

PERFORMANCE MARKETING IN US RETAIL

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Yory Wurmser

Contributors: Catherine Boyle, Tricia Carr, Ricky Costa, Lauren Fisher, Corey McNair,
Monica Peart



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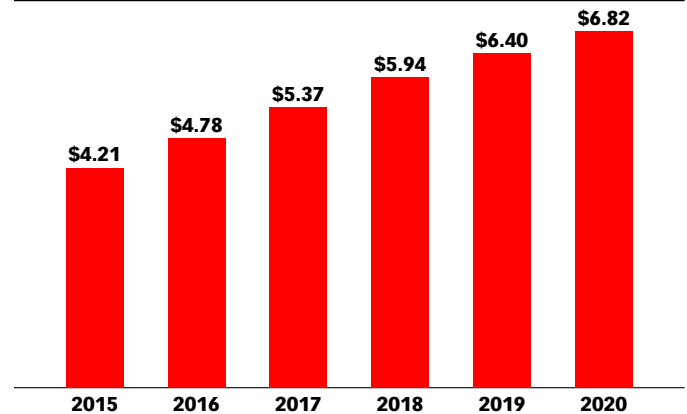
PERFORMANCE MARKETING IN US RETAIL

Performance marketing uses clearly defined and measurable business objectives as the basis of payment or optimization. This includes cost-per-action (CPA) models, such as affiliate marketing, and programmatic ads that optimize based on real-time performance metrics.

- Affiliate marketing accounts for 7.5% of total digital spend among retailers. Pay-for-performance marketing in general, which includes search, classifieds, app install ads and email, accounts for nearly half of digital retail ad spend.
- Affiliate marketing is growing for several reasons: It's highly measurable, it can scale easily, and more premium and social content publishers are opening up their inventory to it.
- Better attribution techniques have also enabled the rise of programmatic marketing, much of it billed on CPM impressions but optimized for CPA or other performance metrics.
- Performance marketing in general has grown in the retail marketplace because retailers are under fierce pressure for efficiency due to Amazon.com and their falling foot traffic.
- A better understanding of the consumer journey has enabled a more nuanced use of multichannel marketing with appropriate attribution.
- Online-to-offline (O2O) goals have proliferated. Facebook and Google have led with new O2O ad products and measurement tools, but they are far from alone.
- Lifetime value is giving media buyers a better understanding of the long-term value of new customers acquired with performance marketing.

WHAT'S IN THIS REPORT? This report defines performance marketing, explains its overall growth in retail and looks at how it is changing the retail landscape in the US.

US Affiliate Marketing Spending, 2015-2020 billions



Source: Rakuten, "Networks Help Drive Affiliate Marketing Into The Mainstream" conducted by Forrester Consulting, Feb 3, 2016
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KEY STAT: Affiliate marketing will account for nearly \$5 billion in digital ad spend in 2016, according to Rakuten, a figure that is growing more than 10% per year.

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PERFORMANCE MARKETING DEFINED

The common thread in all performance marketing is that it sets clearly defined business objectives that can be measured through consumer actions. Some performance marketing uses these actions as the basis for payment, while others use this data as a feedback loop to continually refine the audience, daypart, offer, message or any other criteria of an ad buy.

Performance marketing originally only referred to advertising with a payment model based on a CPA; in other words, advertisers pay publishers after the completion of a specified action. The classic performance channel is affiliate marketing, often paid on a cost-per-sale basis. A CPA, however, could refer to consumer actions other than a sale. Search is paid on the basis of cost per click (CPC), app install ads are paid following an install and many video ads are paid following a view.

Performance marketing is marketing that uses clearly defined and measurable business objectives as the basis for payment or optimization.

“Performance marketing for us means anything that’s not CPM,” said Aruna Bhagtani, director of product management at CJ Affiliate, an affiliate marketing network. “Performance marketing means that as an advertiser, you see some return on ad spend regardless of the way you compensate the publisher for it.”

Many performance agencies take a broader view and consider performance marketing any advertising that is optimized for specific business objectives, even if paid on a per-impression basis. “We define performance marketing as any type of marketing that is data-driven, measurable and linked directly to a business result,” said Miriam Newton, vice president of product marketing at performance agency Criteo.

One example is Facebook’s optimized CPM ads, which are served to a user audience most likely to take the desired action based on behavior, interests, etc. This audience is constantly refined based on real-time performance data. Although they are sold on CPM, these Facebook ads are selectively served to reach a target CPA, return on ad spend or another performance-based benchmark.

This broader definition opens up virtually all media as possible performance channels—for instance TV ads, if the desired audience is tied to specific goals, such as an online conversion or offline store visit.

Performance marketing can even extend to brand marketing if it is optimized for conversion lift or another measurable objective. “Some legacy channels had an early classification as performance channels because they had the ability for real-time measurement and optimization,” said Diana Gordon, senior partner at Mindshare North America and director of Shop+, the agency’s commerce division. “But our point of view is, as marketing becomes more measurable, it all becomes performance marketing.”

