

ROIHUNTER

The Retail Advertising Effectiveness Report

The latest e-commerce insights you need
to design a better marketing strategy.

2022



Introduction

Foreword from Karel Schindler

For retailers, the ability to understand how consumers think, feel, and decide is crucial. This has always been true, but it is perhaps even more important in light of recent public health and economic crises. Purchasing habits are evolving rapidly: what we buy, how we buy, and how we pay is increasingly being shaped by digital mediums, including internet and mobile marketing.

Many retail marketers have already shifted a large proportion of their budgets to digital channels. But as ad giants battle to capture online budgets, spend is rocketing and revenues are under threat. Overspend and ineffective use of advertising budget is now common and with the threat of a looming [recession](#) and the cost-of-living crisis worsening, retail marketers urgently need to find new ways to allocate budgets more efficiently and improve return on ad spend.

While most retailers advocate for a data-driven marketing strategy, there is a distinct lack of visibility and control when it comes to dynamic advertising campaigns, resulting in varying levels of success. So, what can – and should - retailers do differently?

To help us better understand how retailers are faring in the new digital shopping landscape, in June 2022 we commissioned research among 200 UK retail decision makers and over 2,000 UK consumers to explore the current effectiveness of digital advertising strategies. This report outlines the key findings and, more importantly, provides guidance to retail marketers on how to improve the effectiveness of their digital advertising now and for years beyond.

Karel Schindler

Founder & Chief Executive Officer



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Methodology

In June 2022 ROI Hunter commissioned international market research consultancy, [Censuswide](#), to conduct research among 2,015 UK consumers and 200 UK retail marketing decision makers from UK retail organisations with more than 10 million unique customers.

Marketing respondents had product catalogues of 500+ products, spent €25k+ on FB/Google ads per month, and belonged to the following sector splits across retail: Beauty, Marketplaces, Home Décor, Electronics, Fashion and Sports.

Respondents all had responsibility for digital marketing and job titles including Director of Digital Marketing, Head of Digital Marketing, Digital Marketing Manager, Marketing Director, Head of Marketing, and Marketing Manager.





Snapshot of Key Findings

Confidence in digital advertising strategies remains high

- 57% believe promotional spend is being placed in the right channels
- 56% say digital ads engage the right target market
- 20% say lack of visibility and control over dynamic ads is a top challenge

And budgets remain strong

- On average retailers are spending over £50k a month on digital advertising
- 54% could reduce digital marketing budgets if an online sales tax is introduced

But confidence is not translating into results

- 52% regularly waste marketing budget on digital ads that don't deliver
- Over £19k a month is wasted on ineffective advertising channels

Retailers lack actionable data to drive insights

- 56% struggle to measure the success of digital advertising campaigns
- 45% don't understand how much revenue is driven from digital advertising



Snapshot of Key Findings

There's a misalignment between marketing and purchasing

- 32% still make decisions on what to promote digitally based on a guess or gut feeling
- Only 36% understand which products have the highest & lowest margins
- Only 29% know their best-selling products or products that are low in stock

Pressure is mounting on marketers from consumers and the board

- 57% fear their brand will be cancelled if they get a digital ad wrong
- 38% of consumers will boycott a brand due to irrelevant ads
- 53% feel under greater pressure from the board to improve ROI over the past 12 months
- 52% say it has become harder to compete online since the pandemic

And the eradication of third-party cookies is posing major problems

- 47% say their current digital ad strategy is fully dependent on third-party cookies
- 30% of consumers are uncomfortable with retailers serving ads based on their online behaviour
- 50% of retailers plan to reduce their investment in dynamic ad campaigns in response

But there is a clear opportunity for retailers who get it right

- 69% of consumers admit to purchasing an item after seeing a digital ad
- 33% of consumers agree relevant digital ads improve their customer experience



Understanding Shopper Preferences

Today's shoppers are increasingly exposed to digital ads. However, the extent to which they are engaging with digital advertisements varies.

Have you ever purchased a product after seeing a digital ad for it?



While **69% admit that they have purchased an item after seeing a digital ad for it**, over a quarter (27%) say they do so 'rarely.'




Clearly, a significant number of digital ads are failing to resonate.

Almost two-thirds of consumers (64%) are regularly served adverts for irrelevant products, and 50% receive ads for out-of-stock items.

How often, if ever, are you served digital ads for the following?

	IRRELEVANT PRODUCTS	AN OUT-OF-STOCK ITEM	PRODUCTS WITH LOW AVAILABILITY
ALWAYS	9%	5%	5%
OFTEN	24%	14%	15%
SOMETIMES	31%	31%	33%
RARELY	13%	17%	17%
NEVER	14%	18%	16%

Not only does this result in wasted money for the retailer, but it also threatens consumer loyalty: **38% of customers say they have boycotted a brand after being served irrelevant online ads.**



To improve relevance of ads, many retailers rely on customer behaviour and intent data to determine who to target and with what. But is this what consumers really want? It's an issue that divides opinion.

While 32% of consumers are comfortable with targeted ads, 30% are not.

Comfort with targeted ads:

32% HAPPY



30% UNHAPPY






Purchase influencers

When making purchasing decisions, pricing is still considered the most influential factor by far.

Top 3 factors influencing consumers' decisions to purchase from an online retailer





At a time when many shoppers are tightening their purse strings, brand power is giving way to pricing power, forcing retailers to keep an ever-closer eye on the pricing strategies of their competitors.



In fact, 51% of retailers admit to having to rely more heavily on discounting to stimulate consumer demand since the cost-of-living crisis started.

Almost half (47%) of respondents would boycott an online retailer if they chose to charge for online returns.

This shows that even a small uplift could drive away customers, spelling bad news for fashion giants like Zara who recently introduced a charge for returns.




Tact is another important consideration for digital advertisers:
31% of consumers say they would stop shopping with a retailer if they served them an insensitive ad.



