App-Driven Retail Media

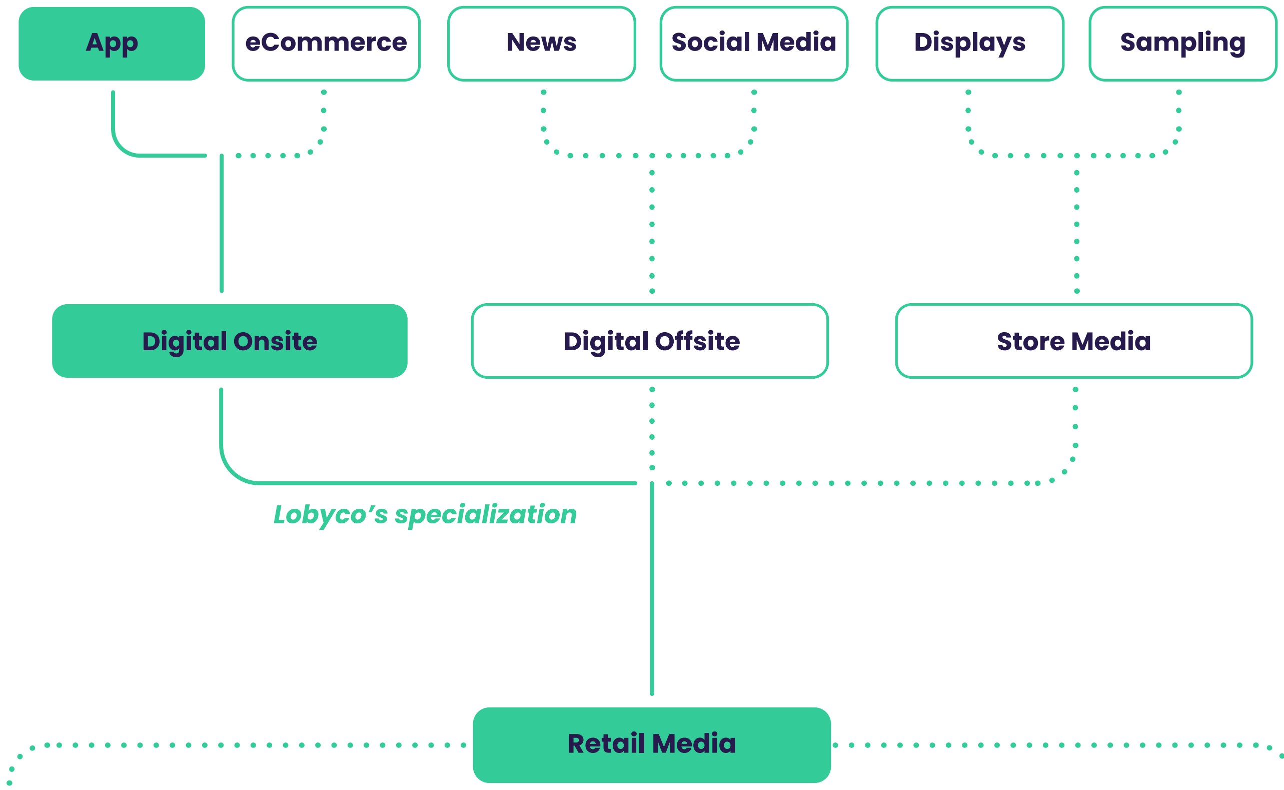
LOBYCO

Executive Summary

With the surge in retail media, grocery retailers and advertisers are increasingly leveraging mobile applications to captivate consumers and fuel revenue growth. This paper unveils the substantial benefits of mobile apps and delivers a strategic roadmap for retailers to seize the retail media opportunity.