Many retailers, including Staples, agree. “Ultimately for Staples, we consider all media dollars as performance advertising,” said Jay Poropatich, senior director of digital marketing at the office supplies retailer. “Every dollar that has a media focus is aligned to a media [key performance indicator] KPI, and we associate the word performance to this across the board.”

As a result, the Interactive Advertising Bureau (IAB) is shifting its attention in performance marketing. “We’re largely focused on performance measurements these days as opposed to performance media,” said Benjamin Dick, director of industry initiatives at the IAB. “That’s a symptom of a broader, more holistic approach to what performance actually means, which [includes] both branding and direct-response KPIs. Advertisers now can look at lift, whether it’s brand lift, message recall or another metric, and optimize aggressively toward it, the same way that they can optimize off a coupon.”

PERFORMANCE MARKETING'S ROLE IN RETAIL

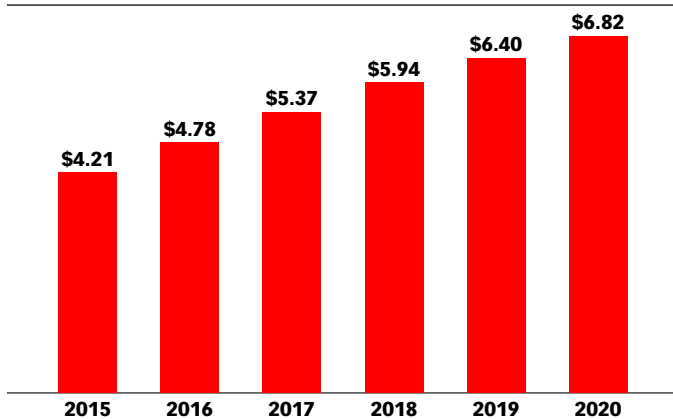
The retail industry devotes just over half of its digital ad spending on media generally transacted via performance, whether CPC for search, CPA for affiliate or cost per impression for app install. Of the remainder, the majority are programmatic display ads (including video), with most bought on some variant of CPM optimized for business objectives.

AFFILIATE SPENDING'S INCREASE

According to a February 2016 report conducted by Forrester Consulting and commissioned by Rakuten, US digital affiliate spending will total \$4.78 billion in 2016, a 13.5% increase over 2015, and accounting for roughly 7% of total digital ad spend in the US. Other estimates are higher. Business Insider, for instance, estimated affiliate spend at roughly 15% of total digital ad spend.

US Affiliate Marketing Spending, 2015-2020

billions



Source: Rakuten, "Networks Help Drive Affiliate Marketing Into The Mainstream" conducted by Forrester Consulting, Feb 3, 2016

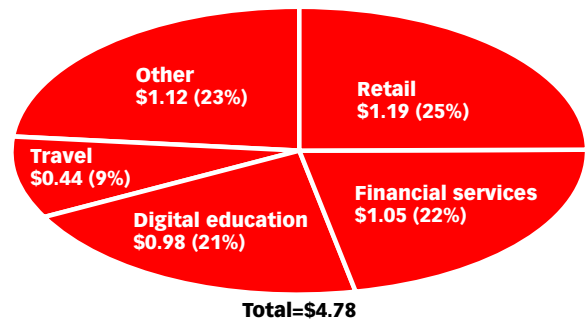
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About a quarter of affiliate spending, or \$1.19 billion, comes from retailers, according to Rakuten. This represents 7.5% of eMarketer's estimate of total retailer digital spend, \$15.81 billion. "That translates to [selling] hundreds of billions of dollars in gross merchandise volume that retailers are experiencing through the affiliate channel," said Tony Zito, CEO of Rakuten Marketing.

US Affiliate Marketing Spending Share, by Industry, 2016

billions and % of total



Source: Rakuten, "Networks Help Drive Affiliate Marketing Into The Mainstream" conducted by Forrester Consulting, Feb 3, 2016

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Factors Increasing Affiliate Marketing Spend

The 13.5% increase in affiliate spending is less than some other digital formats, but it is still significant. Several factors are driving this growth:

- Better data.** "The sheer amount of data that's available is responsible for some of this growth," Bhagtani said. "In the past, it was hard for advertisers to tell whether affiliates were successful in anything but closing the deal. ... A lot of those insights can be [identified] today. It's easier to have those conversations with CMOs and get the opportunity to shift budgets."
- Limited impact of ad blockers.** In the example of VigLink, an affiliate exchange, the company responded to ad blockers by "going first party and making deals with the largest ad blockers to let our ads through," according to Oliver Roup, VigLink's founder and CEO. "Given that our ads are unobtrusive (they're just an ordinary hyperlink), most ad blockers permit us while they don't permit display, so our share of wallet actually goes up."
- Premium publishers discover affiliate marketing.** "We've had a huge influx of large media companies and content publishers that are engaged with the network and have an engaged audience," Bhagtani said. Other affiliate networks interviewed by eMarketer reported the same shift in publisher type. In Rakuten's survey, 20% of the revenue from the largest publishers came through affiliate. "That's a big shift," Zito said. Additionally, several companies have developed technologies that skim pre-existing content and add contextually relevant links.