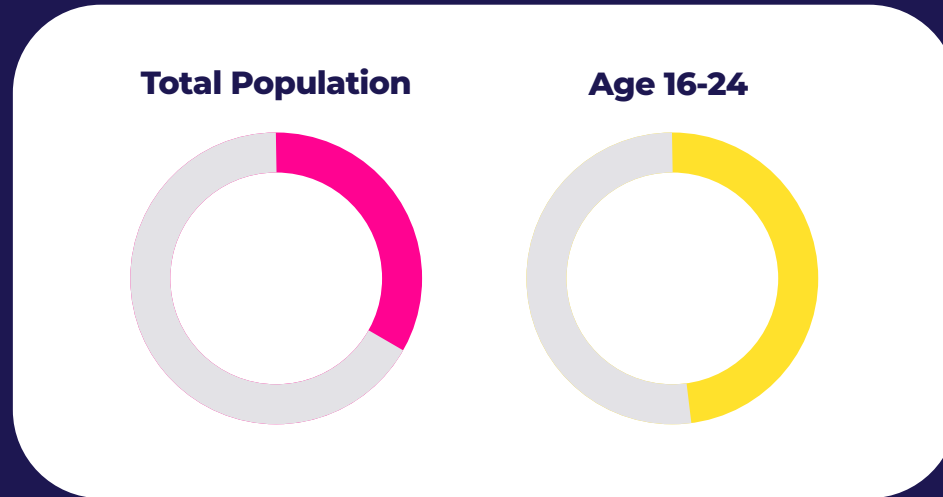
A similar sentiment is reflected by retail marketers, with **over half (57%) saying they fear their brand will get cancelled if they get a digital ad wrong** and 46% believing ads are now subject to more creative scrutiny from consumers.





But the picture is not all doom and gloom. Digital ads certainly have a role in enhancing the customer experience – but relevance is key.

A third of consumers (33%) agree that relevant digital ads improve their experience, rising to 49% among those aged 16-24.

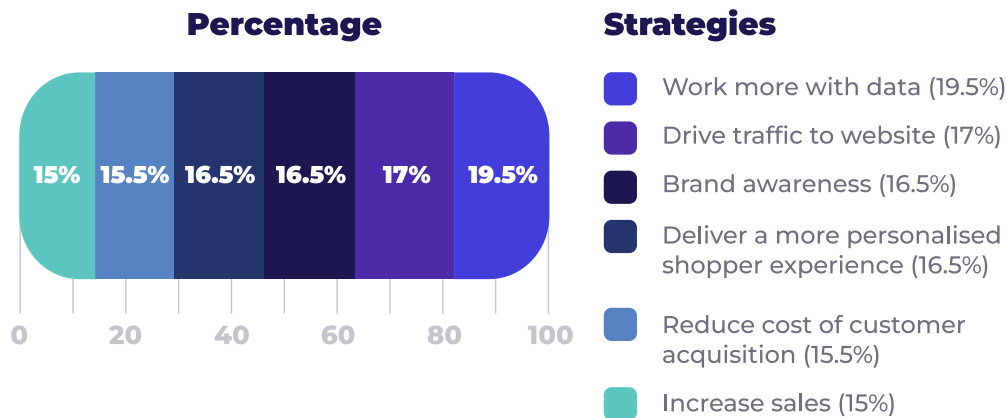


If they get it right, retailers stand to benefit from increased profitability and customer loyalty from well-thought-out digital campaigns.

Digital Advertising Strategy and Targeting


When it comes to digital advertising, the good news is that all retailers have a strategy in place.

Main focus of digital advertising strategies for 2022



The top three objectives of which are:

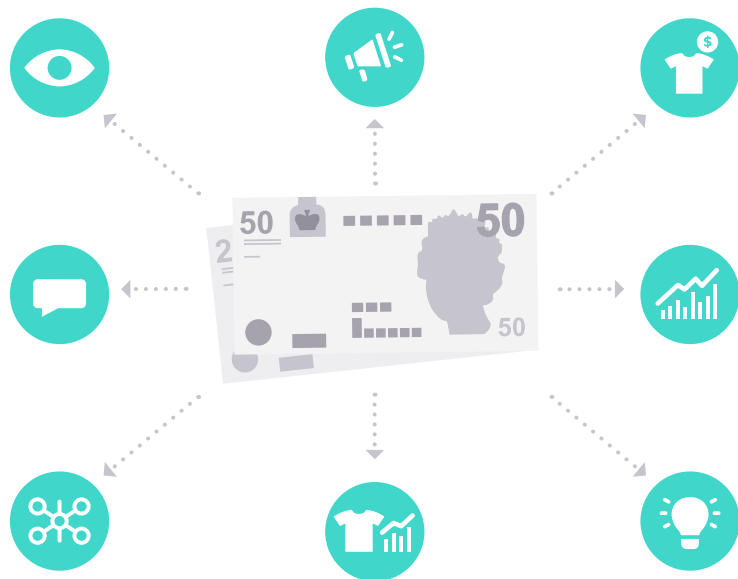
- Working more with data
- Driving website traffic
- Increasing brand awareness



Retailers in the fashion and home décor sectors are particularly driven to work more with data (**both 29%**), likely motivated by the rise of fast-fashion and the speed in which consumer trends change.



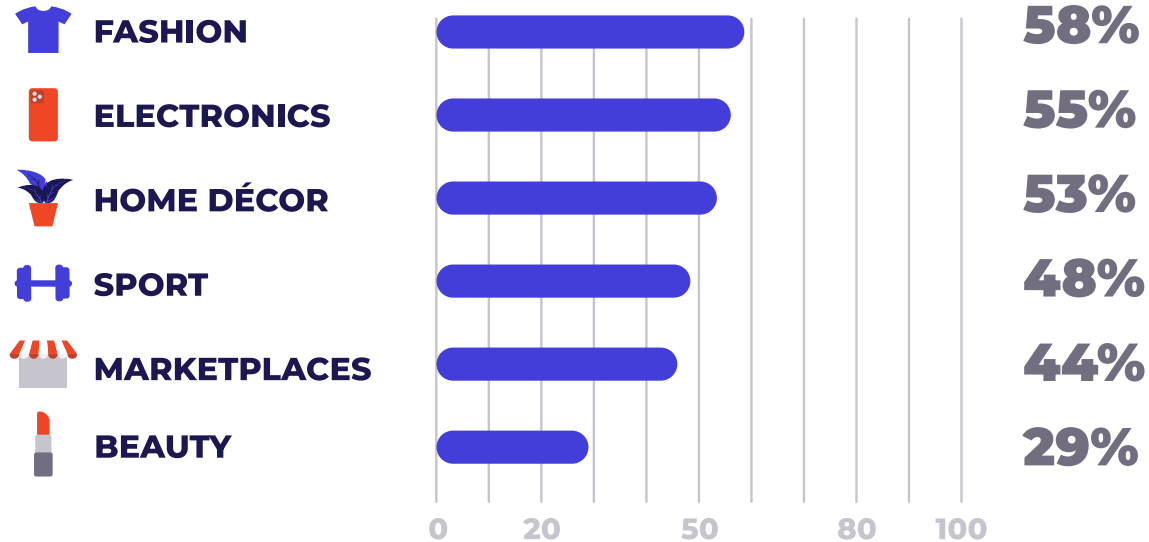
Confidence in digital advertising



Over half (57%) believe promotional spend is being placed in the right channels and 56% say their digital ads engage the right target market.

