criteo.

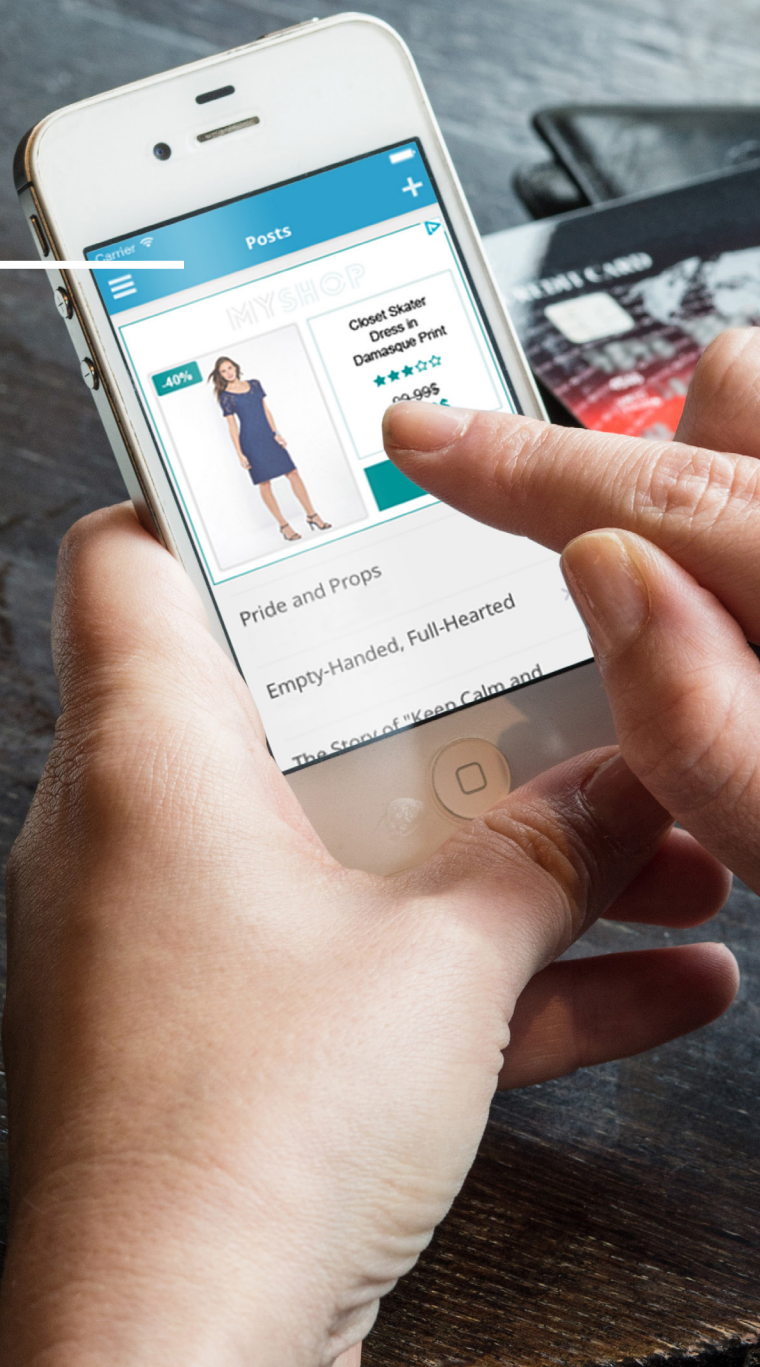# eCommerce Industry Outlook 2015.

Introduction.

The global eCommerce industry saw impressive growth in 2014 with goods and services worth $1.5 trillion bought by shoppers via desktops, tablets and smartphones. Advertisers are now spending an increasing proportion of their marketing budgets on Internet advertising. This ad spend is forecast to surpass $160 billion in 2015, of which more than $58 billion will be spent on Display advertising. (Source: eMarketer)

At Criteo, we believe 2015 will be another exciting year for the eCommerce industry as mobile shopping further matures and consumer mindshare continues to be split across multiple devices. Working with thousands of advertisers and publishers, we see billions of online transactions, providing us with unique insights into online shopping behavior.

Here are our top 7 predictions of what advertisers can expect — and must prepare for — in 2015:

1. Mobile share will grow to 40% of eCommerce transactions globally.
2. Cross-device marketing will be real and drive significant value for advertisers.
3. Programmatic buying will drive rapid growth in native advertising.
4. Brick-and-mortar retailers will focus even more on online strategies.
5. Mobile apps focus will shift to re-engagement.
6. Automated ad formats will offer even greater flexibility.
7. Acquisitions and consolidation will continue to intensify in the ad-tech industry.