■ **Affiliate marketing can scale easily.** Because affiliate marketing often works on commissions, it's an easier cost to justify. "Revenue [from affiliate] is the only uncapped revenue channel that a lot of companies can rely on," said Mike Jaconi, co-founder and CEO of deep-linking exchange Button, which facilitates mobile affiliate ads. "You have to sign an insertion order every week or every month with other ads. In our case, we're an always-on revenue stream." And in the case of iGourmet, "we view [affiliates] as a salesforce that we don't have to personally employ," said Tracy Chesman, director of strategic initiatives at the ecommerce company.

■ **Social media has become a leading source of affiliate links.** "We've seen [affiliate revenue from] social publishers grow 108% year over year," said Heather Aeder, vice president of analytics and insights at performance marketing provider Pepperjam. Facebook, Pinterest and Twitter now all allow embedded affiliate links. VigLink, among others, simplifies link creation and sharing on these platforms. Additionally, a new generation of shopping apps have a distinct social angle. Influenster, for instance, is a shopping community that sends samples to consumers with a significant social following and uses affiliate networks to populate product pages and supply outgoing links. As these influencers have gained prominence, new tools allow them to easily share content among different platforms. For the Stylinity app, a user can try on an outfit, scan a barcode for product information, take a selfie and get connected with retailers with affiliate links for those products. "One of the challenges we see within retailers is that they have evolved with silos for their social side and their affiliate side," said Tadd Sperring, founder and CEO of Stylinity. "Those two should be synchronized."

Affiliate ad spending has a large impact on ecommerce orders. Custora looked at ecommerce activity on its platform and found that affiliate ads drove 14.3% of ecommerce in 2015, third among paid channels. Paid search and email, both performance channels, ranked higher with 18.2% and 15.8%, respectively. Together, these CPA-based channels accounted for 48.3% of ecommerce sales.

Share of US Ecommerce Orders Attributed to Select Ad Formats, 2015

% of total

Organic search	22.6%
Direct	21.2%
Paid search	18.2%
Email	15.8%
Affiliates*	14.3%
Social	1.5%
Display	0.9%
Other	5.7%

Note: represents activity on Custora's platform, broader industry metrics may vary; read as paid search ads drove 18.2% of ecommerce orders; numbers may not add up to 100% due to rounding; *includes referrals
Source: Custora; eMarketer calculations, Oct 4, 2016

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Other Pay-Per-Performance Channels

Affiliate marketing accounts for only a fraction of pay-for-performance marketing. eMarketer estimates that search ad spending, which includes affiliate, will total \$33.28 billion by the end of 2016—a 46.2% share of total digital ad spend and 15.4% increase year over year. Classified advertising will account for an additional \$1.80 billion, or 2.5% of total digital ad spending. Together, nearly half of digital ad spending will go to these primarily CPC- or CPA-based ad formats.

US Digital Ad Spending, by Format, 2015-2020

billions

	2015	2016	2017	2018	2019	2020
Display	\$26.92	\$34.56	\$40.86	\$46.19	\$51.51	\$56.63
—Banners and other*	\$11.91	\$14.38	\$16.18	\$17.84	\$19.51	\$21.45
—Video	\$7.68	\$10.30	\$12.55	\$14.40	\$16.29	\$17.95
—Rich media	\$5.60	\$7.97	\$10.07	\$11.79	\$13.45	\$14.87
—Sponsorships	\$1.73	\$1.90	\$2.05	\$2.16	\$2.27	\$2.36
Search	\$28.84	\$33.28	\$37.44	\$42.18	\$46.86	\$51.37
Lead generation	\$1.73	\$1.85	\$1.95	\$2.02	\$2.07	\$2.12
Classifieds and directories	\$1.79	\$1.80	\$1.98	\$2.14	\$2.27	\$2.37
Email	\$0.28	\$0.31	\$0.34	\$0.37	\$0.39	\$0.41
Mobile messaging	\$0.27	\$0.29	\$0.29	\$0.29	\$0.28	\$0.28
Total	\$59.82	\$72.09	\$82.86	\$93.18	\$103.39	\$113.18

Note: includes advertising that appears on desktop and laptop computers as well as mobile phones, tablets and other internet-connected devices on all formats mentioned; numbers may not add up to total due to rounding; *includes ads such as Facebook's News Feed Ads and Twitter's Promoted Tweets