Despite clear gaps in visibility, confidence in digital advertising strategies is high.

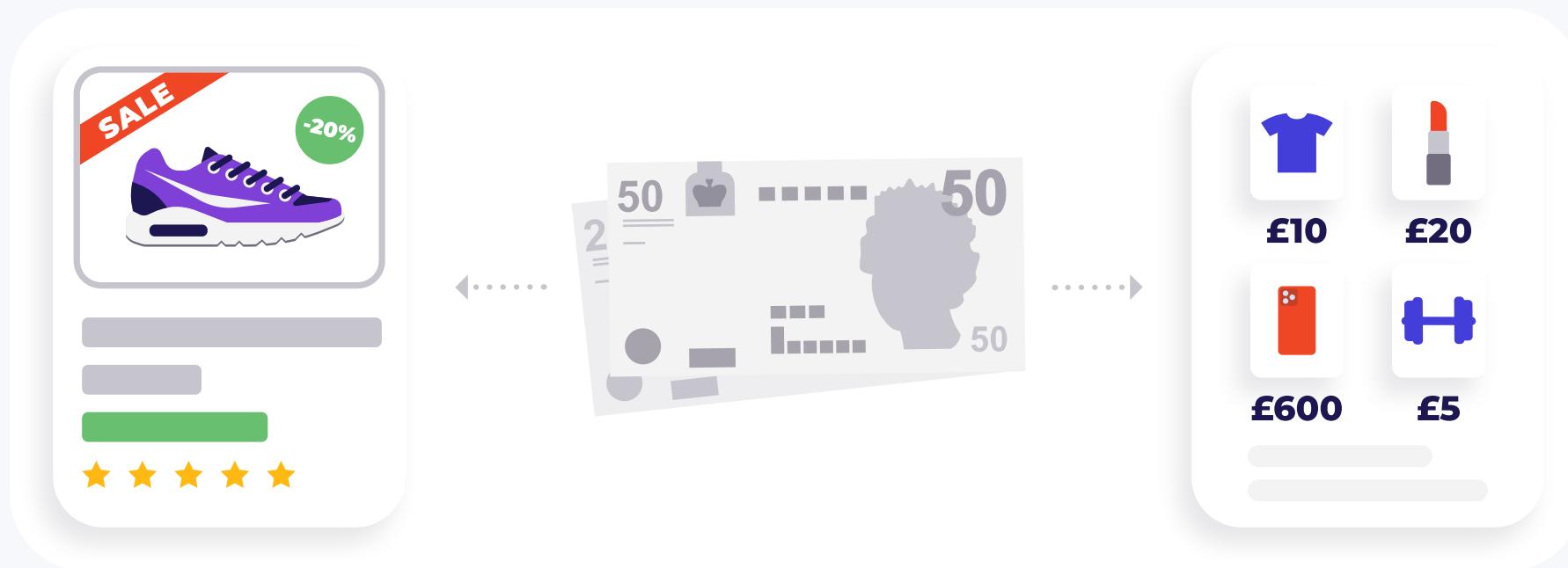
Confidence that advertising budget is being used effectively per sector



However, the same level of confidence is not reflected in budget allocation - **less than half (49%) of retail marketers say that advertising budget is being used effectively, with beauty retailers being the least confident (29%).**

Digital advertising budgets

Despite concerns about the effectiveness of campaigns, retail marketers are channelling more and more money into digital advertising.

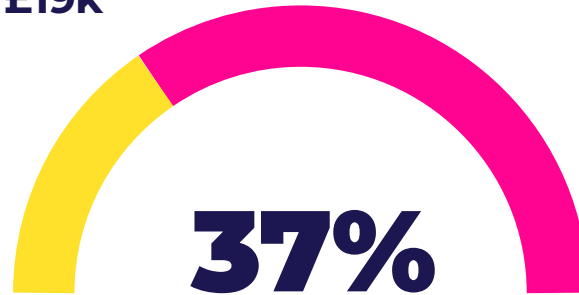


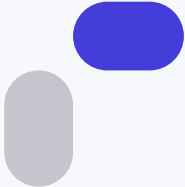
An average of £52,000 a month is now spent on digital ads –
no small change in today's harsh economic climate.

However, when asked what proportion of their budget they feel is wasted on ineffective channels, worryingly, retail marketers say 37%, equating to £19k a month.

