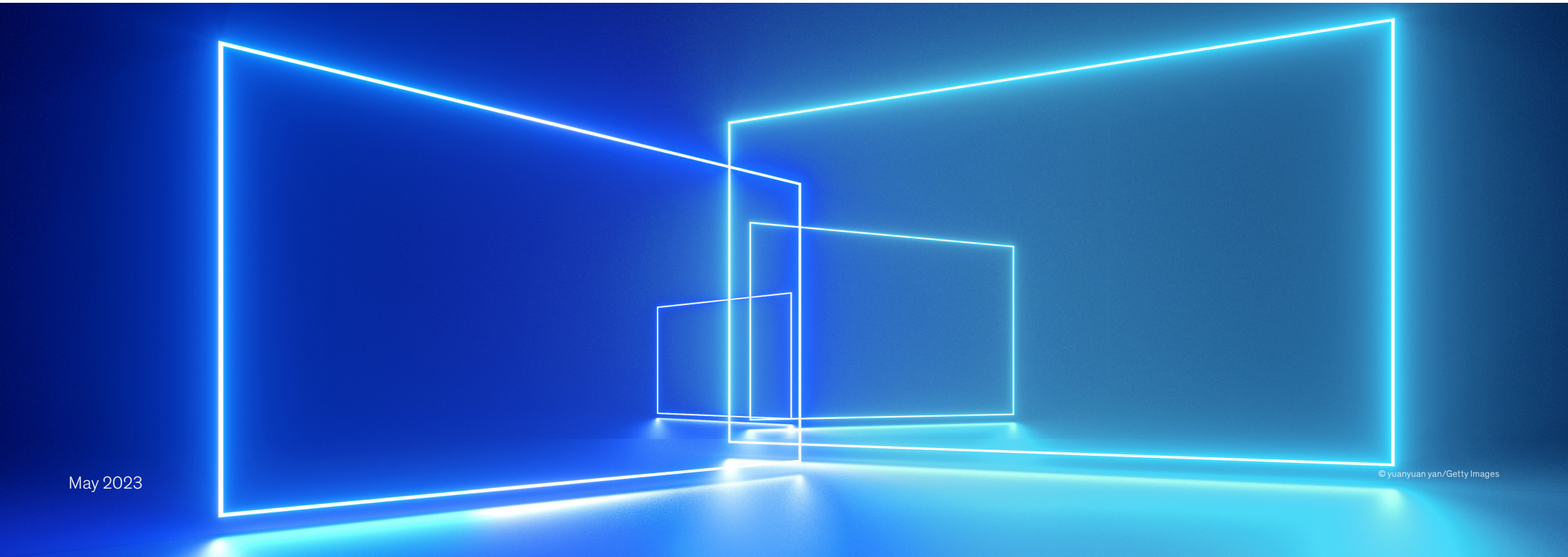


Growth, Marketing & Sales Practice

Six secrets of unleashing the power of retail media

Retail media networks are booming, but increasing innovation is spurring competition. Here's how to unlock the true potential of retail media.

by Marc Brodherson, Jon Flugstad, Quentin George, and Jack Trotter



The \$45 billion US retail media market is surging as retailers capitalize on the consumer shift to e-commerce while offering advertisers access to their unique audiences and data insights. Yet capturing advertising spend as a retail media network (RMN) is far from guaranteed. Advertisers are spoiled for choice across the RMN landscape, and the number of RMNs is growing by the day. The question is which RMNs will raise the bar to meet the needs of the sophisticated modern marketer.

We have previously busted myths about RMNs and looked at ways Europe's retail media landscape can evolve. In this rapidly changing environment, our latest research on the US market provides a fresh view on the secrets of RMN success, including understanding the following:

1. why demand for RMNs is increasing
2. how advertisers are shopping around
3. elements of a winning value proposition for RMNs
4. what channels advertisers are prioritizing for RMN investment
5. add-on features that drive a premium
6. advertiser pain points to address

Even as companies cut marketing budgets and hunker down amid economic uncertainty, RMNs attract a larger share of the advertising pie. But retaining that spend and growing it further requires understanding and addressing what advertisers want and need before they go elsewhere.