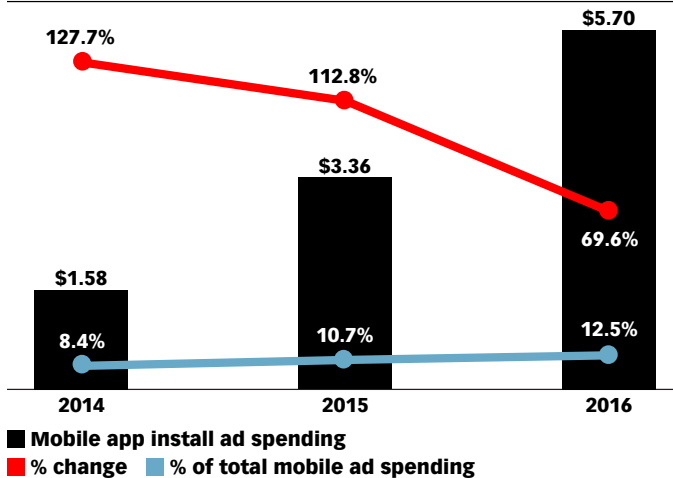
Source: eMarketer, Sep 2016

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Mobile has also spawned another performance marketing format: the app install ad. Of the \$5.70 billion that eMarketer estimated for these ads in 2016, less than a quarter of them came from retailers, financial services, media and travel combined.

US Mobile App Install Ad Spending, 2014-2016
billions, % change and % of total mobile ad spending



Note: includes advertising that appears on mobile phones and tablets, and includes all the various formats of advertising on those platforms; excludes app re-engagement ads

Source: eMarketer, Oct 2016

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Retailers often view app installs as a secondary priority at best. “Most of our ecommerce customers ... optimize for return on ad spend,” said Cheryl Morris, vice president of marketing at Nanigans, a performance platform for social advertising. “That doesn’t mean they’re not spending to drive to mobile app install downloads, but most are concerned with driving revenue, acquiring new customers and increasing purchase frequency and average order values.”

As tracking technologies and algorithms improve, several CPC formats are evolving to target downstream actions like conversions. Search is a prime example. “You buy it on CPC still, but our automation algorithms will get you to that CPA with a very high degree of confidence,” said Nicolas Darveau-Garneau, Google’s managing director of performance solutions for the Americas.

TapInfluence also is moving away from CPC bidding, according to Laura Smous, head of product marketing at the influencer platform. “Certain performance-based pricing can incentivize the wrong behavior, for example generating a high number of clicks. While we collect all of this information and make it available to our customers, we feel engagement [for instance, sharing] is a much more modern metric for marketers.” As a result, advertisers can bid based on a predicted cost per engagement.

Similarly, video advertising platforms such as Eyeview have begun to optimize their audience and track offline conversions. They are still selling on views, but they’re delivering an audience with a high likelihood of hitting CPA or return on ad spend targets.

PERFORMANCE BEYOND PURE PAY-FOR-PERFORMANCE MARKETING

With improved attribution tools and the spread of programmatic buying, performance marketing has moved beyond pure pay-for-performance advertising paid on the completion of an action. A large number of CPM ads are served to reach a target CPA, return on ad spend or another performance-based benchmark for the campaign. Audiences are constantly refined based on iterative ad performance, and this type of optimization is the basis of most programmatic advertising. “Without underlying performance metrics, you don’t have anything to optimize against or to [signal how to] reallocate your spend to improve performance over time,” Dick of IAB said.

Even so, not all programmatic advertising is performance advertising. One example: brand awareness ads bought with CPM directly via Facebook or Twitter’s automated platforms. An ad buy could target reach in a desired demographic, but it would not necessarily produce a measurable action. It could do this, of course, if the advertiser is interested in measuring a specific outcome. Both platforms offer advertisers the opportunity to measure conversion lift, which shows the different impact on downstream sales between people who saw the ad and those who didn’t. This tool turns these brand awareness ads into performance ads by introducing measurable goals.

Because of this fading distinction between brand and performance goals, it is nearly impossible to nail down overall performance marketing spend. In general terms, however, performance-based CPM ads are growing rapidly. eMarketer estimates that US programmatic digital display ad spending will total \$25.23 billion in 2016, making up 73.0% of total digital display ad dollars. Almost half of this will be bought on real-time-bidding (RTB) exchanges, which are largely based on performance optimization. Even most of the programmatic direct buying occurring on platforms like Facebook and Twitter are performance ads.

US Programmatic Digital Display Ad Spending, by Transaction Method, 2014-2018

billions, % change and % of total programmatic digital display ad spending

	2014	2015	2016	2017	2018
Real-time bidding (RTB)*	\$6.02	\$8.40	\$11.86	\$14.66	\$16.67
—% change	67.9%	39.4%	41.2%	23.6%	13.7%
—% of total programmatic digital display ad spending	52.0%	48.0%	47.0%	46.0%	44.0%
Programmatic direct**	\$5.56	\$9.10	\$13.37	\$17.21	\$21.21
—% change	390.7%	63.6%	47.0%	28.7%	23.3%
—% of total programmatic digital display ad spending	48.0%	52.0%	53.0%	54.0%	56.0%

Note: includes native ads and ads on social networks like Facebook and Twitter; includes advertising that appears on desktop/laptop computers, mobile phones, tablets and other internet-connected devices; *includes programmatic ads that are transacted in real time, at the impression level; **includes all programmatic ads that are transacted as blocks of inventory using a non-auction-based approach via an API
Source: eMarketer, Sep 2016