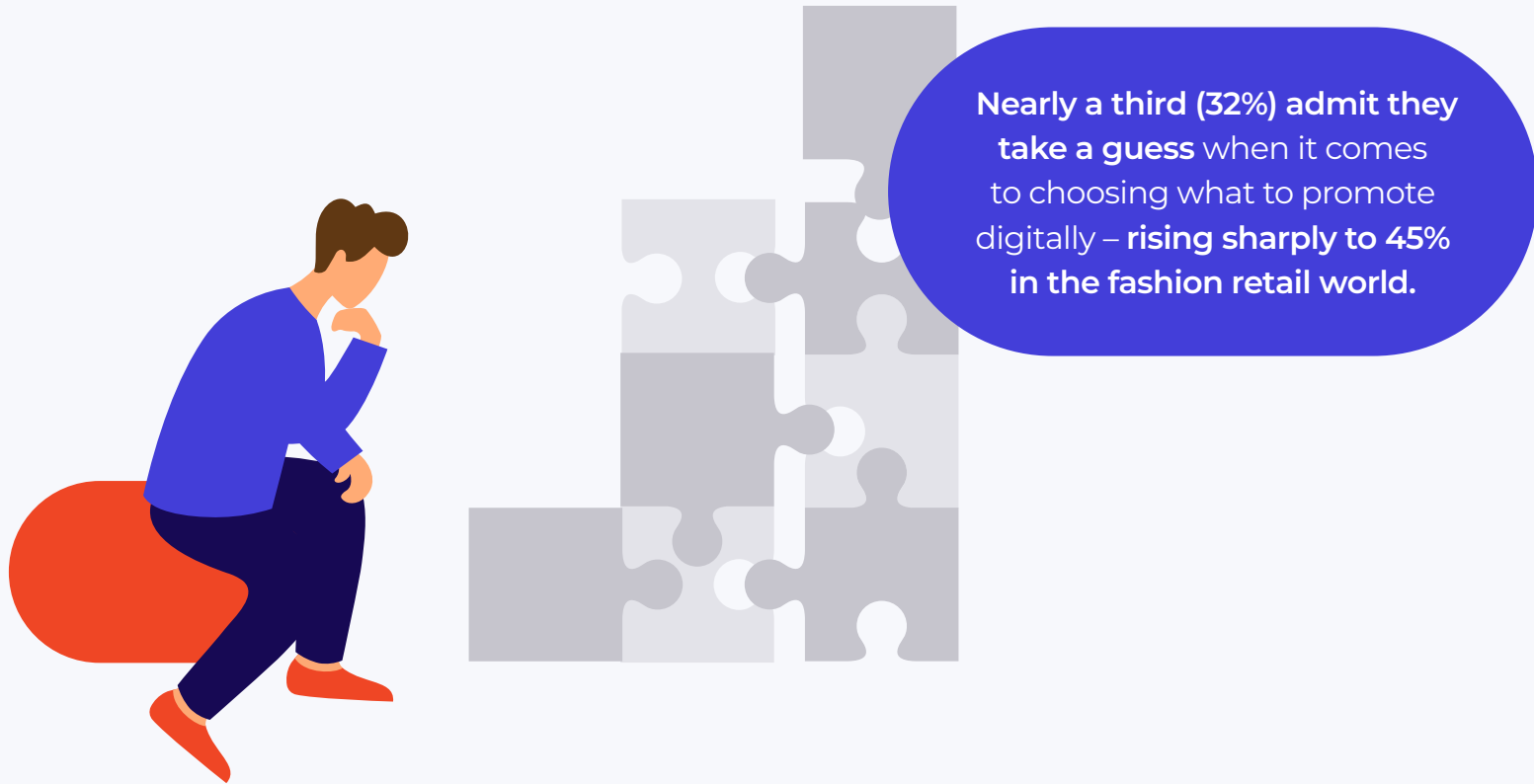
Amount wasted per month on ineffective channels:

£19k





Ineffective targeting could be down to the fact that a large proportion of **retail marketers still rely on gut feeling when making decisions.**



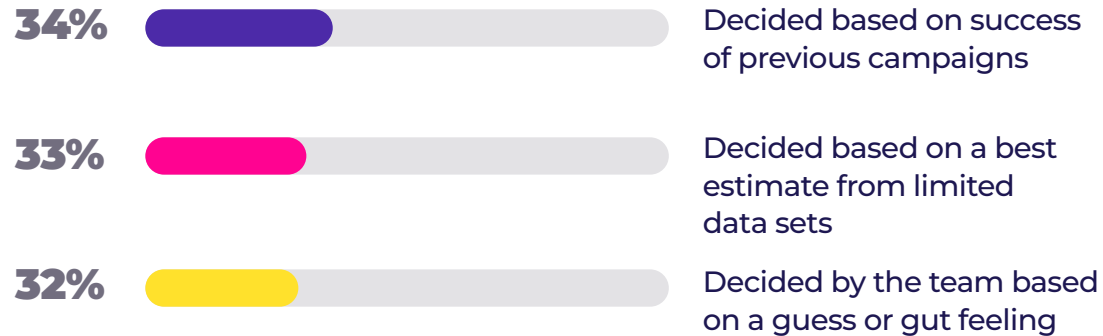
A third of retail marketers also say they base their decisions on a 'best estimate' from limited data sets.



Additionally, **only 26%** turn to engagement-based algorithms from social networks.

It seems that a lack of reliable and actionable data insights is leaving many retailers running blind, rushing out 'stab in the dark' digital ads that ultimately fail to drive meaningful results.

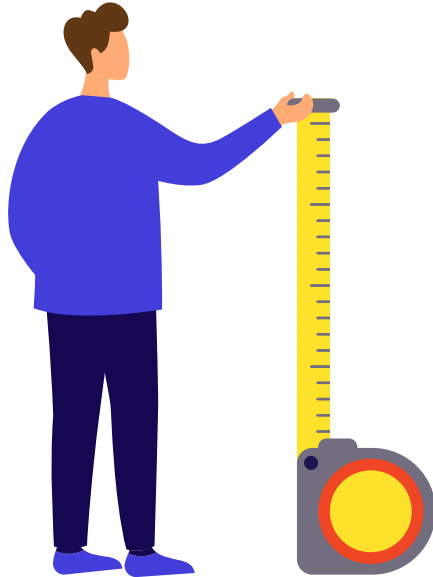
How are decisions made on what to promote digitally?



Impact of Digital Advertising Campaigns

Retail marketers need more actionable insights to objectively evaluate their digital ad efforts.

56% are struggling to measure the success of their campaigns.



52% of retail marketers admit to regularly wasting marketing budget on digital ads that fail to deliver meaningful results.

Just under half (46%) of ads retailers run fail to deliver the needed results, suggesting that **high digital ad spend is not driving greater ROI.**

46%



Ads failed to
deliver results

54%



Ads that deliver
results

It could be the case that retail marketers are being pulled in too many directions, with **retailers running an average of 18 campaigns a month on social media.**



Campaigns [18]:



£55



~~£65~~

£45



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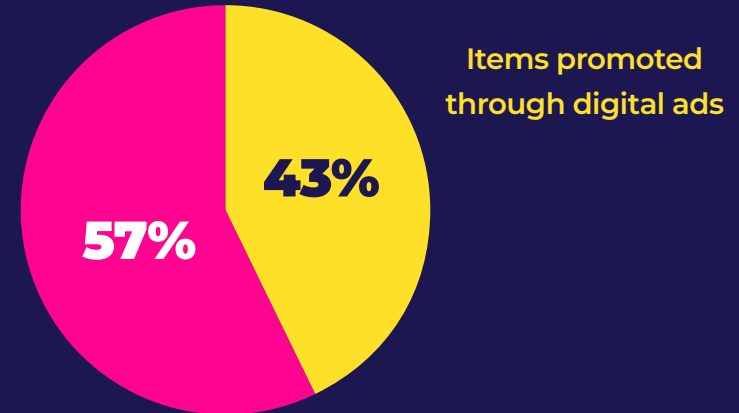





Different channels have varying success rates.

