

GOING NATIVE

HOW AND WHY NATIVE ADVERTISING IS THE
FUTURE FOR MARKETERS IN 2018 AND BEYOND



INTRODUCTION

The advertising industry is in a state of upheaval. Giant search and social media companies dominate the publishing market. Mobile has overtaken print, desktops and television as consumers' preferred medium. New channels based on search and social media have risen fast to dominate the market. Unprecedented stores of data increasingly allow companies to tailor offerings to customers' desires.

Customers are, in turn, more demanding. They expect a seamless experience across multiple channels and are resistant to established, intrusive advertising formats.

Brands and retailers are struggling to respond to this rapid, disruptive change. The new landscape requires changes to business models and constant adaptation to rapid innovation and market dynamics.

In her *Internet Trends 2017* report, Mary Meeker noted a rapid blurring of the lines between ads, content, products and transactions. The ad, she concluded, is becoming the digital storefront.

Amid all this change and uncertainty one medium plays to all the trends listed here: native advertising. Instead of the pop-ups advertisers have relied on for the past couple of decades, native advertising adapts to the medium it appears on and is relevant to the user's interests. It is particularly suited to a world where consumers spend more and more time interacting through various forms of social media, whether with friends on Facebook or with ideas and visuals through Pinterest and Instagram.

Native advertising is paid media where the advertising experience is well integrated into the medium on which it appears. It looks and feels like it is meant to be there. It is also entirely different from the crude "advertorial" content

that still appears in print. Search and social are distinct media that enable the advertiser to have an interactive, non-intrusive conversation with the user.

Native was the new buzzword as recently as 2013. Now, several of the biggest publishers in search and social have chosen to make almost 100% of their advertising native – and native is predicted to account for 74% of all ad revenue by 2021¹. We have moved rapidly from "new native" – the emergence of native advertising as the right form for digital users – to "native first" where native will become the basis for all advertising by retailers and brands.

To see how retailers are preparing for this new era, we conducted a survey of more than 80 predominantly UK-based retail professionals. It suggests the industry is reasonably aware of native advertising, but not as much as might be expected given its predicted trajectory. Respondents were also unsure about how to adapt to the changing market. The key figures are presented towards the end of this whitepaper.

We will offer evidence to show how native will soon become the dominant form of advertising and shed light on whether advertisers are ready for this shift. Things are moving fast but there is still time to catch up with the move to native. We will highlight four areas for improvement in 2018, which promises to be a year when the impulse to go native will grow stronger.

SEAN FARRELL

Editor, InternetRetailing

¹ Business Insider research June 2016

FROM OUR SPONSOR

The switch to digital media consumption triggered by the mobile revolution presents a huge opportunity and significant challenges for marketers. Our use of mobile phones for virtually every aspect of our lives means consumers are glued to a medium that is always on. But consumers have more power to reject ads that don't interest them and are less accepting of irrelevant ads popping up as they conduct their lives.

Mobile is inherently personal to the owner of the device. Content and ads must start with the end-user experience in mind. Advertising that flows within the stream of the content that the user has chosen will engage that user. Pop-up banners that interrupt the content won't.

Digital consumers are also warier of artificial images and fake messages. They want authenticity and value trust. To build trust, brands have to engage with consumers in real, honest and relatable ways by showing an understanding of the individual needs of the customer during various stages of the shopping journey.

Honing your advertising strategy to the most popular online destinations is critical to success when a handful of media dominate users' time. US consumers spend an estimated 50 minutes a day on Facebook platforms. This is more time than people spend exercising, and is nearly as much time as people spend eating and drinking.

These trends have made native the category of advertising where marketers will win or lose in keeping up with the consumer. All of the most influential platforms in the world connect with their audiences natively in-feed such as Facebook's carousel ads, Amazon's sponsored products, Pinterest's search ads, Snapchat's snap ads, and Google or Bing's shopping ads. When

it comes to marketing, we are now in a native-first world.

