SOLVING SPONSORED PRODUCT ADS:

How Retailers Can Unlock Better Site Monetization

crealytics

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The allure of Sponsored Product Ads (SPA) is undeniable. Monetizing your own inventory while delivering relevant and meaningful products to your customers is a winning situation for all involved. Yet getting the most from them can often feel like unscrambling a Rubik's Cube—you must align several elements simultaneously to achieve the ideal outcome. Smart retailers know that the appeal of easy money must be balanced against the challenges of site usability, product relevance, and yield management.

This white paper explores the current state of site monetization, its challenges, and what the future holds for retailers as publishers.

Site Monetization: The Story So Far

Several quirks pave the route to eCommerce as we know it today. The first steps, however, came from an unlikely source. Gordon Sumner, better known as the artist Sting, plays a role in the world's first secure online purchase. An unknown pioneer bought the singer's album using the retail platform NetMarket. They paid $12 for the privilege.

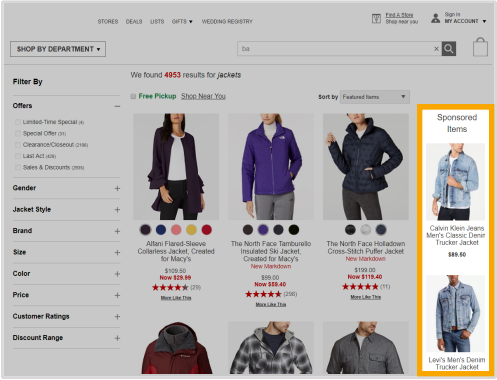
Fast forward 24 years to a very different landscape. From records to raincoats, U.S. retail eCommerce sales have since hit $504.6 billion. Thousands of retailers now adopt a digital-first strategy— with in-store merchandising supporting and complementing an online-centric presence.

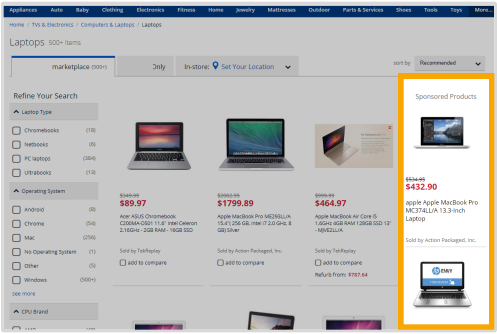
But traditional methods of display ad placement soon lost their effectiveness. Once tried-and-tested site monetization tricks no longer cut it: not only did they risk interrupting the shopping experience; they also broke the purchase-cycle by leading potential buyers off site. Retailers needed a better solution.

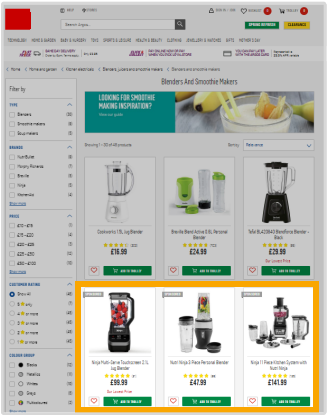
Sponsored Product Ads fixed several concerns at once as well as creating an all-new revenue stream for enterprises. Unlike display ads, they maintained the customer journey by keeping shoppers on the same website. And that wasn't all. SPA ushered in a seamless user experience. Online players now experienced both greater ad relevancy and a native look and feel.

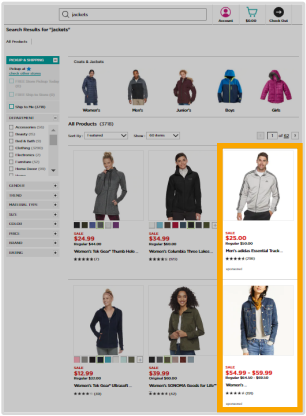
Today's Imperfect Solution

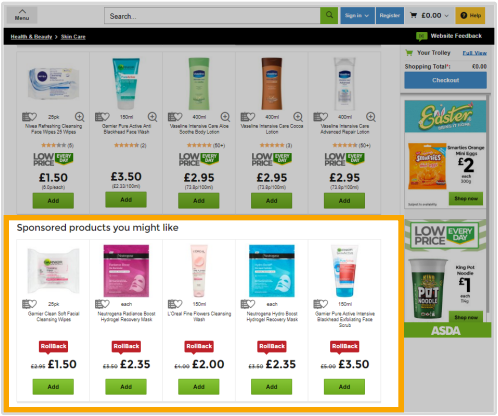
How does the current system work? Using a programmatic auction, retailers offer brands the opportunity to embed their products in dedicated spaces on a retailers' product or category result page. Ad units, each of which represent a single SKU, appear within one of several ad placement slots (or "swim lanes") located on dedicated sections of the retailer's domain. A swim lane can show up to 15 ads—rendered via a carousel, horizontal strip (at the top, middle or bottom of the page) and via vertical sidebar. When a visitor uses the site to search for products, the advertised items appear in the site's ad placement.