Contents

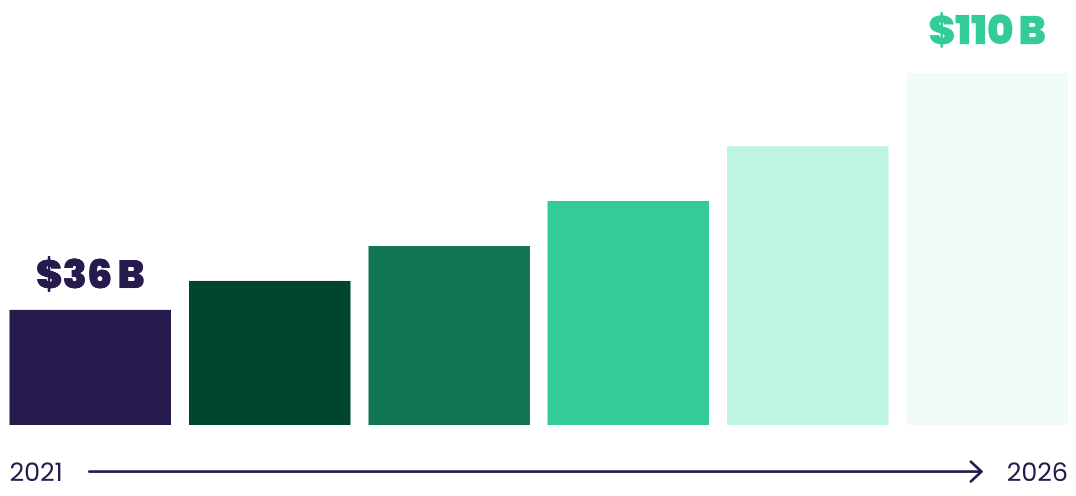
01 Retail Media Revolution



Retail media, situated at or near the point of purchase, falls into three primary categories: store media, digital offsite media, and digital onsite media. Store media involves in-store displays and other tangible advertising formats. Digital offsite media targets consumers on digital third-party platforms, using data provided by the retailer. In contrast, digital onsite media, associated with higher margins, leverages the retailer's own digital assets and data for personalized ad placement.

Mobile apps are emerging as vital assets in the retail media landscape due to the pivotal role they play in the planning and execution phases of consumer shopping. Leveraging our expertise within mobile solutions, Lobyco empowers grocery retailers to unlock retail media opportunities and build meaningful relationships with consumers through personalized content. Within this context, retail media extends beyond traditional ads to include sponsored Games, Coupons, Stamp Cards, and other interactive formats.

The key to retail media success lies in the seamless integration into the consumer experience, enabling advertisers to present relevant content and enticing deals that enhance consumer satisfaction and engagement.



The US retail media market will grow by 25% annually, reaching USD 110 billion in 2026.

Retail Media is transforming the grocery retail industry through its high profitability and growth. Retail media gross margins range from 70% to 90%, significantly outperforming traditional grocery retail margins. Impressively, Amazon attributes 68% of its total profits to advertising[1], and Walmart's Q4 2022 ad revenue surged by 41%[2]. These examples underscore the growing significance of retail media within the retail sector.

Retail media gross margins range from

70% – 90%

According to projections by BCG, the US retail media market will grow by 25% annually, reaching USD 110 billion and accounting for 25% of the total Consumer Packaged Goods (CPG) media spend in 2026. This growth could accelerate further due to the diminishing role of **Third-Party Cookies**, pushing advertisers to seek alternative media channels for audience targeting. Equipped with valuable first-party consumer data, retailers are perfectly positioned to facilitate targeted advertising and thereby capitalize on this shift away from third-party cookies.

Constraints on audience targeting through social media platforms have led advertisers to increasingly look towards the growing retail media market. This trend is exemplified by the introduction of Apple's Tracking Transparency feature, which limits advertisers' ability to reach iOS users who opt out of sharing their Identifier for Advertisers (IDFA) tag. Meta estimates that this limitation causes an annual revenue loss of USD 10 billion[3].

[1] BCG, 2022
[2] Marketing Dive, 2023
[3] Forbes, 2022

CPG companies are reflecting the trend towards retail media in their strategic approaches. Coca Cola, for example, pioneered a retail media strategy in 2017. Through partnerships with more than 25 retail media networks, they have effectively engaged consumers via in-store displays, website product recommendations, and mobile app promotions[4]. Notably, more than half of their total media budget is now allocated to digital platforms[5], a trend also embraced by giants like Nestlé[6].

Retailers who embrace digital solutions, particularly mobile apps, are strategically positioned to seize the opportunities presented by retail media. These apps enable personalized experiences for consumers, regardless of their location – at home, on the move, or in-store. Moreover, they provide a medium for advertisers to connect with consumers through relevant and compelling sponsored content.

The upcoming sections explore how grocery retailers can use mobile apps to unlock the full potential of retail media.

Third-Party Cookies

Web browsers, such as Chrome, Firefox, and Safari, are blocking third-party cookies, which have traditionally been instrumental in tracking user behavior and personalizing ads across different domains. This has posed considerable challenges to advertisers seeking effective consumer targeting.