Eric Eichmann, President and COO

As President and Chief Operating Officer at Criteo, Eric Eichmann is uniquely positioned to share his predictions for 2015 based on the company's actual insights into almost $200bn worth of eCommerce transactions per year. Eric's 16 years of experience in the internet space and as a former McKinsey consultant provides a unique view into the worlds of eCommerce and mCommerce.

#1 Mobile share will grow to 40% of eCommerce transactions globally

Mobile % of Global eCommerce Transactions

| 23% | 30% | 35% | 40% |
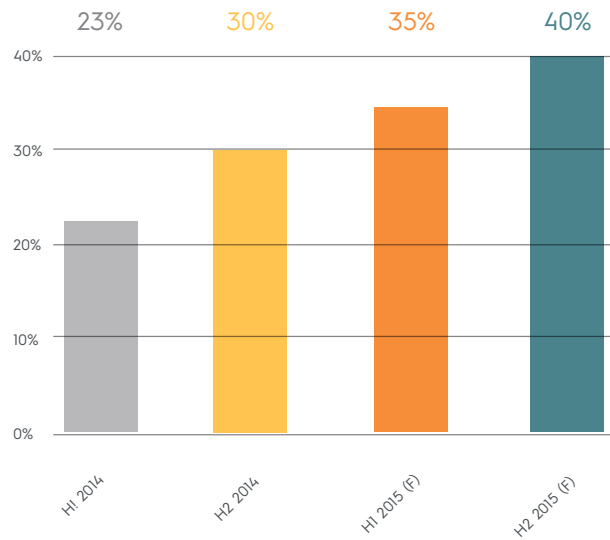
Source: Criteo

Mobile share of online sales grew steadily in 2014. This year we expect mobile devices to account for 40% of eCommerce transactions globally, and more than 50% in the developed markets including the US, UK and Japan.

Much of the early user pain of mobile purchases is quickly fading away with the growing deployment of HTML and mobile optimized websites. In addition, new mobile payment services, particularly Apple Pay, will accelerate consumer willingness to make purchases via their mobile phones in 2015.

IMPLICATION

As mobile share of eCommerce transactions grows, mobile will also attract a greater share of digital ad spending. We expect that advertisers will allocate a bigger portion of their marketing budgets to mobile campaigns.

#2 In 2015, cross-device marketing will be real and drive significant value

Marketers know that consumers are increasingly taking a multi-device path to purchase, but it has been difficult to tell if the person who saw an ad on a smartphone and later made the purchase on a tablet was the same user or a new customer.

An analysis of 2,000 Criteo advertisers in Q2 2014 showed that 15-20% of sales made by 86 million users with multiple devices were cross-device sales. (e.g., a user clicking on an etailer ad and then purchasing on another device within 30 days).

In 2015, the complexities around cross-device advertising will disappear with the availability of more precise exact-match methods, which will drive a significant uplift in sales for retailers.

What would you like most for your mobile marketing efforts?

CROSS-DEVICE TARGETING	58%
IN-STORE TARGETING	32%
ADVANCED LOCATION BASED TARGETING	10%
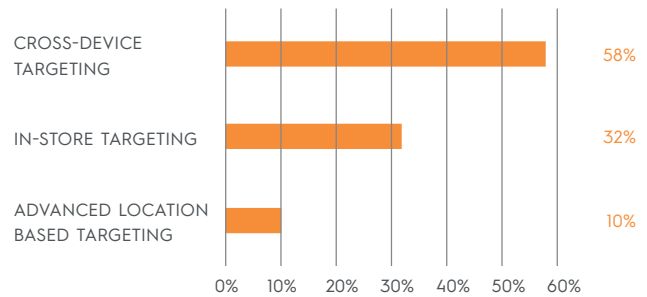
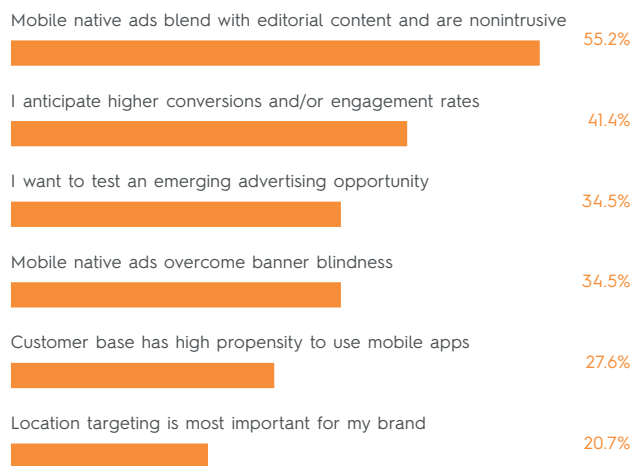*Source: Digiday and Criteo survey of retail executives and ad agencies, July 2014*

IMPLICATION

Retailers will be able to differentiate between existing users and new prospects through a single view of consumers' shopping behavior across desktops, tablets and smartphones. This will enable delivery of relevant, personalized ads to users across devices with accuracy and scale, and further boost advertiser confidence in performance marketing. It will also help advertisers meet the growing consumer expectation that ads are relevant to them.

