The talking shop

The rise of voice commerce

OC&C
Strategy consultants

uncommon sense

The talking shop – the rise of voice commerce

Voice shopping and its associated devices (mainly smart speakers[1]) have grown rapidly in popularity since Amazon first launched their smart speaker Echo in 2014, topping the Amazon bestseller list that Christmas.

OC&C estimates that 13% of US households and 10% of UK households had a smart speaker in December 2017 with an estimated 6m homeowners ordering products through these devices in 2017, accounting for $2bn in retail sales.

SO WHAT'S ALL THE CHAT ABOUT?

Rapid consumer adoption of smart speakers, combined with a growing tendency to use such devices for shopping, suggests that voice commerce (voice-based eCommerce) will be the next major disruptive force to impact retail. OC&C estimates that $40bn (in the USA) and $5bn (in the UK) will be spent through voice commerce by 2022, representing 6% and 3% of all online spend. This is clearly a channel that retailers and consumer goods companies would do well to consider seriously.

[1]Defined as an Internet-connected speaker equipped with voice recognition technology

> OC&C estimates that 13% of US households and 10% of UK households had a smart speaker in December 2017
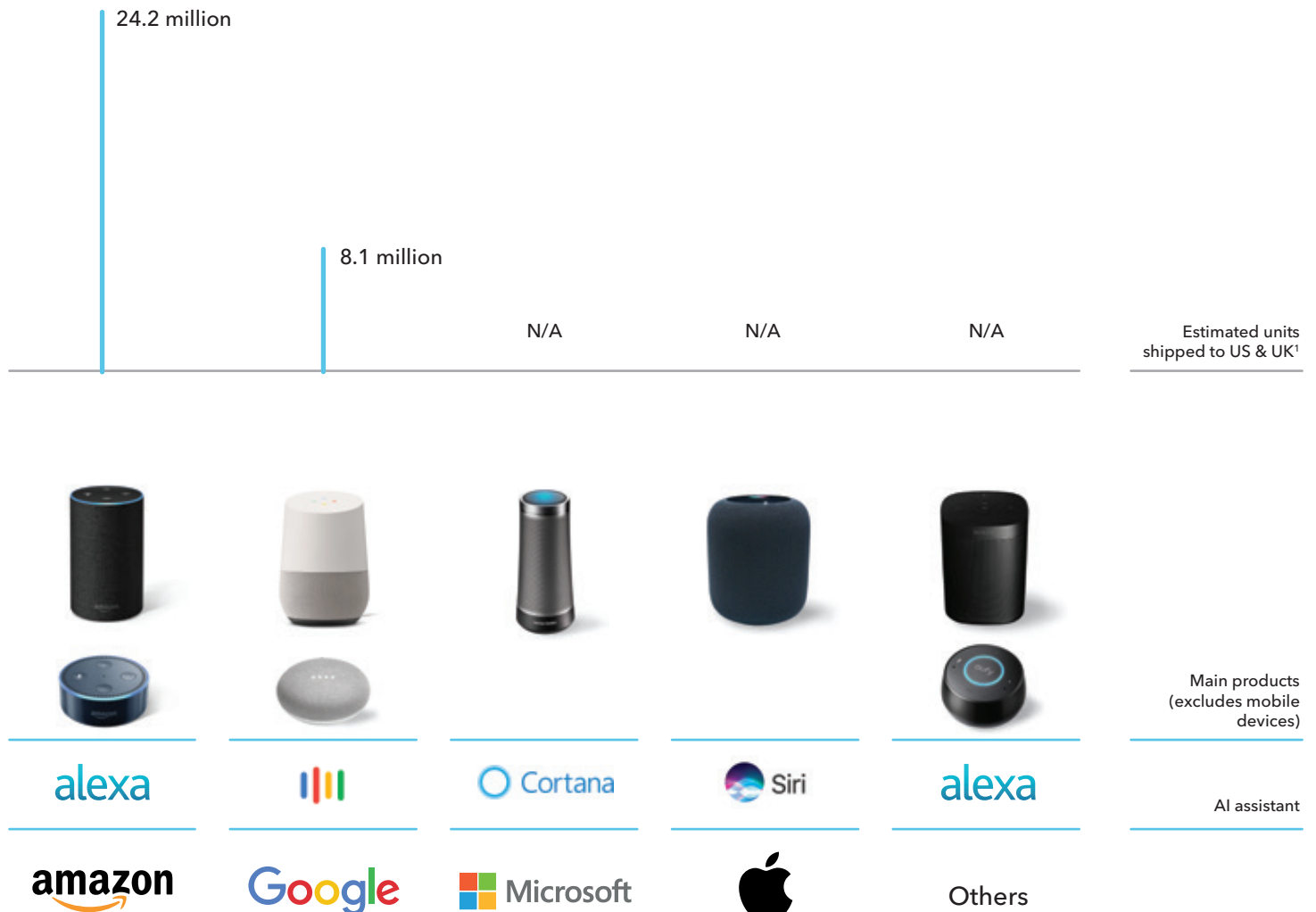
FIGURE 1: SPEND ON VOICE SHOPPING IN US AND UK