This shift amplifies the importance of retailer-owned media and first-party data, sourced directly from consumer interactions. In fact, retailer-owned media and data are vital for advertisers wanting to connect with consumers near the point of purchase. Through mobile apps, retailers can compile valuable data and craft personalized experiences while safeguarding consumer privacy. Further, these apps provide a platform for advertisers to connect with consumers, both inside and outside the store.

Retail Media will account for 25% of the total Consumer Packaged Goods (CPG) media spend in 2026.

[4] The Current, 2023
[5] Coca Cola, 2023
[6] Nestlé, 2023

02 Mobile-Focused Retail Media Network

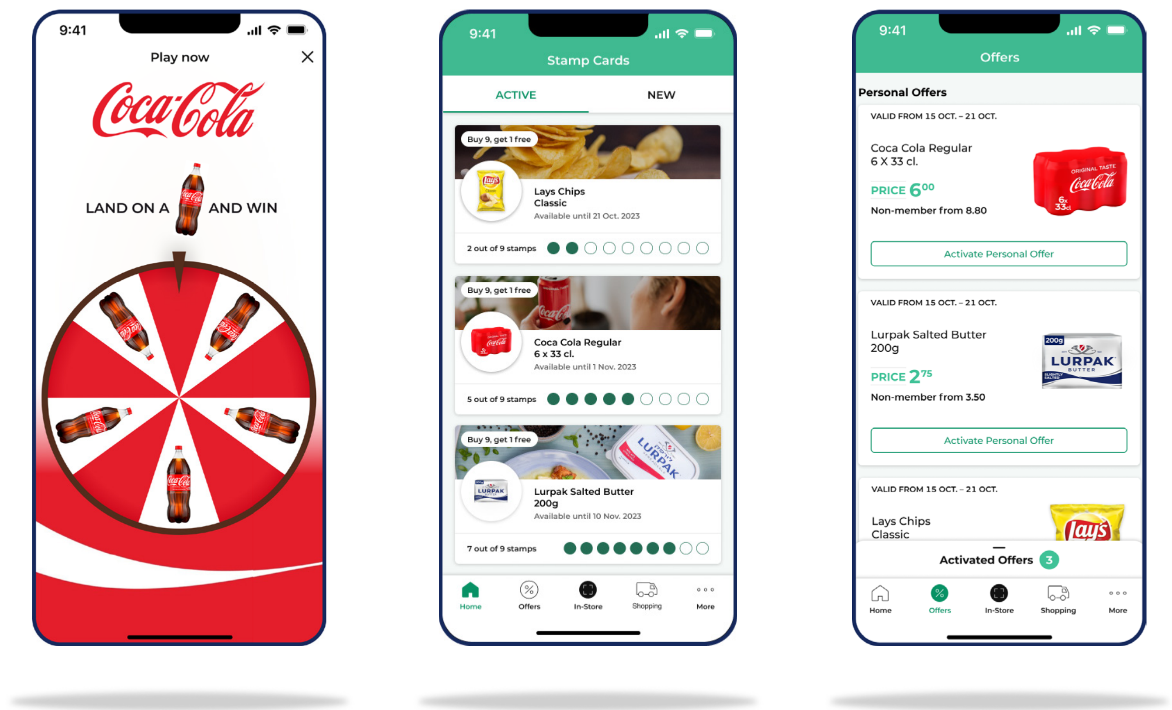
Seeing the value in retail media, grocery retailers are making substantial investments in their **Mobile Assets**. These mobile apps do more than unlock ad revenue; they foster engaging consumer experiences through seamless ad integration. This creates a symbiotic relationship benefiting retailers, advertisers, and consumers – a concept we refer to as the **Triple Win**.

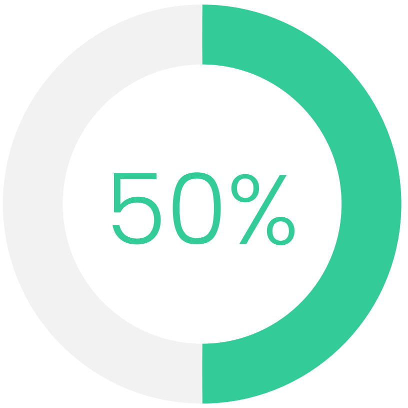
Building on insights gathered through our extensive dialogues with retailers globally, the following sections explore the key benefits of mobile retail media channels. Section 2.1 explores how mobile apps foster engagement via personalization. Section 2.2 underscores the significance of seamless ad integration. Section 2.3 discusses the power of robust performance tracking. Finally, Section 2.4 explores how mobile apps facilitate effective omnichannel integration.