¹ Paul Verna, "Retail media ad spending is on track to surpass TV," Insider Intelligence, February 22, 2023.

² For more, see Marc Brodherson, Jon Flugstad, Quentin George, and Jack Trotter, "Busted! Five myths about retail media," McKinsey, June 7, 2022; and John-David Appleby, Carly Donovan, Craig Macdonald, and Björn Timelin, "Opportunities for e-commerce success in Europe: Retail media networks," McKinsey, July 5, 2022.

RMNs are in high demand

RMNs are attracting an increasing share of marketing budgets as manufacturers and brands shift spend to target consumers closer to the point of purchase. Our research finds 73 percent of advertisers anticipate spending more on RMNs in the next 12 months, with RMNs capturing an estimated 10 to 15 percent of total media spend.³

73%

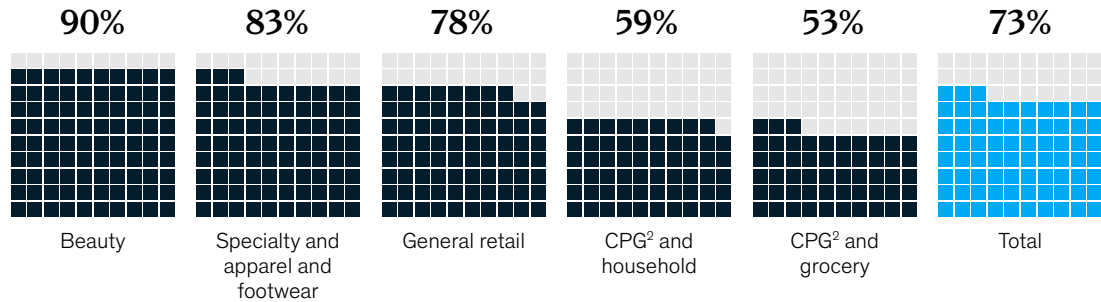
of advertisers anticipate increasing spend in the next 12 months.

³ Kiri Masters, "Retail media is now 11% of total ad spend. Here are 5 factors driving that figure," *Forbes*, October 7, 2022.

Exhibit 1

It's time to act: A big retail media network land grab.

Anticipated increase in spend with RMNs¹ in the next year, %



¹Retail media networks.
²Consumer packaged goods.

McKinsey & Company

Advertising spend must be earned

Retail media may be a relatively new marketing channel for advertisers, but they're already making early bets. Advertisers are splitting their business among an average of about four RMNs, and 27 percent have shifted spend from one RMN to another in the past year. The bottom line? If you don't identify a winning proposition and deliver for advertisers, they'll go elsewhere.

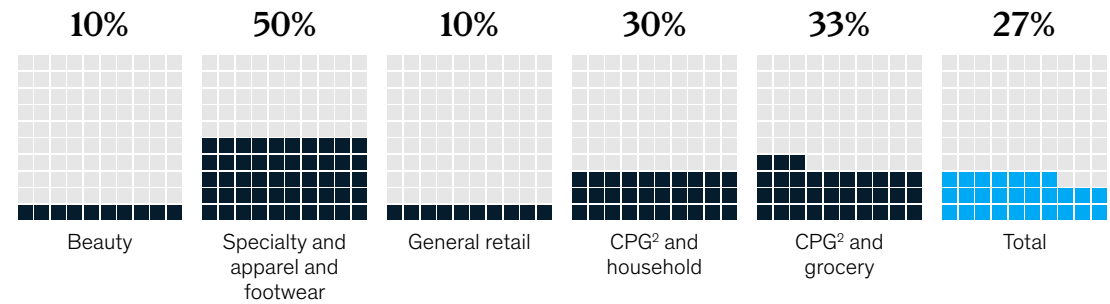
27%

of advertisers that have shifted spend from one RMN to another in the past year.

Exhibit 2

Identifying a winning proposition and delivering for advertisers is critical.