Twitter is considered the least successful channel for digital ads, with over a quarter (27%) of retailers saying they have had poor results for digital ads on the platform.

With retailers currently promoting an average of **43% of their product portfolio through digital advertising**, using ineffective channels and underperforming campaigns can be a serious drain on finances.





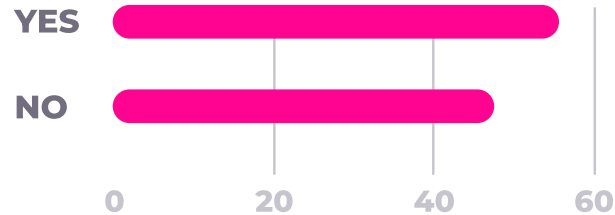
While dynamic ads across social media can provide a helping hand for automating and targeting product ads, **digital marketers often lack visibility into and control over which products these ads are promoting and why.**



Furthermore, social networks, like Facebook, often **use engagement-based algorithms to inform promotional planning**, which are not necessarily the right drivers when it comes to improving ROI.

Lack of visibility and control

Do you know how much of your revenue or sales comes from digital ads?



Wasted budget is also likely to be caused by a lack of visibility and data, with **nearly half (45%) saying they don't understand how much in revenue or sales is driven from digital advertising.**

This lack of insight into the performance of digital campaigns is emblematic of wider confusion about product visibility.

Only **36%** say they understand which products have the highest and lowest margins



Just **32%** know their new product arrivals and most profitable products

NEW ARRIVALS:

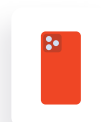


£10



£20

MOST PROFITABLE:

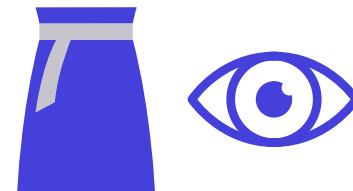


£600



£5

49% lack visibility over dynamic product ads



Additionally, marketers report they **lack control over their dynamic product ads in 44% of cases**, with this percentage being as high as **65% in fashion**.



This suggests that **most online retailers are lacking actionable data to drive effective decision making.**

This could also be why sales is not seen as a top objective of digital advertising, and indicative of a lack of alignment between marketing and commercial departments.

This assertion is also supported by the fact that **55% struggle to share and access data across the company and between departments.**



Trending:



£55



£55



£55



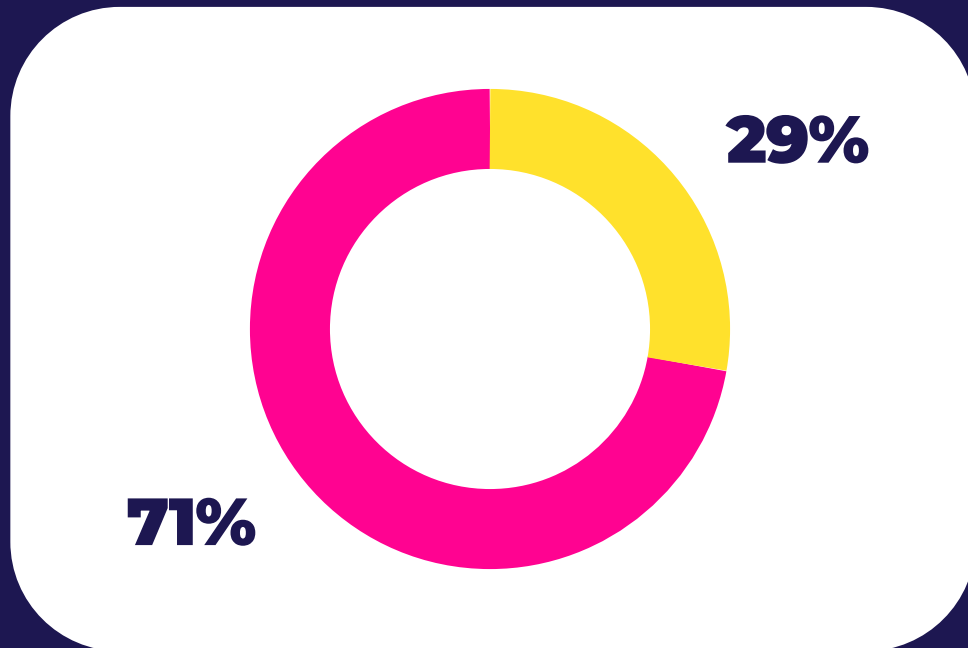


While many retailers struggle with cross-team collaboration, just 17% of marketers flag it as an issue.

The fashion industry struggles with this the most, with 29% of respondents marking cross-team collaboration in their top digital advertising challenges.



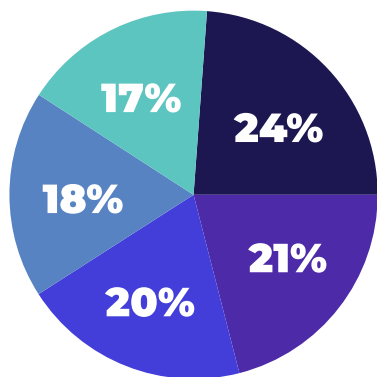
Only 29% of retail marketers admit to knowing what their best-selling products are, or which products are low in stock, despite lack of product availability being the second biggest reason why ads are perceived to underperform.



Campaign performance

Why do digital ad campaigns underperform?

Percentage



Reason

- Creative (24%)
- Lack of product availability (21%)
- Price (20%)
- Do not resonate with the right target audience (18%)
- Unpopular products (17%)

Perhaps surprisingly, creative is believed to be **the top reason why digital ads underperform.**

The need to remain competitive and keep up with consumer **trends in a rapidly changing landscape means that time is of the essence.**

3.5 weeks



Yet, on average, it takes retail marketing teams **3.5 weeks to set up a dynamic product ad campaign** – a relatively lengthy time frame, which could impact the retailer's ability to react quickly to external factors or seasonal trends.