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For a more extensive look at programmatic advertising, see eMarketer's "[US Programmatic Ad Spending Forecast: Most Mobile and Video Ad Dollars to Be Automated by 2018](#)" and "[US Programmatic Advertising: Seven Things Buyers and Sellers Need to Know Now.](#)"

RETAIL AND PERFORMANCE ADS

"Historically, retail has valued performance marketing," Rakuten's Zito said. Several reasons account for this:

- **Pressure for efficiency.** "[Retailer] marketing teams are being challenged to do more with less, to be more efficient with their dollars," said Sven Tarantik, vice president of retail marketing strategy at Oracle Data Cloud. "You can't have a conversation with a retailer right now without discussing performance and how it weighs in." A chief reason for this is Amazon. "In industries where you have an online [business-to-consumer] B2C player who's making a really big impact and creating intense competition, there is a need to be really good at performance marketing," Pepperjam's Aeder said. "In retail, that's Amazon."
- **New marketplaces.** Many publishers are developing marketplaces that either send customers to retailers, or use one-touch checkout provided by the retailers' ecommerce platform, such as Shopify. Polyvore, for instance, sends visitors to retailers on a CPC basis for promoted products. "We're focused on the discovery and inspiration side of the shopping experience and think the purchasing function is best left to the retailer," said Katherine Crane, regional director of advertising at Polyvore. Others, such as home design marketplace Houzz, keep the shopping experience on the site itself, taking a commission of sales generated or, in some cases, acting as the retailer of record. "We've always had the idea that if you see beautiful photos [of people's homes], we should make it easy for you to find the things within the photos, whether that's at a local dealer or buying them on Houzz," said Liza Hausman, the company's vice president of industry marketing.
- **Retailers are a conduit for brand performance spending.** Retailers have long enabled brand advertising with endcaps and coupon distribution, but now brands are also buying access with retailer performance marketing. "In many cases we enable our vendor partners," Staples' Poropatich said. "We deploy media dollars on their behalf and we leverage the dataset we have internally to help assure them and report back successes."

BETTER UNDERSTANDING OF THE CONSUMER JOURNEY INCREASES VALUE OF PERFORMANCE ADS

This model may be evolving, however, as brand advertising is “less centered on a retailer per se and more centered on the customer and what the customer is doing right now,” said Jonathan Opdyke, CEO and founder of HookLogic, a platform for brands to place product ads on retailer sites. “That means that marketing budgets are changing. What used to be a promotion or co-op budget will increasingly become ecommerce and performance marketing budgets.” HookLogic is taking advantage of this change by creating a new exchange for space on retailer ads, allowing brands to co-bid with retailers for performance ads.

Other performance advertising exchanges are developing to sell brand ads within retailer channels. Proximity marketing platform Swirl, for instance, has created an in-store mobile media exchange that lets brands piggyback on retailer or content apps that engage with in-store beacons to send push notifications on their behalf. “A lot of our retailers recognized that once we set up these location signals, what’s even more attractive is this new shopper marketing opportunity for their brand partners,” said Rebecca Schuette, director of marketing at Swirl Networks. “We’re the conduit for that, but the retailer owns the inventory and chooses to resell that inventory to select brand partners.”

- **Amazon becomes a performance channel.** Amazon is the ultimate example of a retailer that doubles as an advertising platform becoming a major channel for performance-based product advertising. “We’re doing a lot more ... search within Amazon,” said Scott Shamberg, Performics’ president for the US. “They’re trying to upgrade their tracking tools very quickly. They’re also reporting their analytics.”

By combining CRM, behavioral and offline data, retailers are developing a more nuanced understanding of shopper intent. “One of the big trends in performance centers around the customer journey,” said Michael Jones, co-founder and CEO of Pepperjam. “Understanding that data and collapsing the channels ... is defining the expectation of sophisticated media buyers in 2016.”

“Now that you can track all of the steps of the journey, you can do a much better job of [picking out] which things are influential and which deserve credit for the sale,” said Mark Smith, president of Kitewheel, a cloud-based customer journey hub. “It’s not necessarily that the end objective is different. It’s more that there’s a lot more detail on each step to get there that’s now available to be analyzed.”

eMarketer estimates that 39.4% of US companies now monitor the consumer journey with multichannel attribution, up from 30.6% in 2015. “Multitouch attribution is a very, very hot button right now [for retailers],” Oracle Data Cloud’s Tarantik said. “It makes a ton of sense to start looking very deeply into where you’re spending money along that purchase funnel.”

US Companies Using Multichannel Attribution Models, 2014-2018

	2014	2015	2016	2017	2018
% of total companies	22.9%	30.6%	39.4%	50.2%	58.5%
% of companies that use digital attribution models	37.5%	45.0%	52.5%	62.0%	68.0%

Note: companies with 100+ employees that use more than one digital marketing channel; multichannel attribution models are attribution models that include more than first- or last-touch attribution or a combination of both to differentiate the respective contributions of various marketing channels to a desired outcome
Source: eMarketer, Oct 2016

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This deeper understanding of the consumer journey reveals that the same performance ad can affect consumers at various stages of a purchase. “We’re seeing the performance business change in that there is more recognition. ... Performance-oriented channels have more influence than is being attributed to them throughout the funnel—particularly in the upper funnel,” Zito said.