Advertisers who shifted ad spend from one RMN¹ to another in past 12 months, %



¹Retail media network.

²Consumer packaged goods.

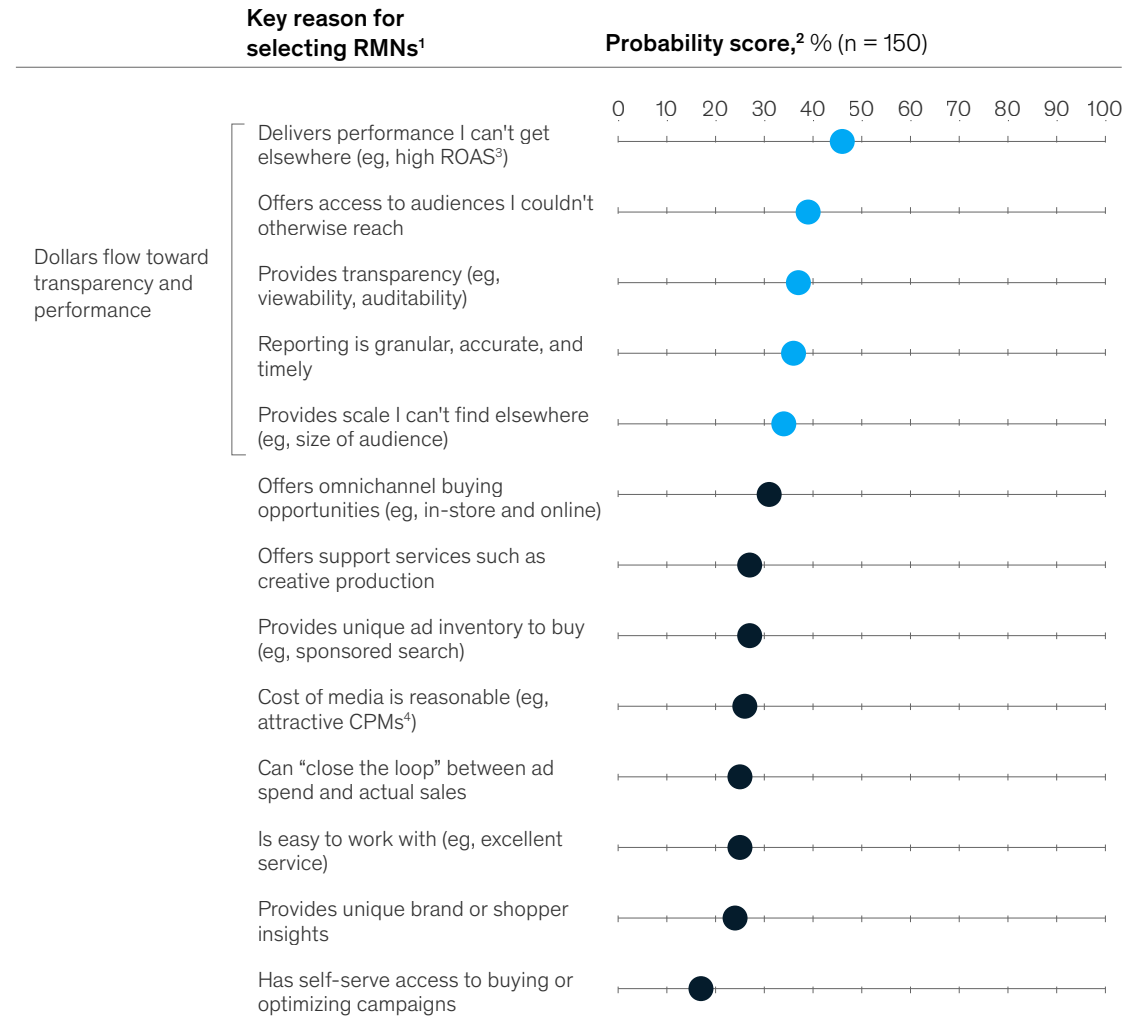
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Providing differentiated value is a must

How do RMNs deliver a winning value proposition? The three most important factors for capturing, driving, and retaining advertising spend are providing superior performance, giving access to otherwise inaccessible audiences, and offering transparency. High-performing RMNs delivering these benefits can drive significant value for the media network (for example, double-digit year-over-year growth) and their advertisers (such as five to ten times the return on advertising spend). Less importance is placed on self-serve access, indicating advertisers prize performance over all else.