It has become increasingly difficult for a marketer to be quick enough to engage with consumers throughout their journeys. Nevertheless, Kenshoo's marketing technology can help brands engage consumers along the entire shopping journey based on behaviour, interests and characteristics by:

- Offering custom-tailored business goals that can be applied across disparate publisher platforms
- Offering flexible campaign structures with dynamic management of publishers and ad formats
- Capturing real-time consumer interest and intent signals across publishers
- Enabling high-speed budgeting allocation and bidding decisions based on optimising for the next incremental portion of spend
- Providing efficient mechanisms to scale routine, yet critical, campaign tasks
- Offering an open platform that allows for efficient data sharing (input and output) across the organisation

At Kenshoo, our goal is to help you overcome the challenge of bringing major platforms together and optimising at scale to create a seamless story that influences the consumer along their buying journey – driving increased engagement, revenue and lifetime value.

Michelle Urwin

EMEA Marketing Manager, Kenshoo



PART ONE: THE RISE OF NATIVE ADVERTISING

What has happened to make native the dominant form of advertising of the near future? Put simply, the coming together of several seismic shifts has transformed native into the ideal form for a world in which increasingly empowered, savvy consumers conduct their lives on mobile devices. The two key elements to this revolution in behaviour are search and social. When deciding what to buy, we now start off not with a visit to the high street but by scoping the net for ideas, recommendations and the best prices. The explosion of social media means we are conducting our relationships as well as our consumption online through platforms such as Facebook, Instagram and Snapchat. Although Facebook dominates the market now, the newer social players will grow in importance.

The enabler of these twin trends is the smartphone. We don't have to wait to get to a desktop or a laptop to check out a product or interact online. Everything is to hand on a device that has transformed the way we spend our time – to the point where for many people their phone is almost an extension of their being.

Advertisers are responding to this shift. In the fourth quarter of 2017, for example, mobile (smartphone-only) spending on both social and search outpaced desktop, driving mobile share to 76% of social and 44% of search¹. But to succeed in the digital world requires new thinking that cuts across different areas of the business (as we show in the diagram on the right here, and we explore in this whitepaper).

It's new thinking that begins by understanding that, because digital activity has become fundamental to who we are, we are no longer willing to accept intrusive, random pop-up ads. What might have felt like a minor irritant on a desktop feels like a violation on our

phones. This impulse is especially true of millennials and post-millennials. These young consumers like buying stuff but they hate advertising – or at least the in-your-face variety. They want more “authentic” content that feels like the content they choose to interact with.

The switch to digital life has put enormous power and knowledge at the disposal of the big search and social media companies. Google, Facebook, Pinterest and other digital leaders have unprecedented troves of real-time data about our interests and short-term desires. These publishers can target

HOW TRADITIONAL ONLINE ADS ARE LOSING OUT

Procter & Gamble cut its ad spending by an estimated \$140m in the second quarter of 2017 with no perceptible damage to sales: organic revenue rose 2% in the quarter. The company said it had stopped spending in areas where the placement of ads didn't serve its products and was working to produce ads that made consumers “think, talk, laugh, cry, smile, act and of course buy”.

JP Morgan cut the number of sites its ads appear on to 5,000 from 400,000 in 2017 with no impact on performance metrics. All the sites it uses now are pre-approved instead of being selected by automated tools. The move was partly driven by a desire to ensure the bank's brand was not sitting with offensive material – a risk when volume takes precedence over targeted, thoughtful content.