Dynamic product ad campaign:



£55



~~£65~~

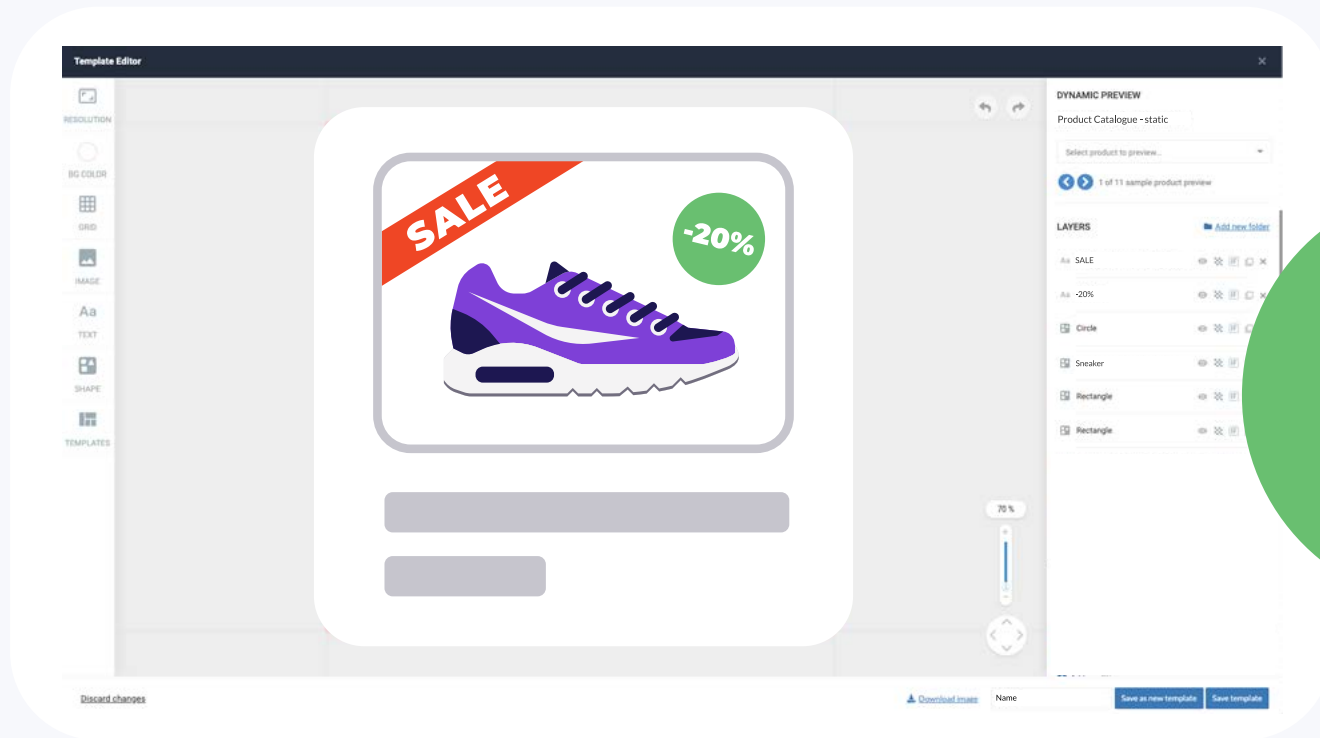
£45



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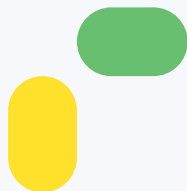
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Retailers could improve agility with creative tools like **template editors** that **allow marketers to respond to trends through smart data management, and enable Facebook promotions to be designed, built, and tweaked without additional approval needed.**

Promotions could then either be spun up or changed quickly and scaled as appropriate, **without having to go through the learning phase.**



Trending:



SALE:



Stock Levels:



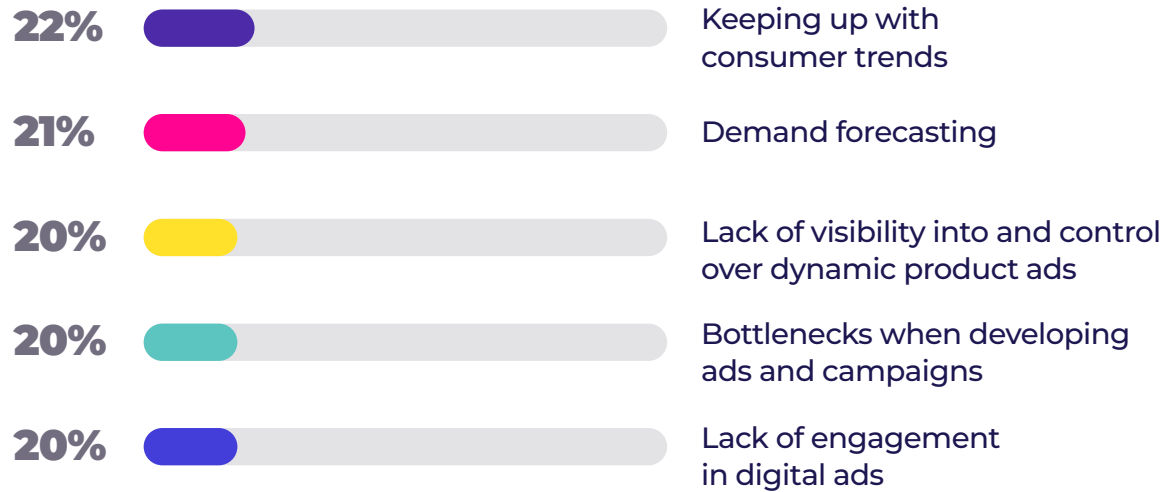
While over half of retail marketers (54%) say that they adopt a data-driven approach, a similar number **(51%) admit to struggling to stay on top of consumer trends**, suggesting they are missing out on revenue opportunities as shopping habits continue to change.

With the right data and technology, retailers can optimise their campaigns for SKU-level profitability, enabling businesses to **allocate budgets more efficiently and achieve greater return on ad spend.**





Retail marketers also cite several challenges with their current digital advertising strategy, the top five being:



Did you know?

In the sporting goods retail sector, the challenge of deciding where to use promotional budget is brought up in 34% of cases, **86% higher than the average.**

69% of sporting goods marketers agree that ads are subject to more creative scrutiny from consumers, **23% higher than the average.**

Additionally, **69% of sporting goods respondents admitted they struggle** to measure the success of their digital advertising.



Future-Proofing Digital Marketing

For retail marketing leaders, it's critical to ensure that allocated budgets are better utilised.