Exhibit 3

Invest in features brands care about.



¹Retail media networks.

²"Probability score" is the chances of selection of a particular attribute as most preferred given in any set of four attributes (irrespective of whether those four attributes have ever appeared together to actual respondent).

³Return on advertising spend.

⁴Cost per mille, or the average cost of one thousand ad impressions or the average amount paid every thousand times internet browsers load an advertisement.

Dial up the right channels

Advertisers favor channels with the highest return on advertising spend: on-site display and video advertising. These channels outperform off-site advertising, and paid social media is also critical and cited by 19 percent of advertisers as their number-one choice (tied for highest with on-site display advertising).

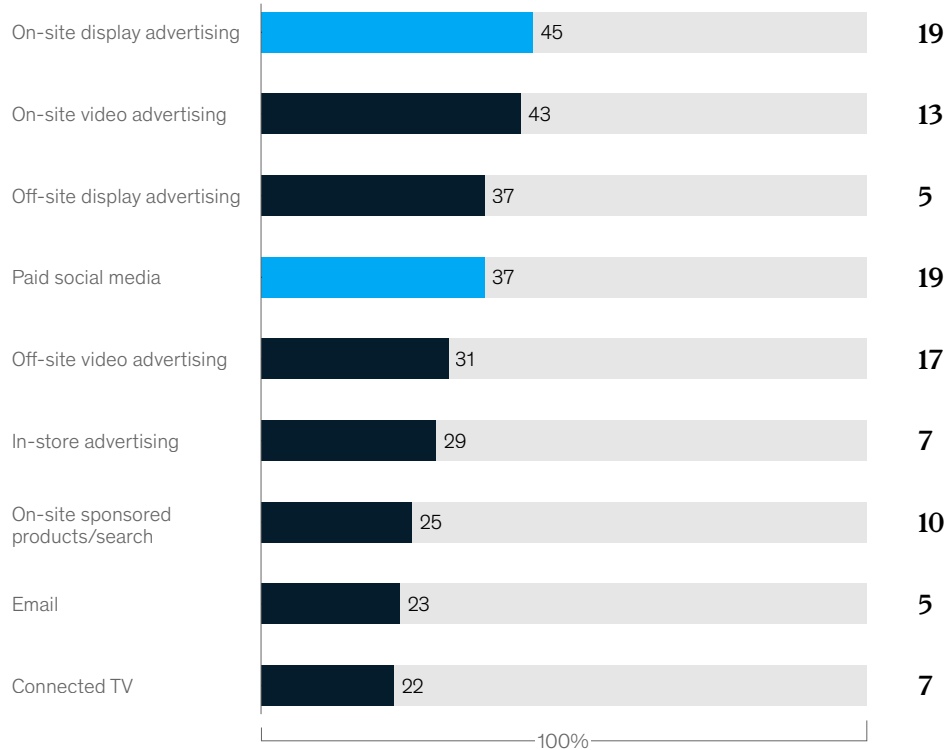
19%

of advertisers that cited on-display advertising and paid social media as their number-one choice.

Exhibit 4

Know what works and double down.

Percentage of respondents selecting as top three channel with highest ROAS,¹ % % selected as #1



¹Return on advertising spend.