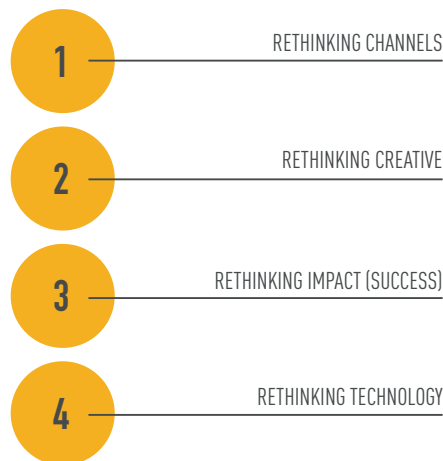
us with pinpoint ads that fit seamlessly with our interests and the platform they appear on. In the digital world, a dozen or so cash-rich platforms dominate compared with thousands of old media companies. This allows them to invest heavily in innovation to optimise the ads they offer us, driving transformative trends, and the capacity to capitalise on these by adapting and testing.

Lives led online, the ubiquity of visually led smart devices, the quest for authenticity, unprecedented stores of information, the concentration of publishing power, innovation and the merging of search and social: this is the cocktail of user demand and publisher capacity that will lead native advertising to become dominant in the near future.

¹ Kenshoo Digital Marketing Snapshot, Q4 2017

TAKING PERFORMANCE MARKETING UP A GEAR

SOURCE: KENSHOO



The rise of native advertising will gather momentum in 2018. Focusing on these areas will help retailers to be at the forefront of a changing market

THE AMAZON FACTOR

There's a new player in the native market – and it's one that is impossible to ignore. In a short space of time since opening up its advertising to marketers, Amazon has established e-commerce as the third pillar of native advertising alongside search and social.

Amazon presents a big opportunity for brands because it combines three powerful functions: it's the world's third-biggest retailer, but it's also a marketplace and a content company.

Consumers routinely use Amazon, with its vast array of products, user reviews and suggestions, to compare products

and prices – as well as, of course, making a final purchase.

Amazon does not publish figures for its advertising business, but it is growing fast and brands and retailers are responding to this.

Amazon Marketing Services sells advertisements through sponsored headline search and product display ads¹. Its growth in advertising is driven by products and data. When a consumer searches on Amazon they tell it what they are looking for and Amazon responds. The key considerations here are:

Keywords – focus on the product and use Amazon’s automated campaigns to see which searches drove clicks, sales and activity.

Product-driven – work hard to understand which products are performing well by using data

Bidding – be aggressive in bidding for your keywords, especially at peak times

Budgets – continually review your budget. Expect growth in demand and make sure your budget reflects that

Amazon is fertile ground for native advertising. People go to Amazon to shop so they are receptive to suggestions. But ads have to be engaging to stand out in the crowd. Amazon is a big opportunity but it is highly competitive. Brands and third-party retailers, large and small, compete on a fairly level footing. If an ad doesn’t perform well it disappears, requiring regular adaptation.

Brands and retailers are waking up to the opportunity – and the downside of not getting involved. Being there to compete is a prime motivation for going native on Amazon. For brands and retailers that question whether they should sign up with Amazon even though their own websites are doing well, the answer is yes.

¹ Kenshoo does not currently support product display.

HOW NATIVE IS GROWING

Belk, the US department store chain, tested whether Pinterest Promoted Pins would drive sales. The results were that converters were twice as likely to have seen a Pinterest ad, there was an observed increase in revenue and this lift continued 30 days after the campaign. Belk has made Pinterest part of its marketing programme.

Vistaprint wanted to create and edit Facebook ads more quickly and efficiently with better targeting and data. Kenshoo’s streamlined ad creation flow enabled Vistaprint to publish engaging video and link posts quickly. Targeting improved and better performance measurement reduced cost per click and hit goals for acquisition costs. Clicks and impressions rose 182% and 568% respectively and return on ad spend is also now below target.

Retailers advertising on Pinterest in the US have faced challenges hitting targets and scaling activities because Pinterest’s auction works differently from those of other publishers. Ad agency PMG enlisted Kenshoo to provide insight and liaise with teams at Pinterest. The result was a 50% outperformance in click-through rates and costs per click 30% lower than target.

Performics@Starcom’s CPG client has a growing e-commerce program featuring a myriad of products across multiple brands on Amazon. Harnessing the power of Kenshoo eCommerce, Performics@Starcom’s team yielded a 28% jump in ROI, a 13% increase in conversions, a 32% decrease in CPA, and a 23% decrease in CPC across its campaigns.