#3 Programmatic buying will drive rapid growth in native advertising

Reasons that Digital Ad Buyers Worldwide Plan/ Run Mobile Native Ad Campaigns, Oct 2014

% OF RESPONDENTS

Mobile native ads blend with editorial content and are nonintrusive
55.2%

I anticipate higher conversions and/or engagement rates
41.4%

I want to test an emerging advertising opportunity
34.5%

Mobile native ads overcome banner blindness
34.5%

Customer base has high propensity to use mobile apps
27.6%

Location targeting is most important for my brand
20.7%

Note: among those who are currently planning/ running mobile native ad campaigns

Source: Rubicon Project and InMobi, "2014 Mobile Native Advertising Survey," Oct 16, 2014

In 2015, native ads will become every bit as scalable and measurable as IAB standard ad units — and therefore native ad inventory will grow significantly.

An increasing number of technology providers are now offering services to publishers to help them integrate native ads that look consistent with their website or mobile app, in the exact same way Facebook sells its "News Feed" ads. This will start to happen at scale in 2015 using technologies that build ads on the fly, and driven by demand generated through programmatic buying.
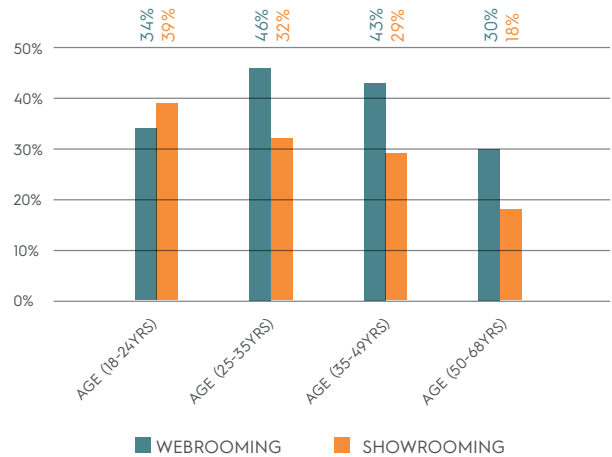
IMPLICATION

With programmatic buying, native ads implementation will become a lot easier than it used to be. Also, publishers will be able to charge higher CPMs as native ads perform better than IAB standard ad units, especially on mobile.

#4 Brick-and-mortar retailers will focus even more on online strategies

eCommerce will become "do or die" for brick-and-mortar retailers in 2015 as they experience the increasing impact of shopper "webrooming" and "showrooming" behavior.

At least 10-15% of in-store sales can be directly attributed to webrooming — shoppers gathering product information online and deciding which products to buy online but then going to the store to make the purchase. Similarly, there's a contrasting showrooming trend with many shoppers visiting the store to find, try and gather information on the products, and eventually buying online.
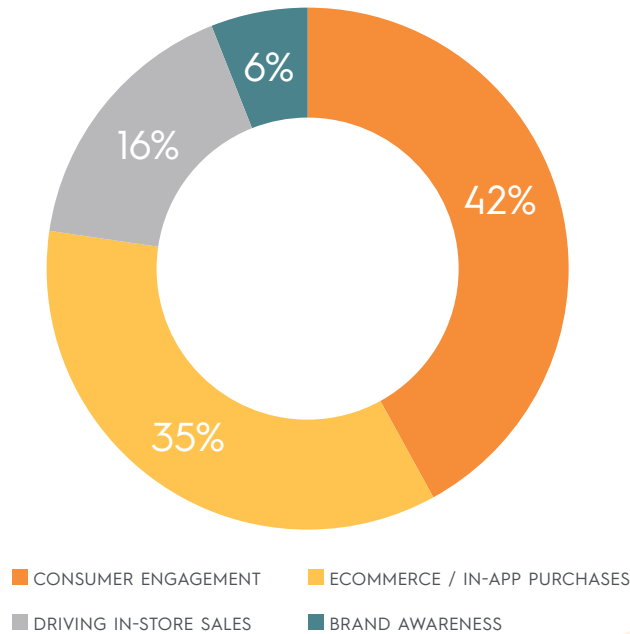
Webrooming and Showrooming by Shoppers in the US

Source: GFK Futurebuy Shopping Study, October 2014

IMPLICATION

Webrooming is emerging as a stronger trend than showrooming, and many brick-and-mortar retailers will start deploying beacons and tablets and offer free Wi-Fi in their stores to further accelerate this trend in 2015. This will also help retailers create more touch points with consumers, and develop insights on how they can engage with store visitors before they enter the store, in the store and after they leave the store.