This is especially true of mobile. “If you think about mobile as a consideration driver for any channel and not necessarily a click driver for the web, you stop measuring mobile at the revenue-per-visit level and measure it in a variety of different ways,” said Marissa Tarleton, CMO of coupon collect site RetailMeNot.

Mobile also poses attribution challenges not found on desktop: One of the hardest parts of mobile attribution is the absence of cookies. “Because the cookie methodology breaks down [on mobile], it’s difficult for traditional performance channels to execute well [there]. But we’re starting to see that change with the concentration of user profiles that contain both probabilistic and deterministic data, which allows us to link devices, desktops and households together,” Zito said.

Affiliate exchanges such as Button and VigLink have emerged that not only link publishers and advertisers, but also provide tools for real-time performance tracking in mobile via APIs that plug into partner apps or the commerce platforms of advertisers. “When we have a pickup or delivery item, you get signals based on the moment an order API has a status change,” Jaconi of Button said.

The rapid transmission of conversion information has enabled some elements of programmatic buying in affiliate marketing. For instance, VigLink lets advertisers upload product feeds that the exchange uses to link products to appropriate content at an accepted price. “Our system looks more like Google than AppNexus,” Roup said. “Advertisers deliver their full catalog of products and offers to us, and we either accept bid prices or compute them based on history.”

O2O GOALS MOVE TO CENTER OF PERFORMANCE MARKETING

Digital marketing and information will influence more than half of retail sales in the US in 2016, according to Deloitte Consulting. The survey found that mobile alone will influence 37% of total in-store sales, or \$1.4 trillion, a 32% increase from 2015. In the words of Gordon, mobile is “the connective tissue that bridges in-store and online activity.”

Digital-* vs. Mobile-Influenced** US In-Store Retail Sales, 2013-2016

trillions, % of total in-store sales and % change

	2013	2014	2015	2016
Digital-influenced (all devices)				
—Sales (trillions)	\$0.3	\$1.1	\$1.8	\$2.1
—% of total in-store sales	14%	36%	49%	56%
—% change	-	157%	36%	14%
Mobile-influenced (smartphones & tablets)				
—Sales (trillions)	\$0.2	\$0.6	\$1.0	\$1.4
—% of total in-store sales	5%	19%	28%	37%
—% change	-	280%	47%	32%

Note: read as in 2016, the use of mobile devices before or during in-store shopping trips influenced or helped to convert approximately \$1.4 trillion in sales, representing 37% of all in-store sales; *sales influenced by a customer’s use of any digital device (e.g., desktop/laptop, netbook, smartphone, tablet, wearable device) before/during the shopping trip; **sales influenced by a customer’s use of a web-enabled mobile device before/during the shopping trip
Source: Deloitte, “New Digital Divide: The Future of Digital Influence in Retail,” Sep 12, 2016

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Although performance marketing has been instrumental in influencing offline sales, measuring the outcome has been difficult. “The biggest gap in advertising today is the notion that millions of dollars are spent ... to drive people into a store to buy products ... [without] definitively determining whether or not they’ve done that,” said Neil Sweeney, founder and CEO of proximity marketing firm Freckle IoT.

Both Google and Facebook have tools that track foot traffic as well as in-store sales, and a range of other providers use location signals, loyalty card data, credit card order information, point-of-sale feeds, commerce APIs and CRM uploads to create links between recipients of advertising and in-store purchases and traffic—even down to the aisle level via beacon data.

These O2O attribution services are showing the major offline impact of digital ads, particularly those on mobile. Google found that search ads drive four times greater store impact (foot traffic and conversion) than the online traffic and sales they create—and that figure rises to 90% for mobile search, according to Darveau-Garneau. Moreover, three out of four people searching for a nearby store visit the location within a day, and 28% make a purchase. “If a retailer buys a mobile ad and you do not measure the store impact, you’re undermeasuring the value of that ad by 90%,” he added.

With better offline measurement, performance platforms now include offline sales as a performance objective. Both Google and Facebook have introduced store visits and offline conversions as business objectives, and have added products that take advantage of this capability. Google has local inventory ads that drive customers to offline sites that stock the advertised product. Text ads, regular Product Listing Ads (PLAs) and promoted pins in Google Maps also can have offline objectives. Facebook, in turn, offers dynamic ads with local inventory information and local awareness ads that drive traffic to nearby stores based on implied intent or known interests. Retailers can set offline objectives for other ad formats as well.

O2O measurement is also moving to the affiliate space. For example, Ibotta started as a tool that took the traditional affiliate model offline. Consumers could earn offers by watching a video or a similar task and redeem them by taking pictures of receipts to get cash back.

