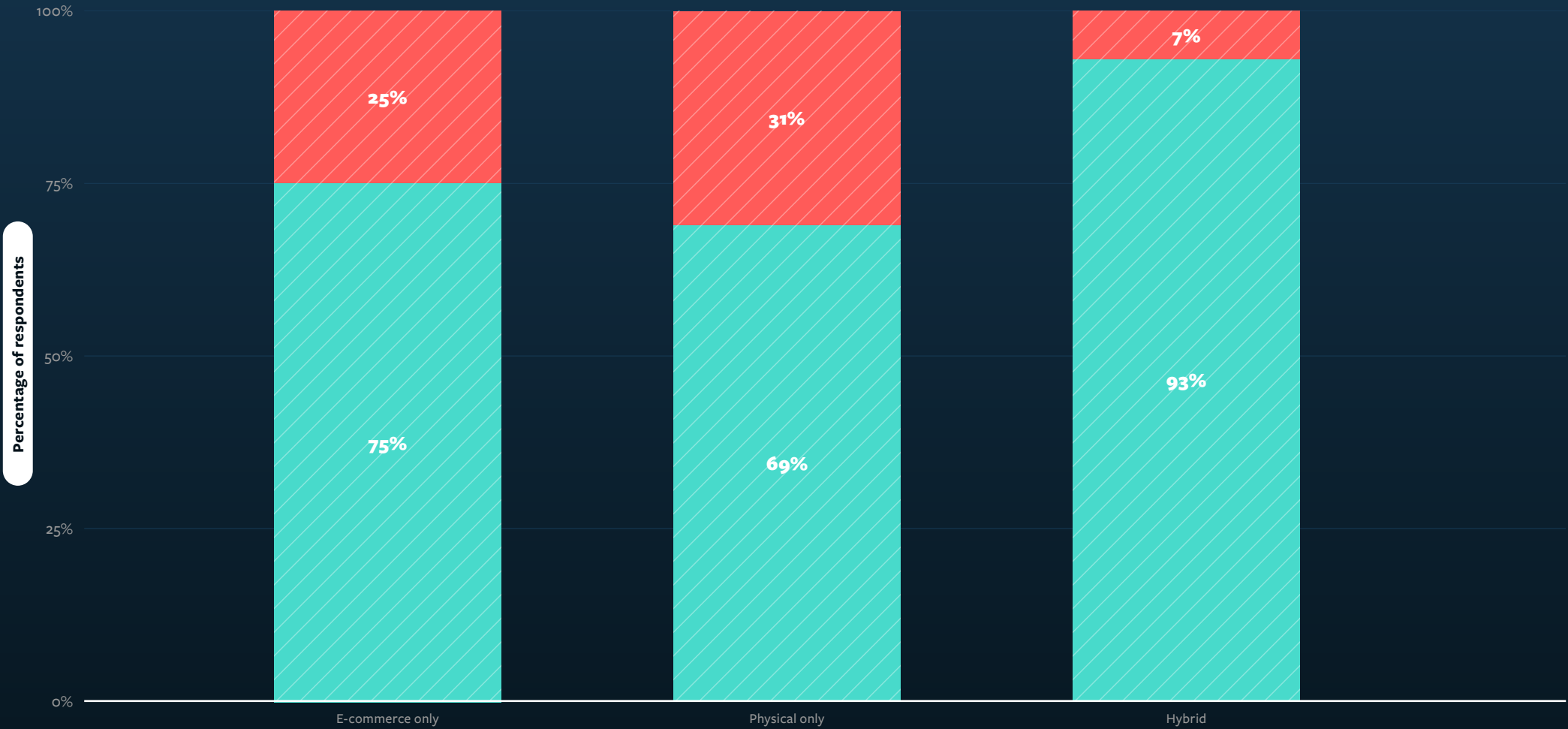


Figure 12: Retailer openness to working with third-party technology providers for commerce media efforts — by retailer type

● NOT OPEN TO WORKING WITH THIRD-PARTY TECHNOLOGY PROVIDER ● OPEN TO WORKING WITH THIRD-PARTY TECHNOLOGY PROVIDER



Factors for third-party selection

With cost cited by European retailers as a predominant barrier to commerce media investment as a whole, it was perhaps unsurprising that the cost of partnering with third-party technology providers was cited as a key influencing factor behind partner selection, with an average score of 3.82 out of a maximum of 6.

This was closely followed by data activation (3.72), indicating that retailers are looking to maximise the value of their first-party data assets. Refining this further via the Net Promoter Score (NPS) metric, the only factors recorded as being actively promoted by European retailers as key factors for partner selection were cost and data activation.

However, other factors were also deemed important depending upon individual market and retailer size. Performance KPIs were deemed important among respondents in France and Germany, while access to demand partners (specifically agencies and brand advertisers) was deemed more critical in Spain and the United Kingdom.

Cost was significantly more important (NPS: 23) for small retailers with less than £5m in yearly revenue, compared to large retailers with revenues totalling more than £50m (NPS: 3). For medium-sized retailers within this range, meanwhile, cost was the sole important factor for selecting third-party technology providers, with a NPS of 39. Data activation and access to demand partners were both deemed important factors by large and small retailers, while small retailers also valued performance KPIs.

Looking to the future

This study has found that there is much to be positive about in the European commerce media sector. Across the markets studied here, momentum has picked up significantly in recent years, and these results highlight that this growth is set to continue, and perhaps even increase, through 2023.

Commerce media has evolved from an abstract medium to one that is being actively developed by both the buy and sell sides. However, even with this strong growth, the pace of market development currently lags behind the opportunity. In making these recommendations, we recognise that many businesses are getting key aspects right. However, participants conceded that commerce media within Europe is not yet perfect, and the recommendations below are informed by the findings of this study.