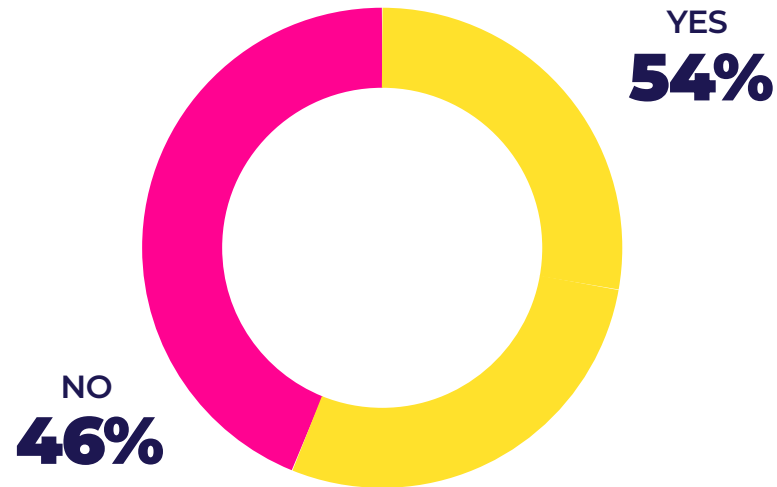
The majority (52%) of retail marketers say it has become more difficult to compete online since the COVID-19 pandemic, and **53% say there has been greater pressure to improve ROI from digital marketing over the past 12 months.**



Nearly 6 in 10 retail marketers (58%) believe digital marketing is seen as a drain on budget by business leaders.

Over half (54%) of retail marketers believe that digital marketing budgets will be reduced if an online sales tax is introduced.

Will marketing budget be reduced if there's an online sales tax?



This indicates that many retail marketing teams are struggling to demonstrate their true ROI and prove their value.



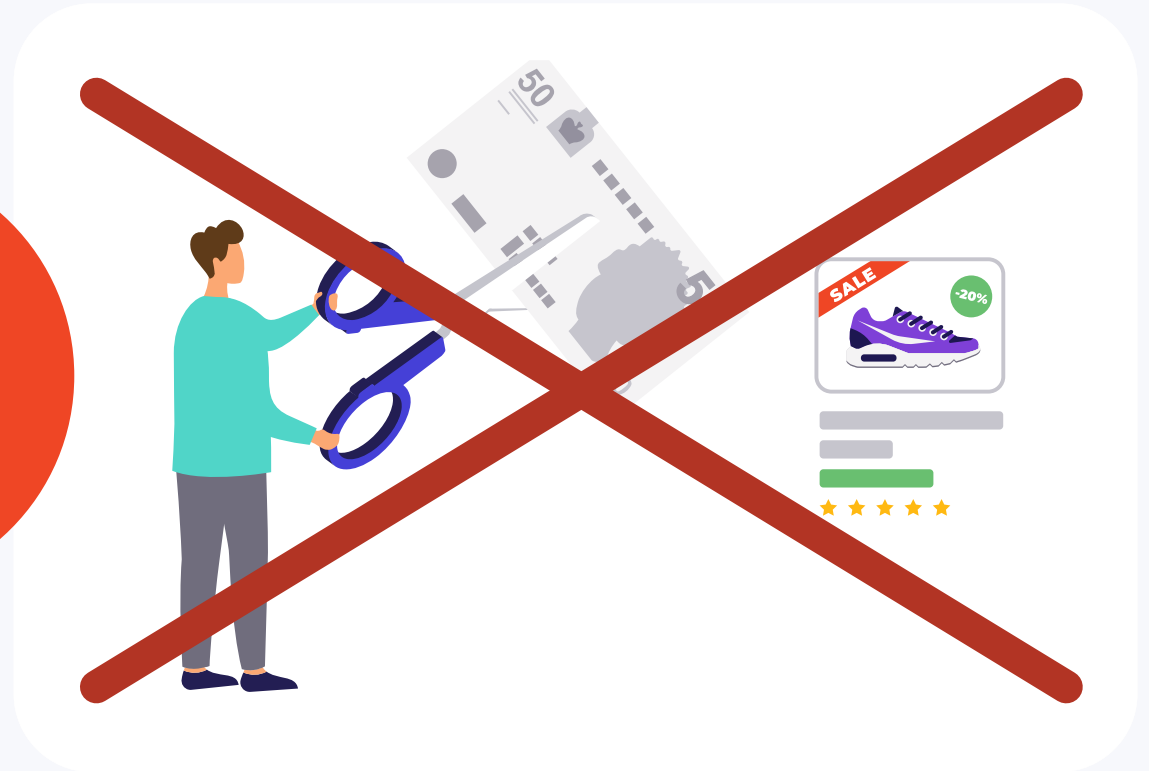
Retail marketers are also ill-prepared to adapt to looming data privacy changes. With major browsers planning to drop third-party cookies by the second half of 2024, many are now re-evaluating their current digital ad strategies.

Concerningly, almost half (47%) say that their current strategy is fully dependent on third-party cookies and 49% are worried about how the move will impact the performance of their adverts.

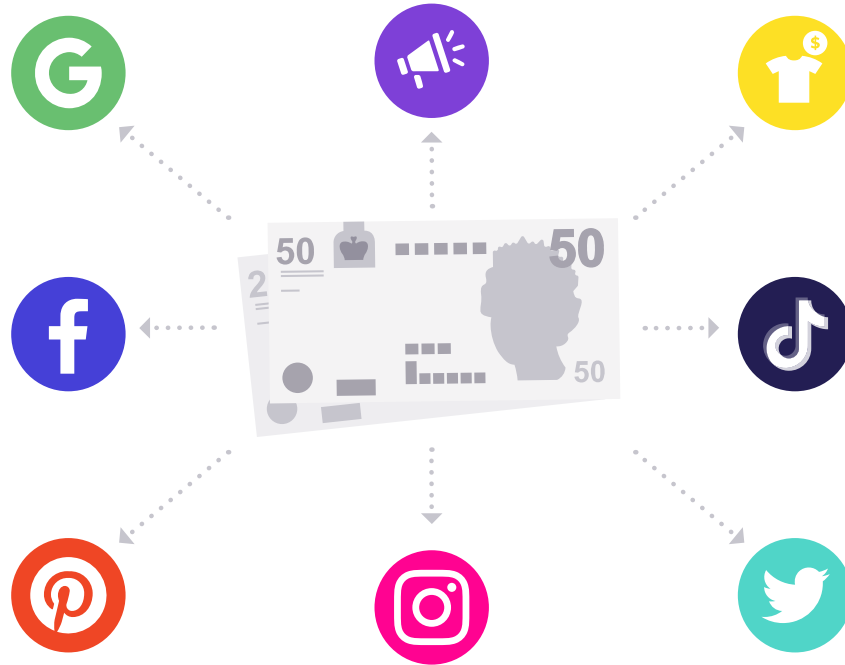
Half of retail marketers (50%) also suggest they will reduce their investment in dynamic ad campaigns because of the development.