Native advertising swim lanes appear via specific sections of a retailer's website

Budgets for Sponsored Product Ads come from various sources. A brand may use its performance marketing funds to book campaigns through paid media agencies. Alternatively, it may go through a retailer's merchandiser team as part of its co-op marketing commitments. Brands can also engage directly with a network partner to help manage the process.

Where Do Sponsored Product Ads Come From?

Market Development Funds

The retailer's merchants

Mandatory marketing development funds can be used for Sponsored Products Ads

Co-op Funds

Site monetization team

A retailer's site monetization team may use the ad budgets of an interested brand

Agencies' Performance Marketing Budgets

Site monetization team

Instead of going through a network, retailers also have the option of seeking budgets via performance marketing agencies

A budget's source matters less than the end result: brand partners get closer to the point of sale. They receive a *degree* of transparency from any direct deals, albeit even less from network-driven campaigns. Retailers, acting in the role of media publisher, get the chance to capture more ad budget at a time of increasingly eroding margins.

But examining the approach in detail reveals cracks in the facade. Today's SPA framework leaves retailers reliant on select third parties (who have a vested interest in keeping retailers "bid-blind") which limits their ability to scale. It also raises tricky questions around integration. Implementation can prove resource-intensive, with many retailers dependent on external sources to provide the necessary technology.

Sponsored Ad Networks: Beware The Hungry Middlemen

The power behind sponsored advertising comes from a handful of ad networks. A retailer and brand can reach a mutual agreement, but still depend on one of a few companies to provide the framework. And that framework can be expensive. This near-monopoly for ad slots means retailers pay an average of 30 percent in fees.

Participants also face transparency issues. In today's blind environment, retailers who supply networks with their ad inventory only see aggregated results. They never know how much a winning brand actually pays for an ad spot; nor do the brand's competitors learn the amount of the winning bid.

Working with just one vendor means just one demand source, limiting programmatic access to their ad inventory. Retailers don't just pay high integration fees either. They also lose out on the extra revenue that comes competitive bidding environment.

> ***"An inability to mix or optimize swim lanes encourages a mishmash of duplicate ads. Retailers waste revenue potential, user experience suffers; and only the ad networks benefit.***

Working with multiple networks currently spells trouble, too. Separate auctions fuel inefficiency. Because every partner requires their own ad placement, publishers end up paying multiple parties to fill different blocks of ad inventory. And each available block (remember those "swim lanes?") stays locked into service with a single demand source. An inability to mix or optimize swim lanes encourages a mishmash of duplicate ads. Retailers waste revenue potential, user experience suffers, and only the ad networks benefit.

Private Marketplaces: Say Goodbye to Scale

Direct deals via private marketplaces (PMPs) escape the high fees associated with ad networks. Unlike vendor-driven campaigns they boast a fixed price, start and end date, and offer an increased amount of control and transparency. PMPs translate brand dollars into higher yields on media spend and typically result in improved performance. However, they also prove notoriously difficult to scale. Publishers find themselves limited to their own sales resources...and can only reach out to a handful of the best partners.

If you've participated in the current system as a retailer, you'll likely have experienced these challenges. Today, exactly *how* you capitalize on Sponsored Product Ads matters little. Both PMPs and network-driven campaigns fail to maximize your opportunities. That said, the alternative may deliver less than you think...