$40bn

55%

48%

13%

10%

$5bn

$2bn

$0bn

| 2017 | 2022 | 2017 | 2022 | | 2017 | 2022 | 2017 | 2022 |

US Market   UK Market

Leader of the pack

Amazon leads the pack in smart-speaker market share at 70-80%, with a broad product offering in its Echo range and the most established eCommerce platform. However, the space is hotly contested, with the Google Home seen as having the best Artificial Intelligence (AI) capabilities, plus a newly established eCommerce platform in the US – Google Express. Apple and Samsung are expected to launch smart speakers early in 2018, while Microsoft operates through third-party devices.

FIGURE 2: COMPARISON OF VOICE DEVICES AND AI LANDSCAPE

24.2 million	8.1 million	N/A	N/A	N/A	Estimated units shipped to US & UK[1]
					Main products (excludes mobile devices)
alexa	‖‖‖	◯ Cortana	◉ Siri	alexa	AI assistant
amazon	Google	▦ Microsoft		Others	

1. As of December 2017 based on OC&C survey

A view of the Amazon Echo Look during NYFW: The Shows Celebration hosted by Amazon Echo Look on February 11, 2018 in New York City

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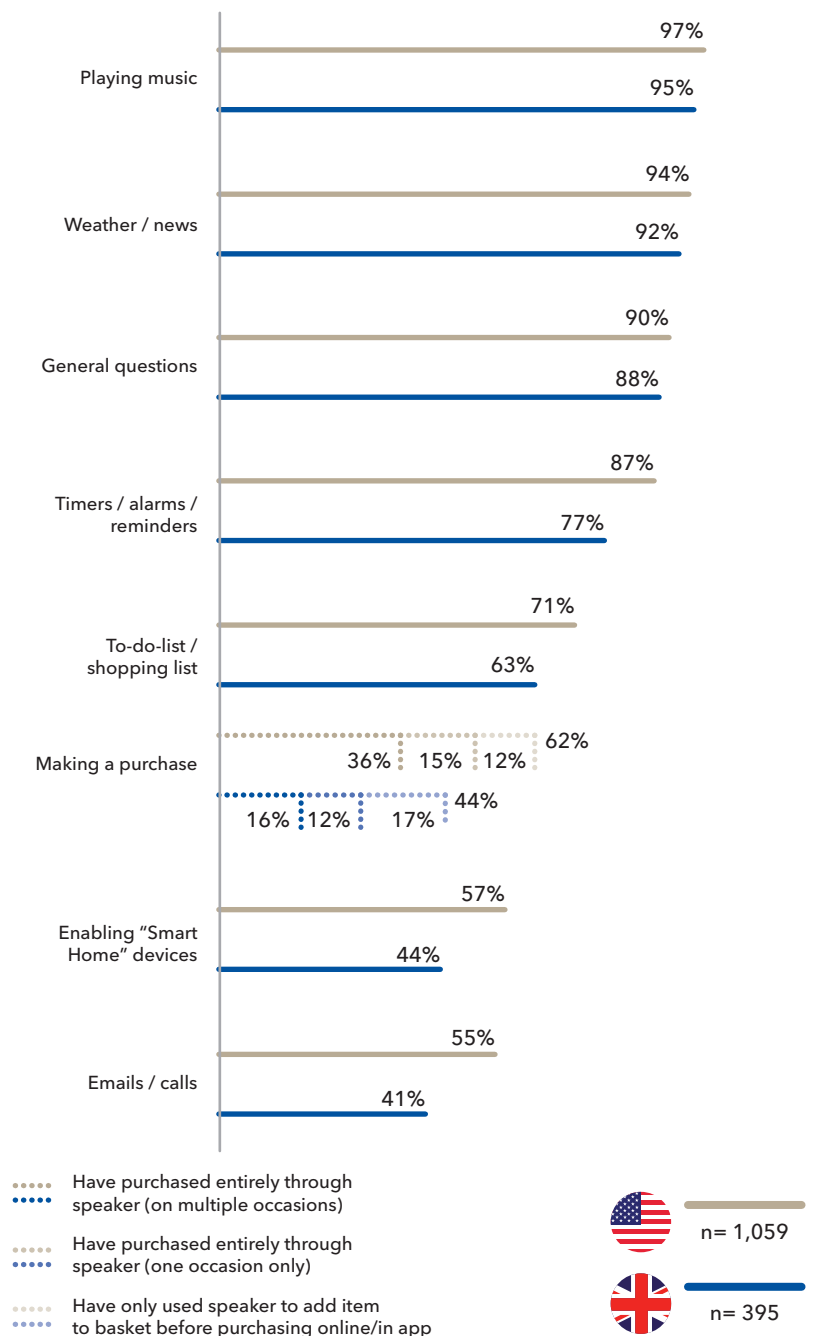
Talking shop – how voice is changing the shopping landscape