But cutting budgets is not the answer.

Instead, retailers should seek alternative ways to evolve their data strategy and avoid the privacy complications that come with leveraging personally identifiable data.

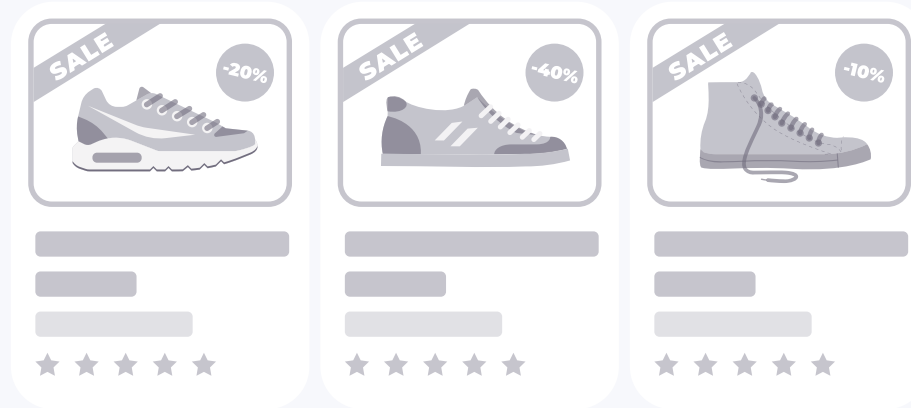
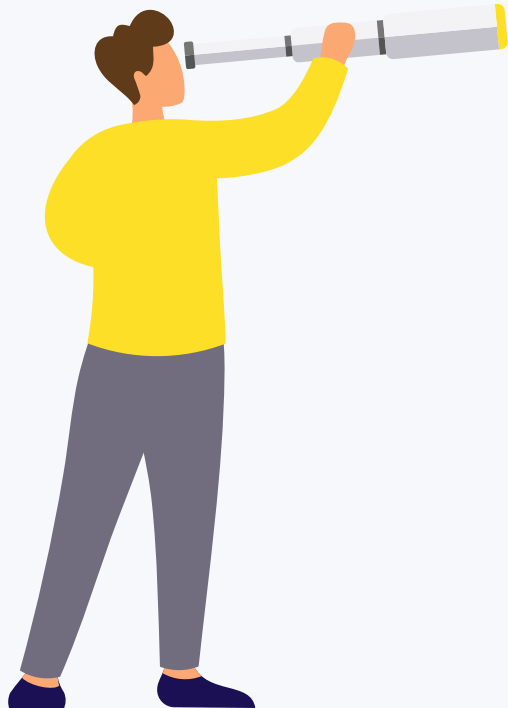


Conclusion



The explosion of online retail has forced retailers to dedicate more of their marketing budget to digital channels.

However, as budgets rise, so does waste and unnecessary spend on ads that fail to drive the results needed. **Lack of visibility into and control over the increasingly popular dynamic promotions is compounding this issue**, as retail marketers struggle to understand the impact of their campaigns.



Retailers are seeing varying levels of success when advertising across different channels, despite a high proportion of products being included in digital promotions.

The reasons for digital ad campaigns underperforming are attributed to a number of factors, including lack of product availability and failure to resonate with the right target audience.

Stock Levels:



So, what can retailers do differently?

For most digital marketing teams, the root of the problem lies in a **lack of actionable insights** to objectively evaluate their efforts and inform decision-making.

Currently, **many are choosing digital promotion strategy based on a gut feeling** and are still reliant solely on customer data as opposed to also including **product-level performance data**.



Yet, **high-quality product-level data is essential** to deliver more targeted, effective, and impactful digital ads, driving greater performance and ROI.

As we edge towards 2024, **we are going to see significant changes in the way retailers promote to and target their audience online.**

The phasing out of third-party cookies means **traditional ways of understanding and targeting customers will no longer be sufficient.**



Retailers will need to move away from relying on customer behavioural data alone to fuel their digital marketing strategies and target ads.



While the reaction for many businesses regarding privacy changes and a looming economic downturn is to reallocate or cut digital marketing budget, reducing spend is not the answer.

In fact, **retailers that reign in marketing expenditure in difficult times may find themselves losing share of voice (SOV) and share of market (SOM) to competitors.**

Procter & Gamble, the world's largest marketer, actually increased spending during the Covid-19 pandemic and thrived as a result. It's an example that serves as a rallying cry to marketers to stand up for their department during times of crisis.



KEY TAKEAWAYS

1. Stop wasting budget



As more and more money is funnelled into digital advertising, it's essential that marketers **learn how to allocate their budget efficiently and effectively.**

Since wasted budget can be attributed to lack of visibility and data, retail marketers need to **gather more actionable insights** to objectively evaluate their digital ad efforts and prove their value to the board.

2. Put data at the forefront of dynamic campaigns



Retailers should include product-level performance and business data in their strategy to understand how their dynamic budget is spent.

Technology like a [product performance management \(PPM\) platform](#) connects product data from across a retailer's channels and custom sources, giving **visibility into what their dynamic campaigns are promoting, and control over where their budget is spent.**

3. Address consumer privacy concerns



With growing concerns about consumer privacy and changes to data privacy regulations, retailers should consider expanding their strategy to include new data sources.

By supplementing customer behavioural data with additional signals from cross-channel product data, retailers can ensure accurate targeting while remaining compliant with consumer-driven regulations such as GDPR.

4. Synchronise data across teams to avoid missed opportunities



Eradicate data silos across departments by ensuring that commercial and marketing teams can see the full picture. **With access to margins, return rates, cost of goods sold, and stock-level figures from the commercial team, marketing can know which products are a priority for promotion**, and can shift focus accordingly. PPM technology can be used to connect this cross-channel product data, and make it actionable across departments.



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