McKinsey & Company

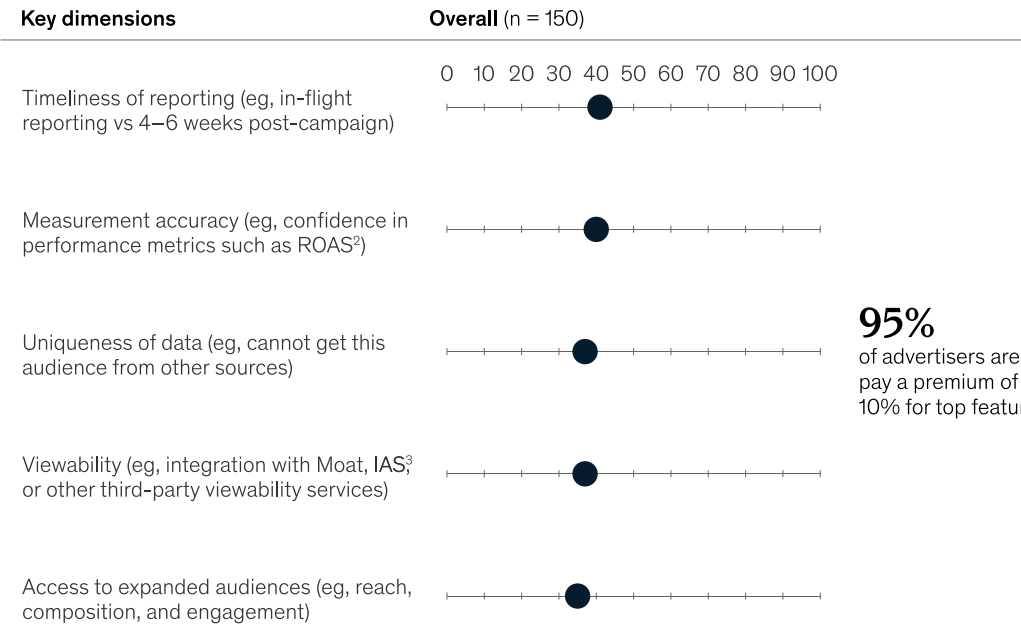
Premium features drive spend

In addition to capturing shifting spend through differentiation and channel strategy, RMNs have another opportunity. Advertisers are willing to spend even more for added extras: 95 percent say they would pay a premium of more than 10 percent for extra features that help them make better-informed, timelier decisions about their marketing spend.

Exhibit 5

Advertisers will pay for greater insight into performance.

Percentage of buyers willing to pay more than 10% premium,¹ %



95%
of advertisers are willing to pay a premium of more than 10% for top features

¹Top five reasons.
²Return on advertising spend.
³Integral Ad Science.

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Identify and quickly address pervasive issues

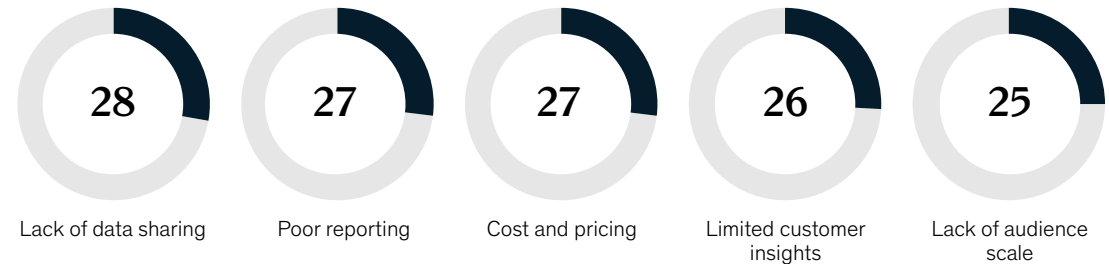
RMNs who want to distinguish their offering and retain and grow their advertiser base can focus on solving advertisers' biggest pain points. RMNs deliver a unique benefit in their proximity to the point of sale and their ability to close the loop. However, they can't lose sight of nailing things that are table stakes for advertisers, such as transparent data sharing and reporting, reasonable media cost, customer insights, and scalable audiences.

RMNs who want to distinguish their offering and retain and grow their advertiser base can focus on solving advertisers' biggest pain points.

Exhibit 6

Advertisers struggle most with retail media network data sharing and reporting.

Advertisers reporting pain point, %



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