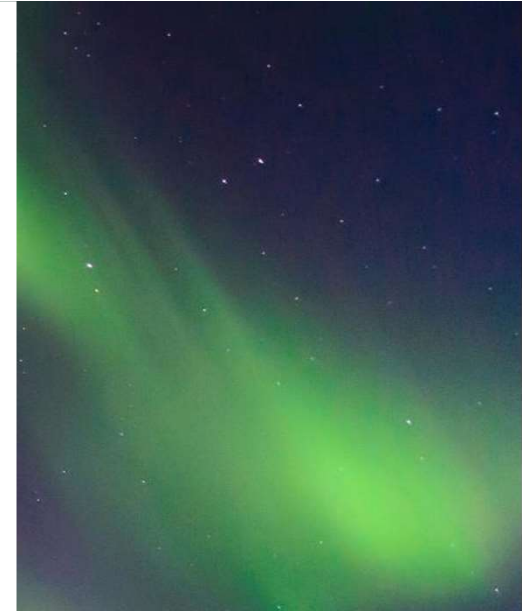


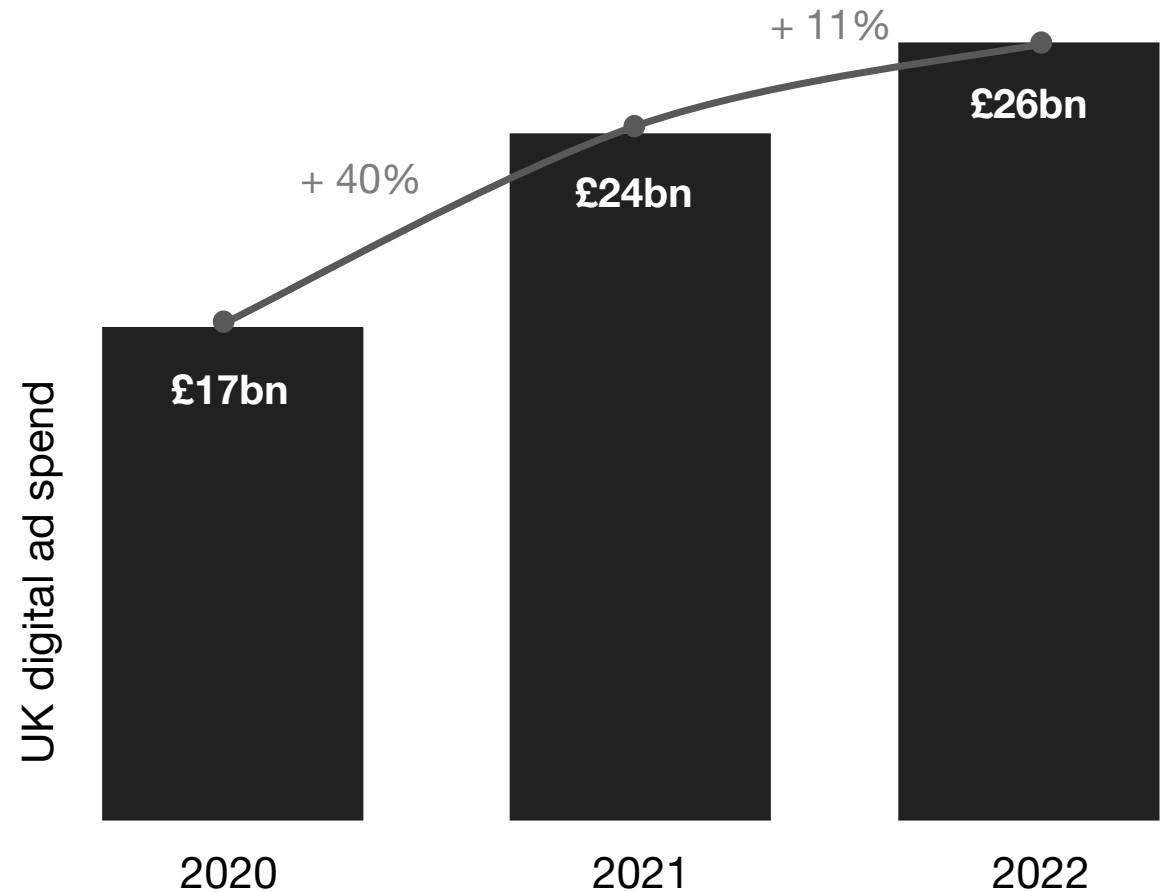
Retail Media

Presentation by **Sam Tomlinson, PwC UK Media Leader**
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Retail digital media in perspective

- Paid search (includes Google and Amazon) grew 13% vs 2021 and accounted for ~50% of all UK online ad spend in 2022
- Total display accounted for ~40% (includes social media, video and standard display advertising)
- Retail media at ~£250m was just 1% of 2022 digital ad spend (excludes Amazon, which is in search)
- Classifieds, audio, podcasts, partnerships and affiliates comprised the remaining 9% of UK digital ad spend for 2022



Retail Digital Media (RDM)