While voice shopping is still in its infancy, it already has a growing user base, with 36% of US and 16% of UK owners making a purchase through their speaker more than once and 60% of shoppers reporting growing use over time.

Amazon is clearly the dominant force in voice shopping today, accounting for c. 90% of all spend. A small number of retailers have also developed 'skills' for Echo and stores on Google Express.

In most categories, voice shopping replaces existing online spend, most of which was already served by Amazon. However, in grocery, 45% of all orders replace existing store or online purchases, mainly through Amazon Fresh. Voice commerce thus represents another major asset in Amazon's expansion into grocery.

FIGURE 3: TOP USE CASES FOR SMART SPEAKERS IN THE US AND UK (% OF OWNERS WHO HAVE USED FOR THIS PURPOSE)

Playing music — 97% / 95%
Weather / news — 94% / 92%
General questions — 90% / 88%
Timers / alarms / reminders — 87% / 77%
To-do-list / shopping list — 71% / 63%
Making a purchase — 36% | 15% | 12% → 62% / 16% | 12% | 17% → 44%
Enabling "Smart Home" devices — 57% / 44%
Emails / calls — 55% / 41%

- Have purchased entirely through speaker (on multiple occasions)
- Have purchased entirely through speaker (one occasion only)
- Have only used speaker to add item to basket before purchasing online/in app

n= 1,059
n= 395

Amazon fulfillment center features
state of the art technology

Amazon is clearly the dominant force in voice shopping today, accounting for c. 90% of all spend

FIGURE 4: CHANNEL CUSTOMER WOULD HAVE USED IF ITEM HADN'T BEEN PURCHASED THROUGH VOICE[1,2]