RetailMeNot has introduced tools to track foot traffic, in-store sales and incrementality. Several affiliate networks now include offline conversions. "There is a surge of interest in how advertisers can effectively use the online channel to drive offline sale," Bhagtani said. "One of our large retail advertisers who ramped this up last year now has 30% of their total sales coming in offline."

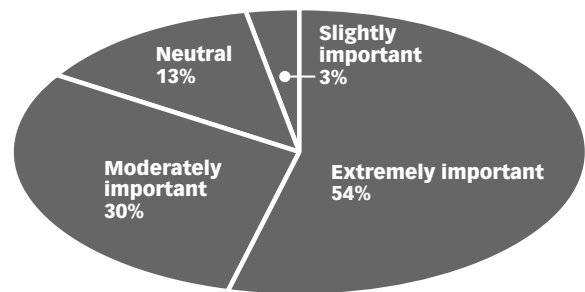
Rakuten and Forrester found that 57% of affiliate advertisers were tracking brick-and-mortar sales. "One of the hottest trends in affiliate marketing is the ability to incentivize online-generated, in-store purchases, and incentivizing publishers that specialize in driving that type of traffic," Pepperjam's Jones said.

TARGETING PEOPLE, NOT CHANNELS

Better multichannel analytics and cross-channel marketing options have shifted the marketing focus from channels—and the likely demographics found on each—to individual people with inferred or expressed interests. A September 2016 survey from LiveRamp found that 54% of US B2C marketers said people-based marketing in digital channels other than Google and Facebook was "extremely important" and a further 30% said it was "moderately important."

Importance of People-Based Marketing According to US B2C Marketers, Sep 2016

% of respondents



Note: in digital channels other than Google or Facebook
Source: LiveRamp, "The State of People-Based Marketing" conducted by Morar Consulting, Oct 12, 2016

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Increasingly, this personalization is happening within the retailer. "Creating relevance and personalization is a big part of the CRM strategy for most retailers," Tarantik said. That data can then be piped back to performance marketing platforms.

As in-house analytics capabilities improve, more marketers are demanding transparency and greater control over optimization. "There's a shift in the industry where the agency or client is the one pulling the levers and not letting it go off into a black box," said Marco Bertozzi, global chief revenue officer at agency Performics.

Performance marketers are striving to act on this data more quickly. Companies that speed up the reallocation of media spend based on performance "have 12.7% more sales from the same marketing spend," according to Jennifer Zeszut, CEO of Beckon, citing a Forrester study based on Beckon data. "Any change—moving from yearly to quarterly, quarterly to monthly, monthly to weekly—adds up to big business impacts. Someone who is [getting insights] quarterly shouldn't be freaked out about doing it in real time," she said. "Just start shrinking [the timeframe] again and again."

AFFILIATE ENTERS THE MULTICHANNEL MIX

The move to people-based marketing is forcing affiliate platforms to adapt. "From an execution standpoint, one of the biggest transformations over the past two years is the level of attention focused on audiences as opposed to channels," Aeder said.

As a result of this shift, multichannel marketers are using click behavior on affiliate links as a powerful signal of intent across channels. “We are seeing our behavioral data improve the performance of campaigns in other formats,” VigLink’s Roup noted. “That trend will accelerate.”

Data from other channels also shows affiliate marketing’s impact on sales in a more nuanced way. On one hand, the better understanding of the consumer journey shows that some affiliate clicks cannibalize other channels by claiming sales that would occur anyway. That has increased the focus on “incrementality”—i.e., the amount of new sales produced that would not have otherwise occurred.

“Incrementality is a buzzword in the affiliate space, as it is in all channels, as retailers try to understand complex, multichannel data and where overlap and cannibalization occurs,” Jones said. “In many cases, affiliate [advertisers] duplicate the corporate marketing initiatives. They may be using search, paid or SEM, they may engage in social practices or they may do some kind of display or retargeting.”

On the other hand, a more holistic view of the customer journey shows that affiliate marketing can also be more important earlier in the consumer journey, as discussed above. “In the past, affiliate was regarded primarily as a tool to drive consumers to their purchase event,” Bhagtani explained. “Now it is also viewed as a channel for consumer discovery leading to more brand engagement.”

Focusing on the person rather than the channel also opens up the possibility of dynamic pricing, which can extend to offers as well. “If you want net new, pay us for net new at a higher rate, and we’ll incentivize people to try that brand at a level that’s appropriate for the elasticity of demand,” added Bryan Leach, founder and CEO of Ibotta.

LIFETIME VALUE IN PERFORMANCE MARKETING

The ultimate step in people-based marketing is introducing the concept of lifetime value into media buying. “The strong retailers are thinking about acquiring a customer, not selling a SKU,” Darveau-Garneau of Google said. “We’re seeing a big move toward discussing different audiences and different types of customers and bidding very differently for the best customers available.”