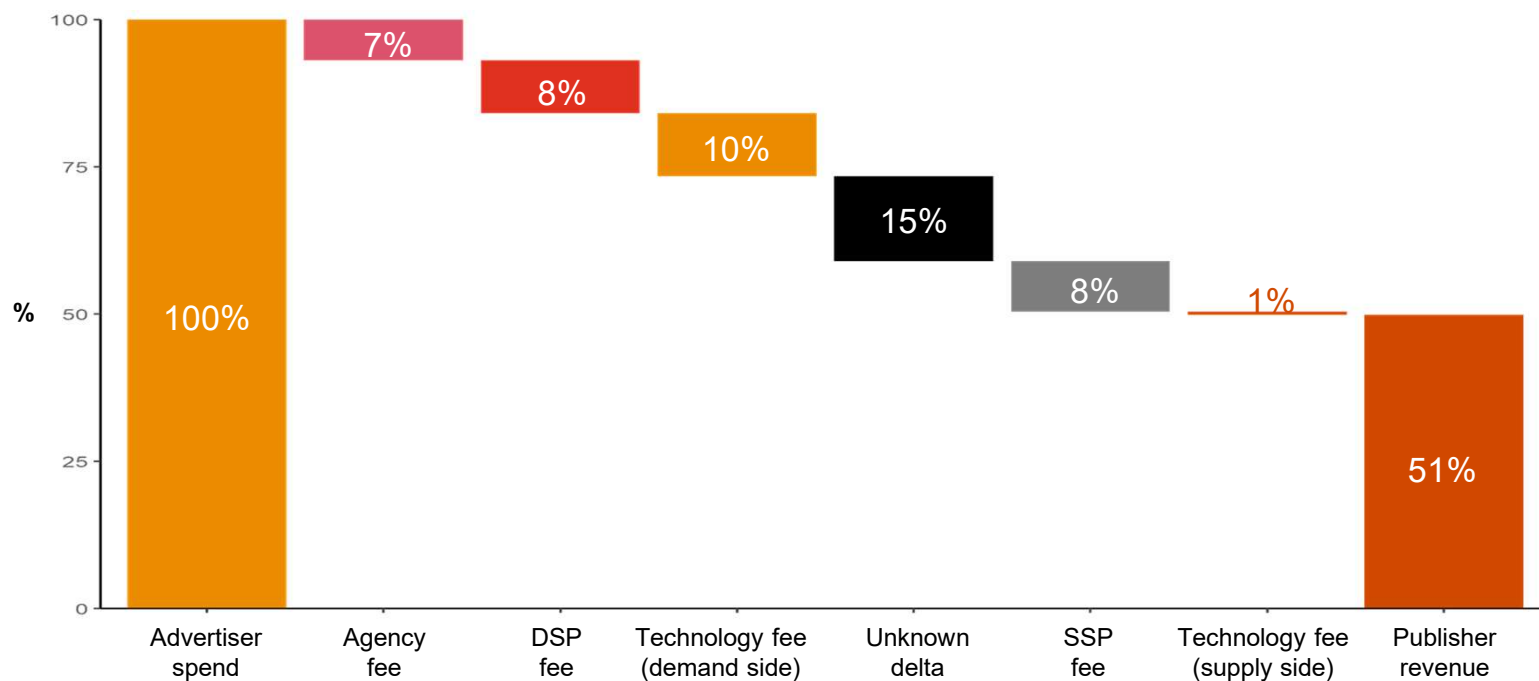
Three recurring topics raised with our team at PwC:

- Supply chain transparency
- Proof of media delivery
- Accounting for retail media

ISBA / PwC study

ISBA / PwC Programmatic supply chain transparency study #1 (2020)

“Publishers received an average **51%** of advertiser spend, with **34%** attributable to identifiable cost elements and **15%** being unattributable (the ‘unknown delta’).”



Retail Digital Media: supply chain transparency

How much of the advertiser spend reaches the retailer?

Example digital retail media supply chain costs:

- Agency fees
- DSP fees
- Audience / consumer data fees (especially 3rd party data)
- Ad serving fees
- Digital content optimization fees
- 3rd party verification tool fees
- etc...

Retail Digital Media: proof of media delivery

- Is retailer reporting complete and accurate?
 - Media delivery - impression types and volumes?
 - Audience targeting - accurate?
 - RoI / attribution / RoAS - methodology and calculations?
- Does the advertiser have a right-of-audit clause with the retailer?
- Is there even a (separate) contract....?

Retail Digital Media: accounting for RDM

- Advertiser (CPG) accounting options:
 1. *Deduction from revenue i.e. treated as reduction in selling price to retailer ('contra')*
 2. *Marketing i.e. operating expense ('opex')*
- Accounting standards (IFRS 15 / US GAAP) → rebuttable presumption is option 1
- Option 1 reduces CPG top-line revenue and limits Marketing's control over marketing spend
- Retailer accounting should mirror the advertiser:
 1. *Reduction in cost of sales (i.e. treated as reduced cost of goods bought from CPG)*
 2. *Incremental revenue*
- If retailers are to access brand marketing budgets, not just rebadged trade marketing, they need to help advertisers achieve option 2 for their retail media spend...

Retail Digital Media: accounting for RDM

Key observations from industry discussions re accounting for retail media

PwC held discussions with many CPGs and some Retailers. The key themes that arose from these discussions are:

CPG Marketing & Media teams are mostly aligned in seeking RDM classification as OPEX

(where permitted by accounting rules)

Marketing & Media teams want to retain visibility and control over RDM spends

(for CPGs)

Retailers should want RDM classified as marketing costs by CPGs, to help access incremental brand marketing budgets not reclassified trade marketing

(for Retailers)

Careful consideration over content of advertising: National ads (e.g branding or universal price promotions) potentially OPEX vs retailer-specific promotions unlikely to be OPEX.

(for CPGs)

Alignment required over: RDM contracts (separation of sales vs RDM), commercials, governance, negotiation/signature by retailer's RDM and CPG's marketing teams

(for CPGs and Retailers)

Retailers should seek to sell ad space to non-suppliers, to evidence these are genuine ads and hence CPG OPEX not contra-revenues

(for Retailers)

Questions?

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