Amazon Echo shoppers

Groceries   55%   34%   11%

Non-groceries   78%   13%   9%

Google Home shoppers

Groceries   41%   38%   21%

Non-groceries   53%   22%   23%   2%
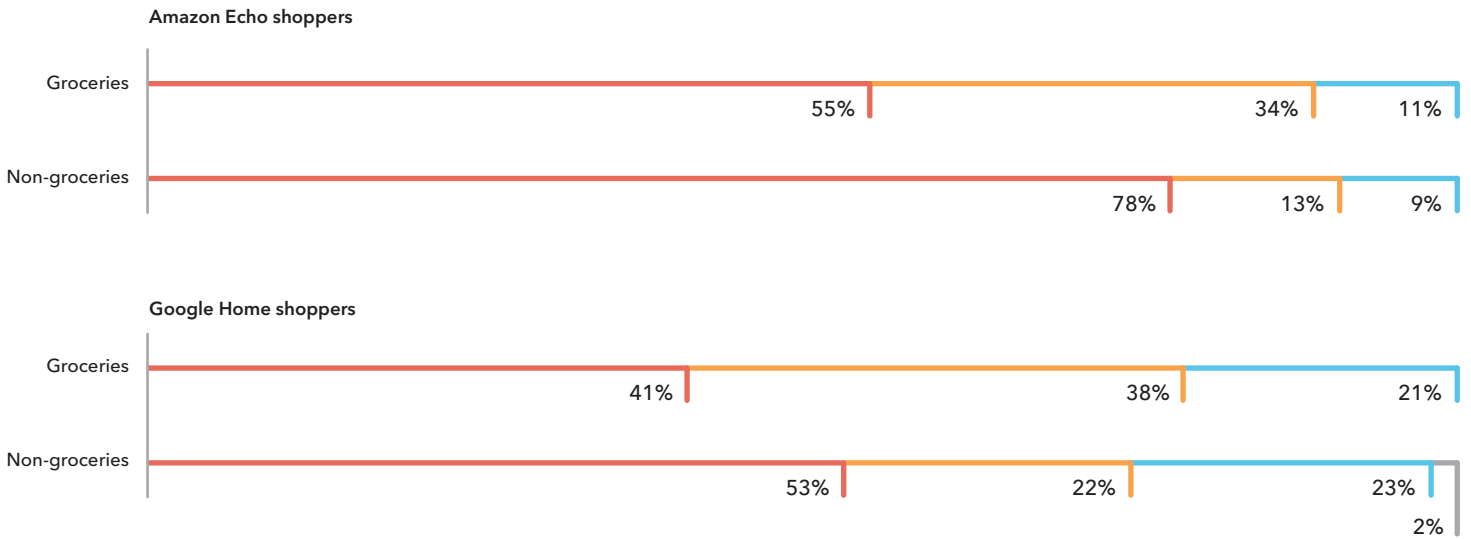
1. Asked to Amazon Echo Voice shoppers only. If you do not own your smart speaker, where would you have purchased the item?
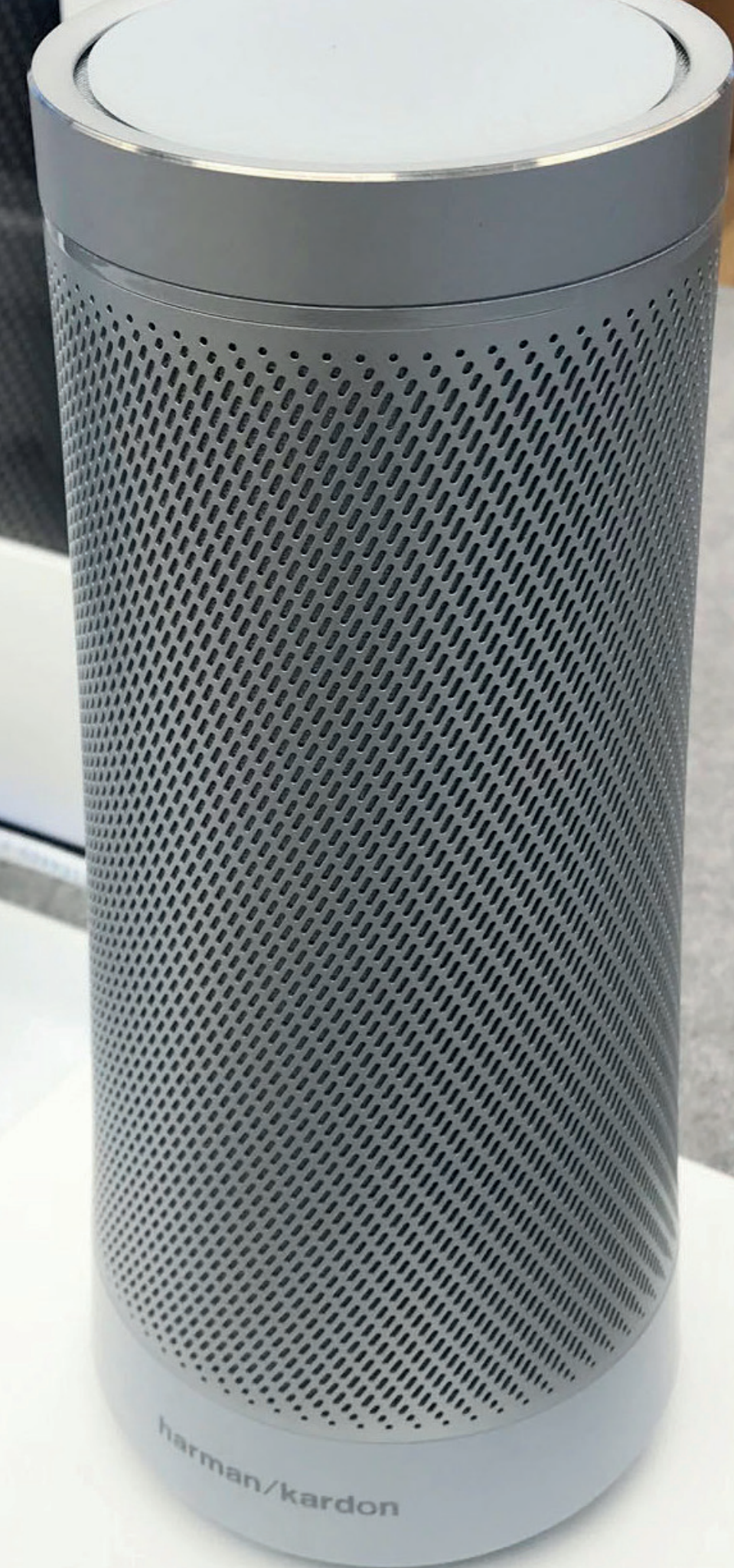2. Only showing selected categories.