Amazon's Sponsored Product Ads

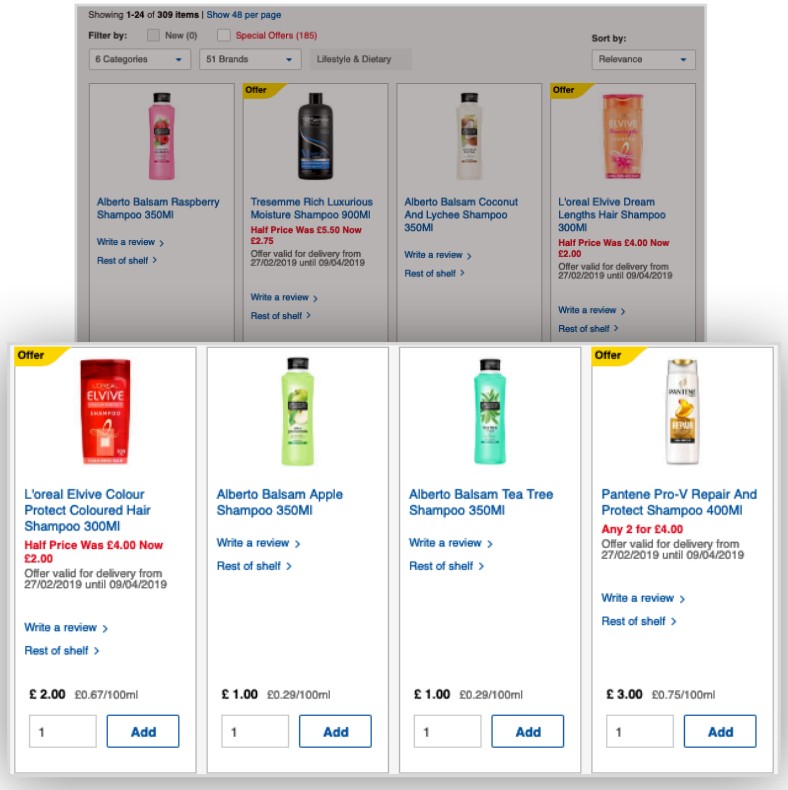
When it comes to getting their products in front of more shoppers, brands have a powerful alternative. Amazon commands a 50 percent share of the eCommerce market. In 2018 it topped a staggering $10 billion in advertising revenue, with Sponsored Product Ads underpinning most of that figure.

By creating its own ecosystem, the Seattle-based giant defines its entire ad experience. Every dollar of revenue Amazon generates gets reinvested into the network. And it maintains a tight grip on all aspects of the decision tree; from when and where to show ads, to choosing the winner of the buy box, to determining rank and sorting. Amazon offers brands and vendors a wide range of multiple ad offerings and—crucially—access to reporting insights that are unavailable elsewhere.

Yet there *is* a tradeoff—retailers exchange short-term revenues for longer-term disintermediation. It completely removes them from the shopping experience and any long-term value associated with customer relationships. Even the access to improved reporting comes with a caveat, since Amazon doesn't provide insight into benchmark performance, nor take into account the incrementality of the sale.

In short, Amazon rewards brands with the feeling of transparency, even if the data it provides comes in the form of empty calories. This represents an improvement over other ad networks, which provide limited or no reporting, high fees and zero control or customization. However, a complete solution must address the weaknesses of both the Amazon and network model.

More Revenue and More Control: Choosing A Mediated Approach



- Direct Deals
- Network Demand 1
- Network Demand 2
- Self-Promotions
- Private Brands

Today's options leave publishers between a rock and a hard place. Choose to work with ad networks but accept high fees and lower ad revenues. Choose Amazon but relinquish independence. It needn't be this way. Would-be publishers have an alternative; one that liberates their monetization program. This technology solution intermediates between supply

and demand sources, and provides an extra layer of control for retailers:

- Today's publishers face integration headaches each time they introduce a new vendor. A mediated solution works like an all-in-one integration manager. It connects partners as needed and gives them access to all relevant inventory according to programmed business rules.

- Finite resources limit most retailer's brand negotiations to a fraction of potential suppliers. A mediated solution opens up the supply inventory to all open networks, without sacrificing the commitments made via private marketplace deals. As a result you can scale more direct relationships with wholesalers—and tap into millions in additional ad spend.

- An ideal exchange solution would also unify all swim lanes into one, unified experience. Publishers could place the most profitable ads according to their preferences.

- Retailers can't optimize their SPA program without comprehensive reporting. The best outcome would need to deliver aggregated reports, across all demand sources, in a single dashboard. Users could then drill down to an individual demand source, even if the networks obscured details.

...Retailers could then provide detailed demand-side reporting—to better understand which vendor partners and brands were hitting performance targets and business goals.

Democratize Your Digital Shelf Space

Crealytics believes strongly in the idea of a democratized, open exchange. Retailers need something that will free the market from its current monopolistic system while providing access to even greater fill rates and revenue potential. Site monetizers can increase the yield involved—and give their digital shelf space the value it deserves without sacrificing choice or transparency.

We offer retailers the ability to capture more ad budget. Our exchange-based Sponsored Products Ads solution rescues anyone trapped by the status quo.

For advice on how to get the most from your SPA program, including detailed information about Crealytics' platform, why not get in touch? Contact us via **SPA@crealytics.com** or **www.crealytics.com/sponsoredproductads** to learn more.

Excelling at advertising is no longer purely about efficiency. It requires a completely different approach to full service campaign management. Crealytics' technology and service team breaks down the silos separating product advertising from the merchandising and finance departments, resulting in a completely new approach to retail performance advertising. In 2017 we generated over three billion in ad revenue for our retail clients, including ASOS, Urban Outfitters, Footlocker, and Lands' End.