Mobile Assets

The evaluation of mobile assets involves assessing both their quantity and quality. Quantity refers to the number of ad-enabled components, while quality is gauged by user count and engagement frequency. Combined, these aspects define the potential reach of in-app media.

To maximize reach, it is crucial to design a mobile app with compelling components that consistently draw users in. Components like Games, Stamp Cards, Personal Offers, and News Feed captivate user interest and serve as effective ad spaces. This dual-purpose approach elevates user engagement while providing extensive advertising opportunities.





of the prizes won are collected in-store.

500,000

weekly active app users in just eight months.

115%

increase in spending on campaign products.

3,000,000

rewards via in-app games.

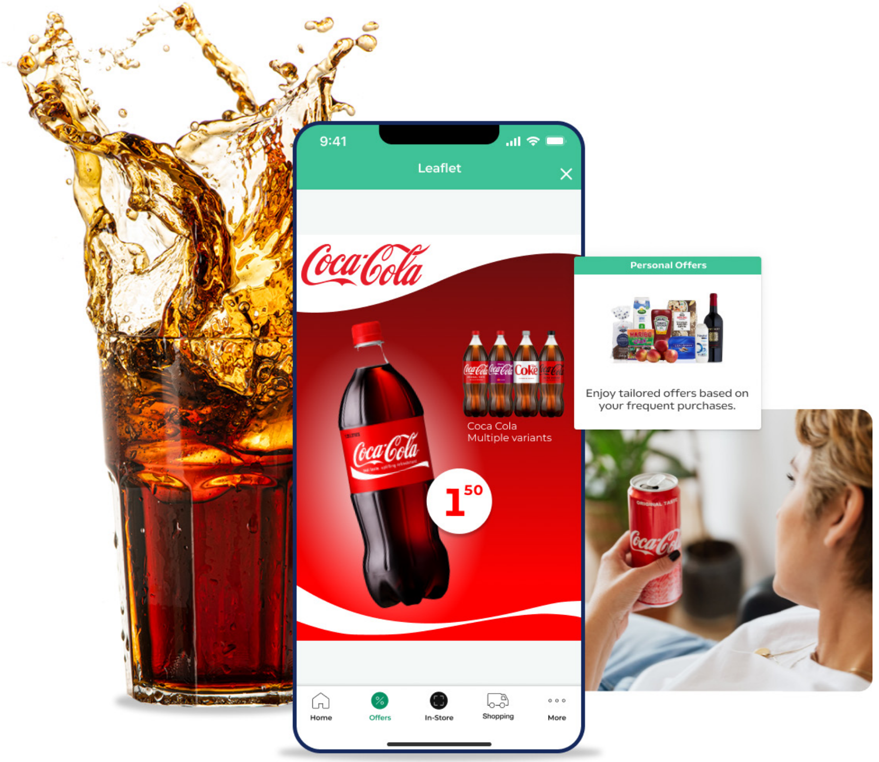
Triple Win

The Triple Win encapsulates the mutual benefits for retailers, advertisers, and consumers that arise from mobile retail media strategies.

Retailers generate profitable revenue streams and boost engagement through in-app advertising. For instance, a Romanian retailer amassed over 500,000 weekly active app users in just eight months, driven by advertisers funding more than 3,000,000 rewards via in-app games.

Advertisers maximize their effectiveness by engaging consumers with timely and relevant content. Games significantly impact purchasing behavior, with winners spending 115% more on campaign products post-campaign.

Consumers enjoy fun and rewarding in-app games. Interestingly, 93% of games are played outside the store, and around 50% of the prizes won are collected in-store. This showcases how games effectively engage consumers and motivate them to visit the store.



2.1 Building Engagement through Personalization

Mobile apps reinvent traditional shopping experiences, making them dynamic and personalized. Components like Vouchers and Stamp Cards provide unique savings opportunities and nurture loyalty, fortifying the bond between consumers and retailers.

Integral to this enriched shopping experience is the incorporation of loyalty programs, which play a crucial role in identifying consumers and personalizing their experiences. Through these programs, mobile apps equip retailers with a wealth of data, offering insights into consumer behavior. Leveraging the power of AI tools, retailers can tailor content to individual consumers and foster more profound connections.