Calculating lifetime value is a challenging analytical challenge for any industry, particularly for retailers. “Retailers have all used the science to segment their customers and understand how many times they visit the store and what that means for overall customer lifetime value,” Tarantik said. “That makes performance marketing that much more difficult for retailers.”

Injecting these calculations into media buying, however, is becoming more crucial. “If you’re bidding to the average in an auction against somebody who’s bidding to a segment, and you know the customer who has entered the auction is a high-value customer, they’re going to bid up and get a lot more of those customers than you are,” Darveau-Garneau added. “So bidding by segment is really important.”

Marketers that implemented this value in their segmentation have seen big improvements. “We can now see and understand lifetime value, and that makes a massive difference in media [spending calculations],” Bertozzi said. “Our clients see three to five times improvement [in ROI] when they go down that road.”

FACTORS THAT WILL HELP TO DRIVE PAY-FOR-PERFORMANCE GROWTH

Performance advertising in general will likely continue to expand over the next few years. In a recent survey by brand and media consultancy Sequent Partners and video advertising company Eyeview titled “Digital Video At the Inflation Point,” 61% of digital video marketers expected to use CPA measurements in the next year or two, up from the current 40%. This represented a 53% increase, the highest jump of any metric.

A bigger question is whether performance-based payments will continue to spread. The inclusion of performance triggers for payments was a major factor behind DDB’s win of the McDonald’s account from Leo Burnett in August. Under the agreement DDB receives some fees upfront to cover costs, it would also include pay-for-performance aspects that depend on metrics such as brand health or store visits. As performance measures improve, it’s likely that more pay-for-performance elements will extend to agency agreements.

But pure pay-for-performance marketing can also create incentives for suppliers to game the system to overcharge or hit proxy targets in discrete channels rather than go for more complex goals that require real-time optimization and a more blended and holistic approach to media buying. “If you deliver a guaranteed cost per sale and pay on that, it leaves a lot of room for the supplier to make bigger or smaller margins,” Bertozzi said. Many channels will therefore likely stick with CPM buying, but with optimization based on real-time performance for the foreseeable future.

EMARKETER INTERVIEWS

Performance Marketing Helps Retailers Connect Their Short-Term and Long-Term Goals



Diana Gordon
Senior Partner and Director, Shop+
Mindshare North America
Interview conducted on October 7, 2016



Heather Aeder
Vice President, Analytics and Insights
Pepperjam
Interview conducted on September 28, 2016



Marco Bertozzi
Global Chief Revenue Officer
Performics
Interview conducted on August 10, 2016



Aruna Bhagtani
Director, Product Management
CJ Affiliate
Interview conducted on September 30, 2016



Tracy Chesman
Director, Strategic Initiatives
iGourmet
Interview conducted on October 10, 2016



Katherine Crane
Regional Director, Advertising
Polyvore
Interview conducted on October 12, 2016



Nicolas Darveau-Garneau
Managing Director,
Performance Solutions for Americas
Google

Interview conducted on October 14, 2016



Benjamin Dick
Director, Industry Initiatives
Interactive Advertising Bureau (IAB)
Interview conducted on October 11, 2016



Liza Hausman
Vice President, Industry Marketing
Houzz
Interview conducted on October 5, 2016



Mike Jaconi
Co-Founder and CEO
Button

Interview conducted on October 4, 2016



Laura Smous
Head of Product Marketing
TapInfluence

Interview conducted on October 11, 2016



Michael Jones
Co-Founder and CEO
Pepperjam

Interview conducted on September 28, 2016



Tadd Spering
Founder and CEO
Stylinity

Interview conducted on October 12, 2016



Bryan Leach
Founder and CEO
Ibotta

Interview conducted on September 29, 2016



Neil Sweeney
Founder and CEO
Freckle IoT

Interview conducted on September 29, 2016



Miriam Newton
Vice President, Product Marketing
Criteo

Interview conducted on August 4, 2016



Marissa Tarleton
CMO
RetailMeNot

Interview conducted on October 6, 2016



Jonathan Opdyke
CEO and Founder
HookLogic

Interview conducted on August 5, 2016



Jennifer Zeszut
CEO
Beckon

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Jay Poropatich
Senior Director, Digital Marketing
Staples

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Tony Zito
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Rakuten Marketing

Interview conducted on October 3, 2016



Oliver Roup
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VigLink

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Oren Harnevo
Co-Founder and CEO
Eyeview

Interview conducted on November 2, 2016



Rebecca Schuette
Director, Marketing
Swirl Networks

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Cheryl Morris
Vice President, Marketing
Nanigans

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Scott Shamberg
President, US
Performics

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Sven Tarantik
Vice President, Retail Marketing Strategy
Oracle Data Cloud

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EDITORIAL AND PRODUCTION CONTRIBUTORS

Cliff Annicelli	Managing Editor, Reports
Michael Balletti	Copy Editor
Joanne DiCamillo	Senior Production Artist
Dana Hill	Director of Production
Eden Kelley	Chart Editor
Stephanie Meyer	Senior Production Artist
Kris Oser	Deputy Editorial Director
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