amazon   Other online retailer   Physical store   Incremental purchase

n= 385

Voice shopping is mainly seen by customers as a sales channel, rather than a browsing experience – 70% of purchases are made by consumers who know precisely what they want to buy. As a result, food groceries and better "known" items such as electronics and homewares are the most common categories purchased using voice commerce. These purchases are typically for low-value products.

Harman Kardon Invoke speaker equipped with Microsoft Corp.'s artificial intelligence system Cortana

FIGURE 5: CATEGORIES EVER PURCHASED USING SMART SPEAKERS (VOICE PURCHASERS WHO HAVE EVER PURCHASED THIS CATEGORY [2,3], INDEXED TO 100)
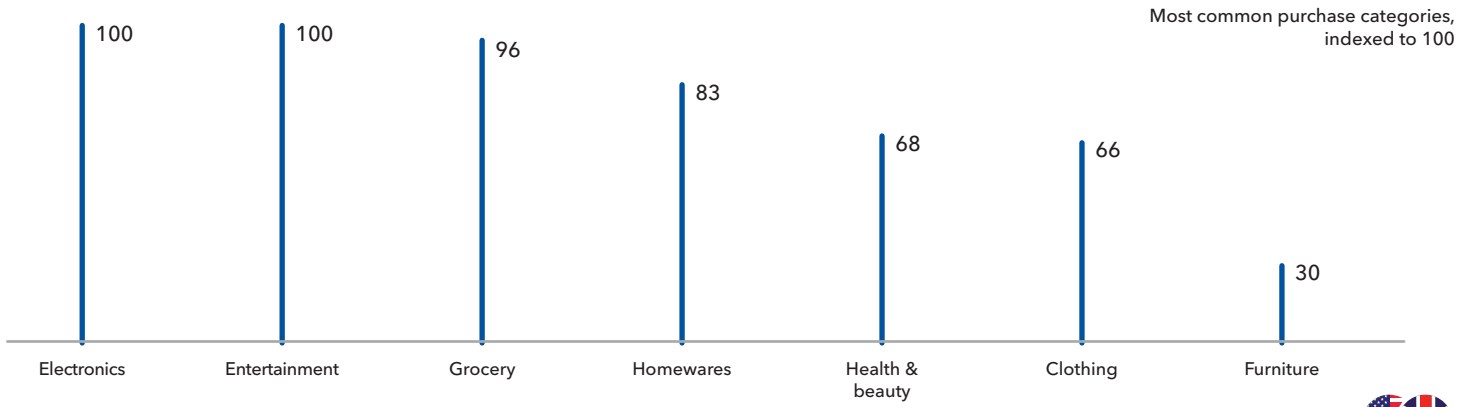
Most common purchase categories, indexed to 100

Electronics	Entertainment	Grocery	Homewares	Health & beauty	Clothing	Furniture
100	100	96	83	68	66	30

n= 372

FIGURE 6: KNOWLEDGE OF PURCHASED PRODUCT WHEN STARTING THE VOICE SHOPPING JOURNEY

	Entertainment	Furniture	Health & beauty	Electronics	Grocery	Homeware	Clothing	Average across all categories
No knowledge of product	1%		2%	3%	3%		3%	2%
Knew product type, details important	13%	26%	5%	9%	8%	12%	26%	13%
Knew product type, details not important	6%	19%	19%	19%	23%	27%	15%	16%
Knew exact product	79%	74%	73%	69%	66%	61%	56%	69%