A Danish retailer exemplifies the effectiveness of this approach. By drawing in over half of the adult population as members, the retailer operates the nation's most extensive loyalty program. Via their app, they engage users with personalized weekly offers. Notably, one third of weekly active users take advantage of these offers, with over half of these offers being activated on the day of release.

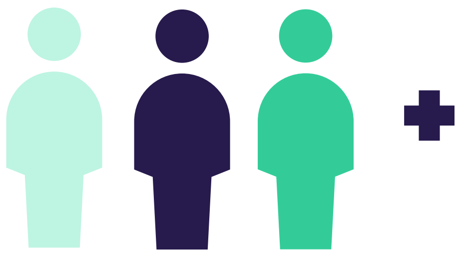
The retailer uses these personalized offers as a multi-faceted strategy – promoting private labels, generating revenue from advertisers who pay to include products, and stimulating sales. The effectiveness of this strategy is reflected in the significant business value derived from these offers: active app users spend over 20% more during weeks they activate a personalized offer, and nearly 40% of activated offers translate into in-store purchases.

Active app users spend over 20% more during weeks they activate a personalized offer, and nearly 40% of activated offers translate into in-store purchases.

2.2 Unlocking Revenue through Seamless Ad Integration

By integrating sponsored content, retailers can tap into a substantial source of retail media revenue. The success of this approach is conditioned on adding content that complements rather than interrupts the consumer experience.

Traditional channels often struggle to achieve this harmony. In-store ads, for instance, can often overwhelm consumers with generic information. In-store diaper ads, irrelevant to consumers without children, exemplify this issue. Such off-target advertising can create a cluttered retail space and negatively impact the overall shopping experience.



More than a third of those playing a game continue to play every month for at least a year.

In contrast, mobile apps present a compelling medium for sponsored content. Interactive components like Games or Stamp Cards provide fun challenges for consumers, leading to rewards such as free products. This interactive approach engages consumers so effectively that more than a third of those playing a game continue to play every month for at least a year. This showcases how strategic integration of sponsored content can enhance consumer experiences and unlock significant retail media revenue.

2.3 Leveraging Robust Performance Tracking

Mobile apps equip retailers with a unique opportunity to analyze retail media initiatives. Through these apps, retailers gain valuable insights into consumer behavior, including number of ad impressions, clicks, offers redeemed, and purchasing patterns for campaign products.

Traditional channels often struggle to effectively track campaign effectiveness. For example, an in-store sampling campaign lacks the ability to associate consumer behavior with specific individuals, complicating measurement of campaign effectiveness.

In contrast, mobile apps offer the capability for closed-loop measurement. In-app campaigns link actions to a unique member ID and incentivize consumers to register their in-store purchases to claim loyalty benefits like rewards earned through the app. This establishes a connection between in-app behavior and in-store shopping patterns, providing valuable insights into campaign success. Specifically, retailers can directly evaluate how a mobile campaign influences the in-store shopping patterns of the target audience.

This comprehensive performance tracking fosters deeper partnerships with advertisers. According to dunnhumby, advertisers find these insights to be the most appealing aspect of retail media, even surpassing the value of the media itself [7].

[7] dunnhumby, 2023

2.4 Facilitating Omnichannel Integration

Mobile apps enable retailers to interact with consumers outside the store, making them an important asset in executing a successful omnichannel strategy. Bridging the gap between planning and execution, mobile apps create a unified shopping experience that satisfies evolving consumer demands.

The core of this omnichannel integration is the use of data from various consumer touchpoints. Each interaction – whether via app, web, or in-store – contributes to a detailed consumer profile, which drives personalized experiences across channels.