1. Clarify definitions

Definitions need to be simplified for buyers and sellers. Even within markets, there's no common language when it comes to commerce media advertising and confusion abounds — some people call it 'retail media' and some 'commerce media'.



2. Meet demands for the next generation of advertisers

Adapting to the requirements of the next generation of media buyers will be key to future success. Much like retailers, agencies themselves have been undergoing digital transformation for many years now and we're seeing a new generation of leaders coming through the ranks who are 'programmatic-first', which we believe will lead to an even more rapid acceleration of automated, data-driven trading in the coming years. Everyone on the sell side should not just have plans in place, but have established teams and practices ready to meet that demand as it evolves.



3. Embrace first-party data

The future commerce media solutions are powered by first-party data. Compared with the targeting capabilities offered by third-party cookies, that's a step change in terms of efficiency and effectiveness. Instead of targeting potential customers based on a limited view of past behaviours and trying to nudge them towards a purchase on an unrelated site, brands will have the opportunity to build audiences based on rich data and proactively engage them at a time that they're already looking to buy. Technology and data will continue to empower brands to think less about the role of commerce media networks as a bottom-of-funnel investment and more about the role of retailers across the entire marketing funnel. However, as demonstrated in this study, sell-side concerns over marketer data use remain, therefore advertisers and their technology partners must be proactive in working with retailers to alleviate these concerns.



4. Increase responsiveness

Put simply, ad tech can speed up ad trading. More than that, the ability to activate, optimise, report, and adjust campaigns rapidly allows ad buyers to change their creative messaging or spending commitments very quickly. Proactively tackling challenges arising from emerging formats according to commerce media player requirements — around identity, context, campaign planning, and outcomes — and ensuring that buyers can transact with assurance and drive performance is top of mind for everyone in ad tech. Around the world, technology platforms are working to align and simplify access, thereby making it easier to buy and sell inventory across multiple channels. This exciting evolution will ensure all parties are able to reap the benefits of retail media.



5. Foster closer, customisable advertiser-retailer relationships

While there are overarching trends for commerce media across Europe, there are significant differences across markets and retailer type/vertical, particularly in terms of the core drivers and concerns regarding further commerce media investment. It is clear that there is no “one size fits all” model for commerce media, especially in a region as diverse as Europe. This fragmentation may prove daunting, however it represents an extraordinary opportunity compared to more monoculture digital ad environments, such as search. Brand marketers and their agency partners must therefore work closely with commerce media sellers to identify their precise aims from their inventory, and ensure their specific concerns are addressed. Technology partners can form a critical role here, lowering the barrier to entry for advertisers and commerce media companies that are concerned by this level of fragmentation, by offering customisable solutions optimised according to the mutual priorities of both buyer and seller.



6. Avoid the pitfalls of the network model

Any business with a direct line to rich first-party data — from travel brands and telcos to rideshare and delivery services — has an opportunity to deliver highly relevant ad experiences in the context of consumer touchpoints. Some will develop these capabilities internally, while most will do so via partnerships of various shapes.

Much of this value is currently being built around a network model, which poses a number of pitfalls that must be navigated. The word itself — “network” — harkens back to 2004, when digital advertising was exploding in size and scope. That model has evolved into the mature programmatic space we now have, but the path to today’s premium programmatic offerings wasn’t an easy one. If commerce media wants to save itself a lot of growing pains, it should start by avoiding these pitfalls:

- **Lack of transparency:**
Tapping into the network model at play during the early days of programmatic meant giving up a lot of control and visibility in terms of where ads were running and how each ad dollar was being divvied up. For both commerce media sellers and buyers today, such opacity should be completely unacceptable.
- **Restricted revenue:**
In the early days of programmatic, ad tech represented a high-margin business — at the expense of publisher margins. Today, the balance has rightfully shifted back, with tech margins coming down as the programmatic channels have scaled. But we’re already seeing this pattern repeat within the commerce media space, with certain partners demanding the lion’s share of each dollar spent. That’s a pattern that needs to be circumvented before it takes root.
- **Single points of failure:**
In the early boom days of programmatic, there were a lot of busts as well. When programmatic players folded, the clients who had put all of their eggs in a single basket found themselves in precarious (and sometimes unrecoverable) positions. Commerce media players can avoid a similar fate by focusing on reputable, scaled partners and ensuring they work with several parties, not just one. This also encourages marketplace competition.
- **Preventing data leakage:**
First-party data is extremely valuable to commerce companies, and they must ensure their data is secure within the supply chain in order to maintain their competitive advantage. Loss of data security is not an acceptable price to pay to operate within the commerce media space.

Acknowledgements

ExchangeWire and PubMatic would like to take this opportunity to thank the surveyed commerce media professionals.

■ PubMatic

ABOUT PUBMATIC

PubMatic (Nasdaq: PUBM) is an independent technology company maximising customer value by delivering digital advertising's supply chain of the future. PubMatic's sell-side platform empowers the world's leading digital content creators across the open internet to control access to their inventory and increase monetisation by enabling marketers to drive return on investment and reach addressable audiences across ad formats and devices. Since 2006, our infrastructure-driven approach has allowed for the efficient processing and utilisation of data in real time. By delivering scalable and flexible programmatic innovation, we improve outcomes for our customers while championing a vibrant and transparent digital advertising supply chain.

For more information, please visit pubmatic.com



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We offer actionable market intelligence on the trends and innovations that are shaping the media, marketing and commerce industries.

We're always interested in any technology and business-related news globally, and in particular across EMEA and APAC. Relevant companies are encouraged to get in touch. We're also interested in hearing from PR people working with companies in any of the areas named above.

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