#5 Mobile apps focus will shift to re-engagement

What is the Primary Goal of Your Mobile App Strategy>

42%
35%
16%
6%

■ CONSUMER ENGAGEMENT   ■ ECOMMERCE / IN-APP PURCHASES
■ DRIVING IN-STORE SALES   ■ BRAND AWARENESS

*Source: Digiday and Criteo survey of retail
executives and ad agencies, July 2014*

While app installs will continue to be important in 2015, mobile app marketers will start to focus more on re-engaging with users who have previously installed the app but are not using it. Criteo data for travel apps shows that only 25.8% of app installs result in someone actually using the app.

The cost of driving an app install has increased hugely over the last year as demand has increased on Facebook and RTB platforms. Further, more advertisers have entered the mobile domain, pushing up CPMs, CPCs and CPIs.

IMPLICATION

A greater share of mobile app marketing budgets in 2015 will be spent on promoting the app to inactive installers, and to re-engage with lapsed users. Retailers who until now focused heavily on increasing their app-installed bases, will pay more attention to improving app usage and re-visits from existing users.

#6 Automated ad formats will offer even greater flexibility

In the past, advertisers had to choose between scalability and access to inventory. Preference for scalability meant missing out on all ad formats that are not IAB standards, which account for a significant share in markets like China, which has roughly 170,000 different ad formats. Also, a big reason for ad format changes is driven by users shifting their media consumption to mobile, especially the mobile in-app environment. Building a very large set of creatives to accommodate a wider variety of formats is not scalable as campaign management becomes cumbersome. This will change in 2015, thanks to the rise of new technologies such as adaptive, "liquid" and responsive design. One single set of creatives can accommodate literally thousands of different formats, with elements inside the banners automatically re-sizing and re-ordering themselves in order to fit and reflect the most effective ad for that consumer.

IMPLICATION

This technological shift will allow advertisers to effortlessly access a significantly greater part of the inventory available around the world and make it a lot easier to scale campaigns internationally. For publishers, this change is synonymous with more freedom to innovate and offer new ad formats.

# #7 Acquisitions and consolidations will continue to intensify in the ad-tech industry

In 2014 we saw a number of big acquisitions including that of TapCommerce by Twitter, Flurry by Yahoo, LiveRaiil by Facebook and Conversant by Alliance Data. Consolidation in the ad-tech space will continue in 2015, driven by advertisers' demands for global scale and comprehensive solutions.

Meanwhile, the network effects of first movers with solid business models will help them gain commercial and technological strength that in turn will enable them to use acquisitions to increase their talent, innovative technology and coverage.

IMPLICATION

This consolidation will make it simpler for eCommerce marketers to identify marketing solutions that meet their objectives. Marketers will be able to access and use actionable data in huge volumes to optimize spend across global channels, through fewer partners with more comprehensive solutions.

Conclusions and recommendations
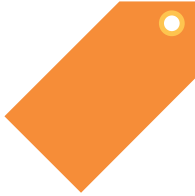
Conclusion.

In 2015, there will be risks and opportunities for marketers as online shopping becomes more complex. The success and failure of marketers will depend on their ability to use key technologies and partners to reach always-on consumers with personalized messages, across devices and at scale.

Recommendations

Advertisers that focus on conversion and sales will get better results from their online campaigns than those using broad audience reach metrics.

Retailers investing in mobile and cross-device targeting solutions will achieve a significant boost in sales at the same cost. They will also benefit at the expense of competitors who are slow to embrace mobile and performance marketing.

With growing opportunities to sell internationally, eCommerce companies should partner with technology companies that can enable them to run online ad campaigns with rich targeting and optimization capabilities at a truly global scale.

Cross-device advertising will allow retailers to identify a consumer reaching them via multiple devices as a unique user, and to differentiate between a customer or a prospect. This insight will enable retailers to deliver relevant messages and optimize ad spending for engagement with existing customers, and for acquiring new customers.

About Criteo.

Criteo delivers personalized performance marketing at an extensive scale. Measuring return on post-click sales, Criteo makes ROI transparent and easy to measure. Criteo has over 1,000 employees in 21 offices across the Americas, Europe and Asia-Pacific, serving over 6,000 advertisers worldwide with direct relationships with over 8,000 publishers.

Criteo ads reach 994 million unique Internet users (comScore, September 2014).

For more information, please visit **www.criteo.com**.