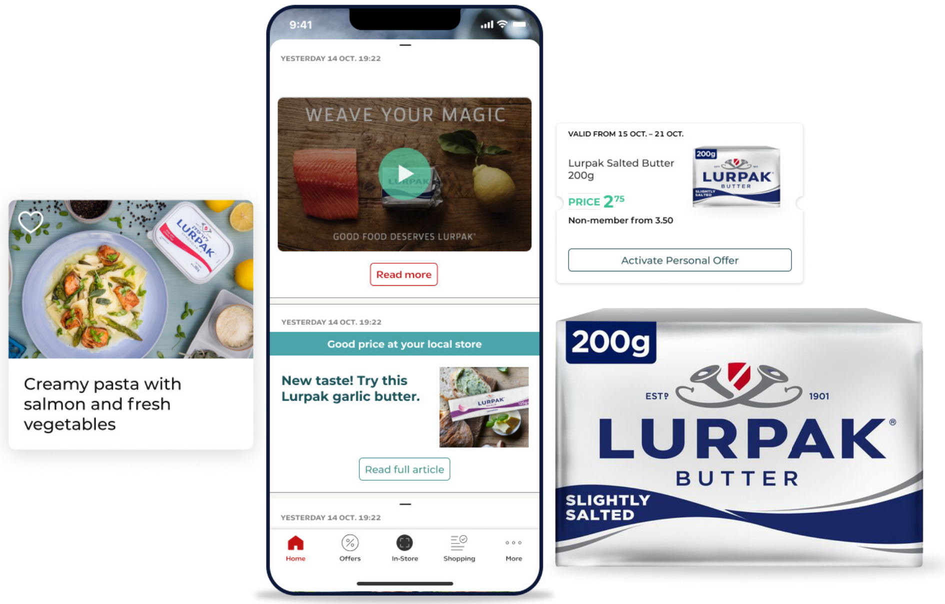
Purchase data can enrich mobile experiences with personalized product suggestions or exclusive offers. Similarly, in-app additions to the Shopping List offer insights into consumer intentions. This information can be used to guide in-store navigation or trigger reminders for forgotten items, thereby improving shopping experiences and consumer satisfaction.

Importantly, an effective retail media strategy necessitates a multi-channel approach. Research from dunnhumby highlights that conversion rates increase by 3.8 times when consumers are engaged across various channels compared to just one [8]. Hence, an effective omnichannel strategy not only ensures a unified shopping experience but also significantly boosts conversion rates and fuels business growth.

Mobile apps create a unified shopping experience that satisfies evolving consumer demands.

[8] dunnhumby, 2022

03 High-Impact Retail Media Strategy



Informed by our extensive industry experience and discussions with leading retailers, this section unfolds a high-impact retail media strategy, segmented into three steps. First, we explore how to create digital assets that captivate both consumers and advertisers. Second, we discuss methods for leveraging private labels and monetizing media assets. Finally, we examine how to build a media monetization framework.

3.1 Creating Digital Assets Appealing to Consumers and Advertisers

The initial step towards a successful retail media strategy involves building a compelling strategic offering that aligns with both consumer and advertiser needs[9]. For instance, if stakeholders are accustomed to in-store sampling, fun and rewarding Games could be a familiar and attractive concept easily incorporated into a mobile application.

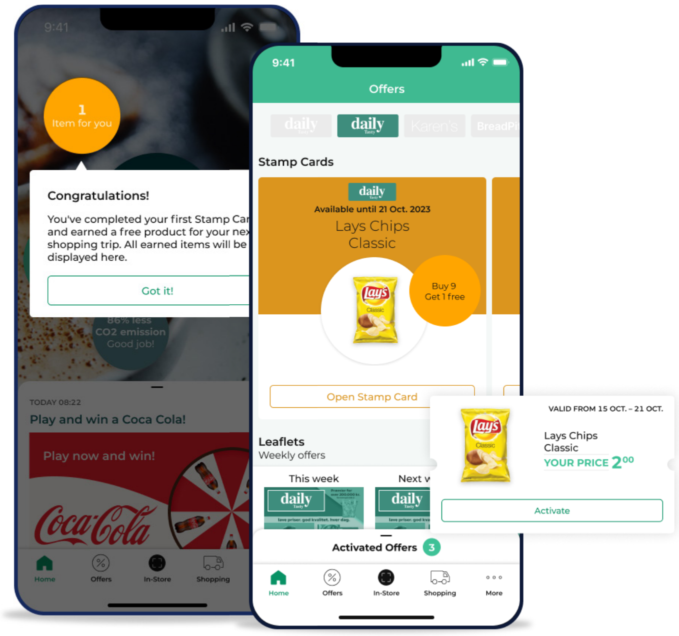
Regardless of a retailer's maturity in terms of app development or media monetization, it is essential to design an app that both captivates consumers and provides valuable media space for advertisers. As defined earlier, the number of ad-enabled components and the level of user engagement together determine the potential reach and appeal of in-app advertising.