FOUR AREAS FOR IMPROVEMENT

This whitepaper appears at the start of 2018 – a year when native advertising will gain further momentum. The market is moving fast but there is plenty of opportunity to be at the forefront. The transformation of native from a talking point to something unignorable has left even big players playing catch-up.

Predictions for native and non-native publishers are stark. Forrester estimates search and social will add about \$20bn in revenue between 2017 and 2020, while traditional display will add just \$1bn.

Here, we will discuss four areas for adaptation and improvement to capitalise on the move to native. At the heart of this shift is the emergence of channels that are changing the way consumers behave, and are equipped with information and innovative capacity that were beyond the scope of traditional publishers.

To be successful in native advertising, you have to adapt your creative content to the new visual world of smart devices. This means producing engaging content that draws the user in. Doing this also means reorganising your business across channels and producing creative content that gives consumers an engaging, seamless experience.

Our survey (for more on the results, see page 10) suggests retailers aren't prepared for this new world or taking it seriously enough. On a scale of 1-10, respondents saw little value in integrating across channels (4) and attached a low priority to doing so (3). Activity was also heavily weighted towards the big two channels, Google and Facebook.

CHANNELS

Consumers' transition to digital has transformed the environment for advertising channels over the past

decade. Where traditional media featured multiple large players with a tail of thousands of publishers and broadcasters, the digital market is dominated by a handful of platforms with enormous power and financial muscle.

Here are five key differences resulting from this change:

1. Advertising in traditional media was based partly on guesswork. For digital platforms that is no longer true. They know what interests us because our activity tells them.
2. Traditional media had very little information about their customers. By contrast, new publishers have benefited from the explosion of data in the past few years that has allowed them to gather valuable troves of insight.
3. The concentration of power and income in the hands of a few publishers is enabling innovation on a scale that was impossible for even the biggest players in old media. This innovation is made available to brands that choose to advertise on these platforms.
4. Digital publishers have a direct relationship with the advertiser instead of going through a third party, allowing a two-way relationship that helps you produce content that works. These publishers are able to cut down on ad fraud and blocking because they control the process.
5. Traditional media used banner ads and pop-ups that interrupted the user's experience. This didn't matter too much on a computer. New platforms based on search and social on digital devices are suited to more engaging, conversational content.

TECHNOLOGY

In a world conducted online, technological innovation is a key feature of the rapidly changing landscape and a source of competition between the big digital publishers.

Here are four technologies that could revolutionise the market:

1. Visual search has arrived. After faltering progress over the past few years, the ability to search based on an image has come of age in the form of Pinterest Lens. The technology's stated aim is to let you "find all those things you don't have the words to describe". Earlier versions of visual search would take a picture of a red chair and suggest other red chairs. Pinterest Lens draws on Pinterest's huge data reserves to suggest chairs and other items based on the style and design of the chair, giving a richer range of options. Now, other companies such as Google and Bing are working on similar technology. Visual search is a big opportunity for retailers and brands to reach consumers actively looking for purchase ideas. Well-judged native advertising is the ideal way to engage these consumers and put products on their list of options. Recent figures for ad expenditure suggest companies are beginning to understand this idea. In the fourth quarter of 2017, video ad spending increased 93% year on year (YoY), accounting for 25% of total social spending. Instagram ad spending, meantime, increased 183% YoY, while driving almost four times as many clicks.²

2. Just as the smartphone sparked a revolution in consumer behaviour, the move to a screenless world promises to disrupt the market again. Voice search using a digital assistant isn't as immediate a priority for advertisers as visual search but retailers and brands should be thinking hard about it. Users of voice-activated digital assistants such as Amazon's Alexa and Microsoft's Cortana will grow to 1.8bn in 2021 (from 390m in 2015), according to Tractica; half of all searches will be by voice in 2020, comScore predicts. As consumers search for information and products through a continuing dialogue with their assistants, it will be ever more important

for ads to be targeted and seamless, and for advertisers to take the long view by maintaining conversations with consumers to understand their needs.

