

# THE CONVERGENCE AND COEXISTENCE OF TRADE AND MEDIA IN RETAIL MEDIA SERIES

## PART 3: RETAILER ACCOUNTING FOR RETAIL MEDIA SALES

Accounting is a major reason why breaking down silos in retail and commerce media is far more difficult than most expect. At an industry level, it also explains why sizing the market remains challenging: even among publicly listed companies, “commerce media” rarely appears as a clean, standalone line item, and when it does, it often diverges from the figures communicated by CMN leadership. This explainer produced in collaboration with Mediasense is designed to clarify what’s actually possible within current accounting practices and to outline the key considerations shaping how different CMNs report, classify, and interpret their revenue.

*Disclaimer: The following is intended as a short explainer and not accounting advice. Accounting for digital retail media by retailers (and advertisers) is a complex area requiring specialist advice.*

### ACCOUNTING TREATMENT BASICS

For retailers, sales of digital retail media are classified in accounting terms as ‘supplier receipts’, since the advertiser that is usually supplying goods to the retailer is now also making payments to buy media from them.

International Financial Reporting Standards (IFRS) are clear that supplier receipts are presumed to be a reduction in purchase price of goods acquired from the advertiser i.e. netted by the retailer against the ‘cost of goods sold’ line item, not recorded as incremental revenue. (Similar rules also apply under US GAAP.)

This means that, as retail media grows, the retailer would record decreasing costs of goods sold, rather than increasing revenues. However, depending on their business objectives, retailers may be incentivised to use the alternative treatment (i.e. to record digital retail media as revenues) for three reasons:

1. Revenue is a key financial metric, and growing it receives credit internally from senior management and externally from investors and analysts.
2. Retailers believe they are building a media business, not reducing the purchase price of goods, so recognition as revenue more accurately reflects the underlying economics.
3. Recording as retailer revenue would be mirrored by the advertiser treating this spend as marketing operating expense (not offset against their revenues), which makes it easier for digital retail media to tap into advertiser brand marketing budgets.

### WHEN RETAIL MEDIA CAN BE COUNTED AS REVENUE

For retailers to achieve this outcome – i.e. recording sales of retail media as revenues – they must show that the retailer is genuinely acting as a vendor i.e. that the advertiser buying retail media was separate from its status as the retailer’s supplier.

These accounting rules and their interpretation are complex, but three key points are:

1. If sales of retail media are covered in the main commercial supplier agreement, the media will be deemed to be linked and offset against the price of goods purchased from that advertiser.
2. Even if retail media is in a separate contract, the supplier advertising must be generic (e.g. brand-building or universal price promotions) not specific to the retailer. For example, if a retailer offered top pick banner placements or exclusive pricing, the benefit is not distinct as it is an incentive in the context of the relationship therefore ad sales would remain as a cost deduction to COGS.
3. The retailer must be able to demonstrate that the retail media was sold at a price that is fair value.

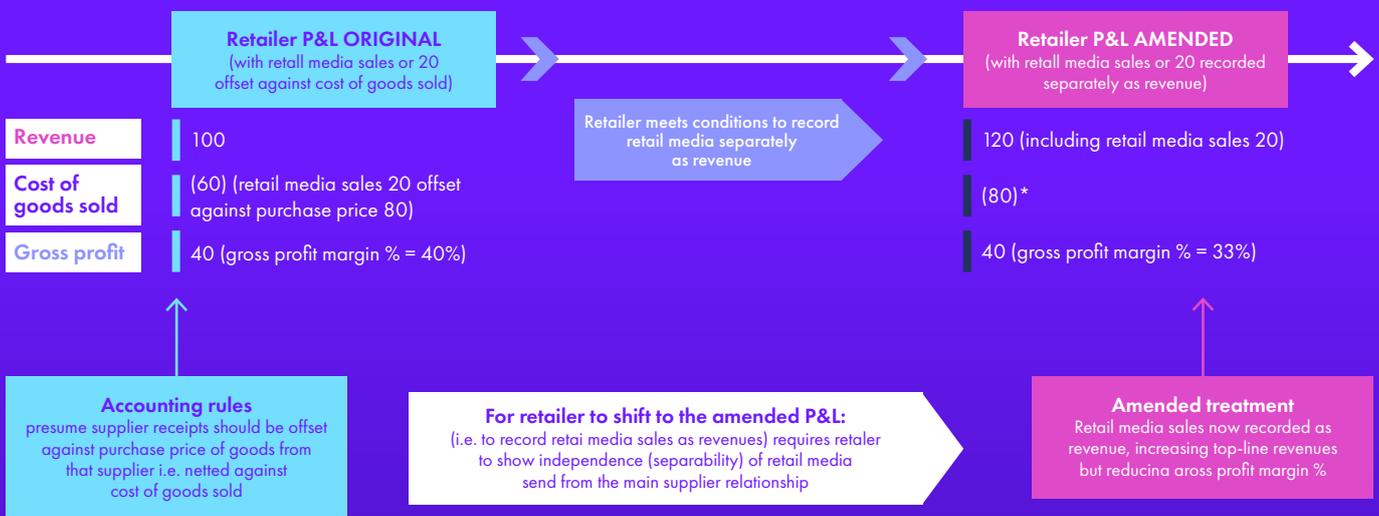
## MARKETPLACE MODELS AND THEIR IMPLICATIONS

The accounting for media sales by online marketplaces (e.g. Amazon, eBay) also depends on whether they take control of the goods being sold – the ‘principal/agent’ question. If the online marketplace buys the goods, stores them in its warehouse, sets the price, etc. then it is acting as principal and sales of retail media to those suppliers will be offset against the cost of goods purchased from them, unless the separability conditions immediately above are satisfied. Conversely, if the supplier stores the inventory and sets the price and bears the returns risk, then the online marketplace is acting as agent. In this scenario, for the online marketplace there is no cost of goods sold (since the marketplace never owns the goods) so any sales of digital retail media must automatically be recorded as revenue.

## DISCLOSURE AND REPORTING EXPECTATIONS

Retailers and online marketplaces are required by IFRS (and US GAAP) to disclose material categories of income and their impact on revenue and/or cost of goods sold. This is set out in IFRS 15 Revenue recognition, IFRS 8 Operating Segments and IAS 1 Presentation of Financial Statements. (The US GAAP equivalents are ASC 606, 280, and 205-20). In summary, and to (over)simplify these accounting rules, if retail media is reported separately within the information regularly reviewed by senior management, then it also merits separate disclosure in the external annual report.

## RETAILER ACCOUNTING FOR RETAIL MEDIA SALES



The above assumes retail media sales are exclusive of other trade and ongoing expenses. In practice the P&L adjustment should consider.

- The balance between distinct retail media sales and those non-distinct services which should remain COGS
- Ongoing expenses for retail media that aren't currently reflected in COGS for relatable expenses

## SHORT EXPLAINER FOR GENERIC ADVERTISING SERVICES AND ACCOUNTING TREATMENT

Even where retail media is contracted separately, advertising is only distinct if it provides a generic, retailer-agnostic benefit, such as brand building or universal promotions, rather than support that is specific to selling through a particular retailer.

For example, advertising that promotes a supplier's brand through non-price-specific messaging, is delivered both on and off the retailer's platform, and directs consumers to the supplier's own website, rather than to a retailer-exclusive product page, can provide broader demand generation that exists independently of the trading relationship. Therefore, the advertising service meets the criteria for being generic and distinct under IFRS 15 and can be recognised as revenue for the retailer.