With this perspective, retailers should prioritize interactive app components to fuel consistent consumer engagement, thereby maximizing the reach and impact of sponsored content. Easily implementable components like Games, Leaflets, and Vouchers encourage frequent app usage and provide monetization opportunities. As the retail media strategy evolves, retailers can introduce more complex components, such as a Prepaid Loyalty Account that delivers advertiser-sponsored benefits like product discounts or exclusive privileges for account holders.

At the same time, the app functions as a tool for collecting and using first-party data, which is crucial for personalization and validating the app's value to advertisers. By presenting concrete data on consumer engagement, retailers can demonstrate the significant value and impact their app brings to advertisers.

In essence, creating an engaging app forms the foundation for effectively leveraging private labels and successfully monetizing the media assets.

[9] Bain, 2022



3.2 Leveraging Private Labels and Monetizing Media Assets

Having created an appealing mobile application, the next strategic step involves using this asset to improve profitability. Retailers can improve profitability by leveraging high-margin private labels and by monetizing media through advertiser collaborations.

Private labels contribute significantly to enhancing profitability and consumer loyalty[10]. An app serves as an effective medium for promoting these retailer-owned brands. For example, interactive components like Recipes and Stamp Cards can motivate consumers to purchase private label products. Retailers can incorporate private labels as ingredients in Recipes and offer stamps as rewards for each purchase. By gathering stamps on their Stamp Cards, consumers can eventually exchange a full card for a free product.

Successful promotion of private labels not only elevates profitability through increased sales but also serves as a testament to the value-addition that the app can offer through sponsorships. This, in turn, enhances its appeal to potential advertisers.

Retailers can utilize relationships with existing suppliers – who are potential endemic advertisers – to kickstart media monetization. By offering media space, the app effectively transforms into a revenue-generating asset. It is crucial that the integration of sponsored content is seamlessly executed, enriching consumer engagement without detracting from the overall shopping experience. Importantly, the objective extends beyond monetization, aiming to enhance the app's value for consumers, advertisers, and the retailer itself.

Successfully initiating media monetization and demonstrating its effectiveness can spark internal support for establishing a more professional media monetization setup. This strategic progression can elevate profitability and solidify the retailer's position in the retail media market.

The app effectively transforms into a revenue-generating asset.

[10] McKinsey, 2021

3.3 Building a Media Monetization Framework

As a retailer begins to showcase the potential of their media offering, the third strategic step involves building a media monetization framework. This involves providing advertisers with a seamless experience in procuring media space and effectively tracking the performance of their campaigns. By doing so, retailers can strengthen their relationships with advertisers while also maximizing the utilization of their media assets.

This strategic step signifies a shift in a retailer's business model, transitioning from exclusively buying and selling goods to also selling media space. This transformation may require reorganization, such as establishing a dedicated retail media unit or repositioning existing teams to assume responsibilities associated with retail media initiatives.

Retailers handle media sales in different ways. They can operate a managed service, led by an internal team, or establish a self-serve platform that advertisers can use on their own[11]. When considering a managed service, retailers can create a dedicated retail media unit or incorporate the responsibilities into an existing team, like category management. This approach gives the retailer full command over the media sales process, including the packaging of media offerings and the selection and placement of sponsored content using intuitive campaign tools.

Alternatively, a self-serve platform, which can be built in-house or accessed through an open network, enables advertisers to directly manage their sponsored content in the retailer's app through an automated bidding process. The choice between a managed service and a self-serve platform should be guided by the retailer's size, available resources, and overall strategic objectives. Both strategies have proven successful, exemplified by a **Swiss Retailer** that operates a managed service through a dedicated retail media unit.

In conclusion, building a media monetization framework represents an essential step in leveraging the full potential of a retailer's media offering. It optimizes the use of media space and can significantly elevate a retailer's profitability.

Swiss Retailer

A leading Swiss retailer has created a dedicated retail media unit with over 10 experts. As negotiations conclude, category management nudges CPGs to partner with this unit, boosting the likelihood for products to excel and thereby retain their shelf space. The retail media unit collaborates with CPGs to craft campaigns that connect with consumers at home, on the go, and in-store. Digital media, especially the mobile loyalty app, significantly extends the retailer's reach beyond physical stores. The retailer shares insights on campaign performance, and the inclusion of its private labels in media campaigns showcases the value to advertisers. In sum, the retailer maximizes the value of its media assets through digital engagement and strategic collaboration between category management and the retail media unit.

[11] IAB, 2023

LOBYCO

www.lobyco.com