3. A more immediate big development in search will be chat. A year or so ago, everyone was talking about chatbots but their limitations have since become apparent. In 2017 Facebook scaled back its efforts after reportedly finding bots only succeeded 30% of the time – so you don't need to build a bot. But the potential demand is there. More than half (53%) of French and British consumers who use mobile messaging apps have interacted with a company through mobile messaging or are open to doing so as long as they can block unwanted brands.¹ But Bing promises to help users by allowing them to chat to bots that appear after the user starts their search. Instead of simply typing keywords the user will answer questions from the bot that refine and guide the search. This technology promises to make search prompted and conversational. Watch this space – chat could revolutionise the way consumers search for products, creating new opportunities for native advertising.

4. There was a lot of talk about augmented reality (AR) in 2017 – along with virtual reality, AR may finally be ready to live up to its promise. Facebook and Snapchat launched platforms in late 2017 and both companies want to incorporate ads. AR is a technology to keep an eye on rather than an urgent priority but things are moving. Carmakers are committing substantial resources. Audi is showing customers round its vehicles stationed on the moon, and BMW lets the user experience its cars and see which dealers have them in stock. If we are going to experience the world through headsets or glasses, it's time to start talking to platforms and to experiment with how native ads can work on these highly engaging formats.

CREATIVE

We are spending more of our lives on visually led smart devices – so producing the best visual content, consistent across platforms, is essential. Yet many brands and retailers are not ready to do so.

Creative content is often poorly organised and in the wrong formats. Here are three key ways to get your creative content ready for the native age:

1. Break down barriers: many brands and retailers work with their website, marketing, merchandising and content teams operating in silos. This model doesn't work in a market where full-funnel marketing is possible and consistency across platforms is essential. Kenshoo reports that clients are getting their acts together. A global publisher has created a role whose job is to bring together creative in different parts of the organisation. At a large retailer, the social team now liaises with merchandising and other divisions to encourage a flow of ideas.

2. Get formatted: there is no shortage of creative – companies report they have more than they know what to do with. But too often it is in yesterday's formats. Static images don't engage users when they experience so much great video content. To grab someone's attention on their phone without intruding, you need to be snappy – and that means less than a minute. Yet too many brands fall back on 60-second videos that are a turn-off. This doesn't mean all existing creative has to be scrapped. It needs to be customised to the requirements of successful native advertising. Companies such as Shutterlock and Idomoo can help brands generate dynamic content from static images or carve up 30-second or 60-second ads into shorter segments that are tailored to different customers.

MEASURING SUCCESS

Once you have these assets, you need to test them. Advertising with the new digital publishers removes much of the guesswork that went into advertising a decade ago because they increasingly know what individual consumers are looking for. It's therefore both easier and essential to measure success in a way that was not possible before.

Yet, for all the advances made in the past decade, methods for measuring success have barely moved on. Although everyone knows it is flawed, last-click attribution remains the most commonly used means to test whether a campaign

has worked – even though it doesn't tell us why that click was made. Things are finally changing. Attribution will remain part of the mix because clicks and conversion are easily measured. But you need to test to untangle correlation and causation. This is becoming possible through what's called incrementality: comparing geographies and audiences to see whether marketing is having an impact. It has been hard to scale this kind of activity but technology promises to make it easier to standardise and cheap enough to run these tests as part of everyday business. Additional information should in turn make it easier to plan, forecast and allocate to generate better returns from your budget across channels. Then you need to execute to take advantage of opportunities that emerge and respond when campaigns are successful or need something new.

¹ From a Kenshoo survey: Mobile messaging apps: an opportunity for brands, December 2016.

² Kenshoo Digital Marketing Snapshot, Q4 2017

Our survey

To assess how ready the market is for the shift to native we asked more than 80 retailers for their opinions. The results suggested a reasonable awareness of native advertising but limited preparedness for the shift that is taking place.

“How high is an awareness of native advertising within your business?” Our respondents scored this question at an average of 6/10, where 10 corresponds to “completely aware”.

Native has existed in the digital world for more than a decade and has been hotly debated over the past few years. Given the changes outlined in this whitepaper, awareness needs to be higher.

“To what extent does your digital advertising activity work coherently and strategically across all channels?” Our respondents scored this question at an average of 3/10, where 10 corresponds to “a single, seamless approach”.

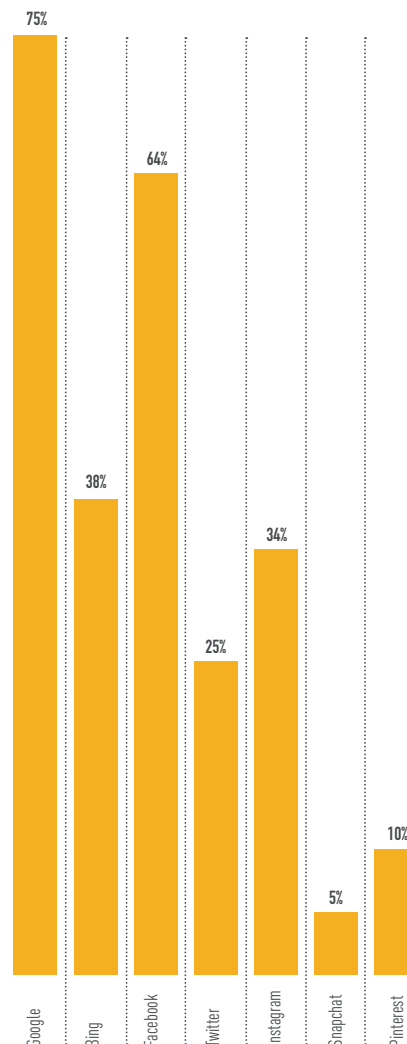
This low score isn’t all that surprising. As discussed in this whitepaper, the industry is siloed in terms of internal organisation and its approach to different channels.

“I think our business would benefit from improved integration across digital channels” Our respondents scored this question at an average of 4/10, where 10 corresponds to “strongly agree”. This result is more concerning. It suggests many retailers remain content to carry on as before when the world is changing around them.

“Where do you stand with regard to the following advertising channels?” The graph in the right-hand column shows where retailers are currently active with their advertising.

ACTIVE IN PAID ADVERTISING

SOURCE: 2017 INTERNETRETAILING SURVEY



These figures show respondents relying heavily on established digital channels, yet young consumers are active on newer platforms such as Instagram, Snapchat and Pinterest, which is emerging as an increasingly influential search channel for purchases.

Conclusion

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It's easy to forget that the smartphone did not come of age until as recently as 2007, the year when Apple released the first iPhone. Now, a decade on, the smartphone has become an indispensable technology that has transformed the way we interact and consume. It has also caused a power shift from myriad traditional media companies to a small number of global digital channels.

This shift in technology, media and human behaviour requires a fundamental change in how brands and retailers seek to reach consumers. For a generation that doesn't like being sold to, native advertising lets you become part of their interaction in the digital world instead of intruding on it.

Companies that succeed in this transformed market will embrace the idea of the ad as a digital storefront working seamlessly across platforms. That means offering engaging content that helps and informs the consumer instead of selling to them.

The good news is that the digital giants are building infrastructure that lets you connect with these consumers on their platforms. The difficult part is keeping up with their level of innovation, and being prepared to reshape your business and content to meet the requirements of the digital world. Amazon has entered the game, and it promises to reshape the market with its reach and financial power. But the emergence of Snapchat, Instagram and others demonstrates how fluid the market is.

We hope this whitepaper has given you food for thought and ideas for where to go next. The opportunities are out there and there is still time to go native.



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