— Knew exact product
— Knew product type, details not important
— Knew product type, details important
— No knowledge of product

n= 419

FIGURE 7: AVERAGE BASKET VALUE, VOICE VS NON-VOICE ONLINE, BY PRODUCT CATEGORY[2] ($[3])

Electronics
-$421 $239 $661

Homeware
-$134 $74 $208

Grocery
-$56 $32 $80

Health & beauty
-$4 $36 $32

Clothing
+$17 $64 $81

— Delta — Voice — Online   n= 510
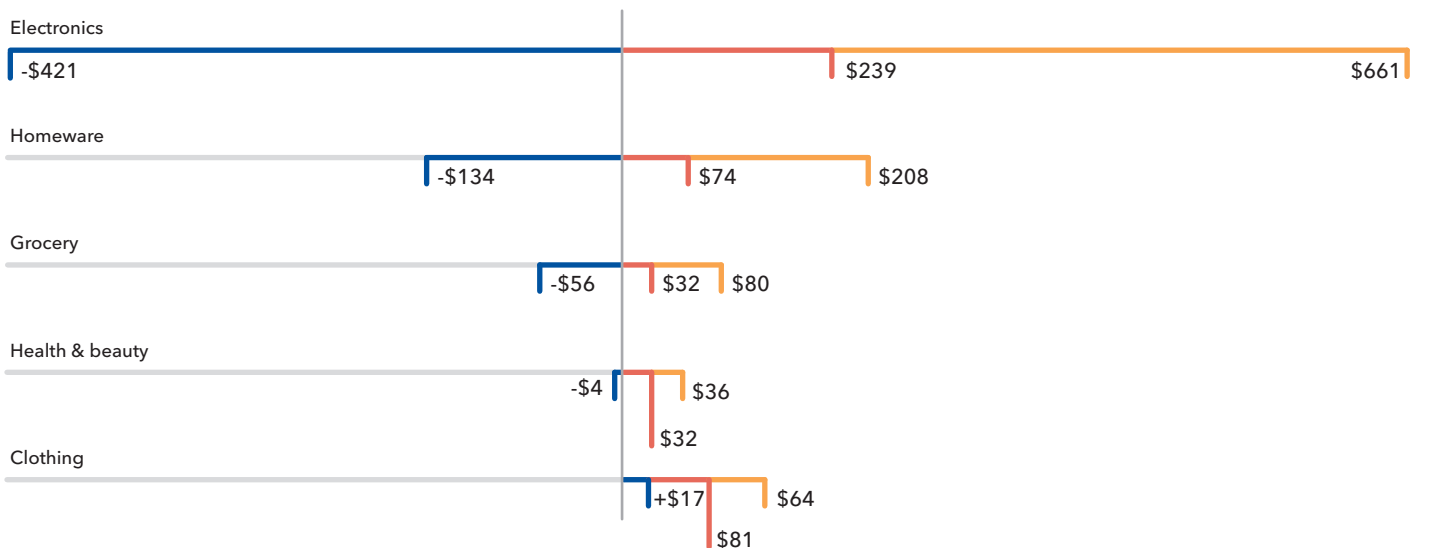
1. Which statement best describes your purchase of the item? Which statement best describes your food purchase?
2. When you came to buy the item, which of the following best describes your attitude toward the product?
3. Which statement best describes your order and purchase process of your item?

Who shouts loudest wins – Amazon's Choice becomes key for brands

Voice shopping is a non-visual experience, requiring products to be selected purely by providing a description in words, which significantly limits the scope of browsing.

Amazon's Alexa will make a "recommendation." Relevant items in a customer's order history or basket are prioritized, after which Alexa suggests its "Amazon's Choice" product – or where Amazon's Choice isn't available, the top search result.

Not all categories are included in Amazon's Choice – it is skewed toward more "functional" categories such as electronics and electronics accessories, whereas categories with higher levels of personalization such as clothes and fashion do not currently have this feature.

"Amazon by default always focuses on the customer, they don't focus on their own financials"

Ex Vice President for Alexa Strategy and Development, Amazon

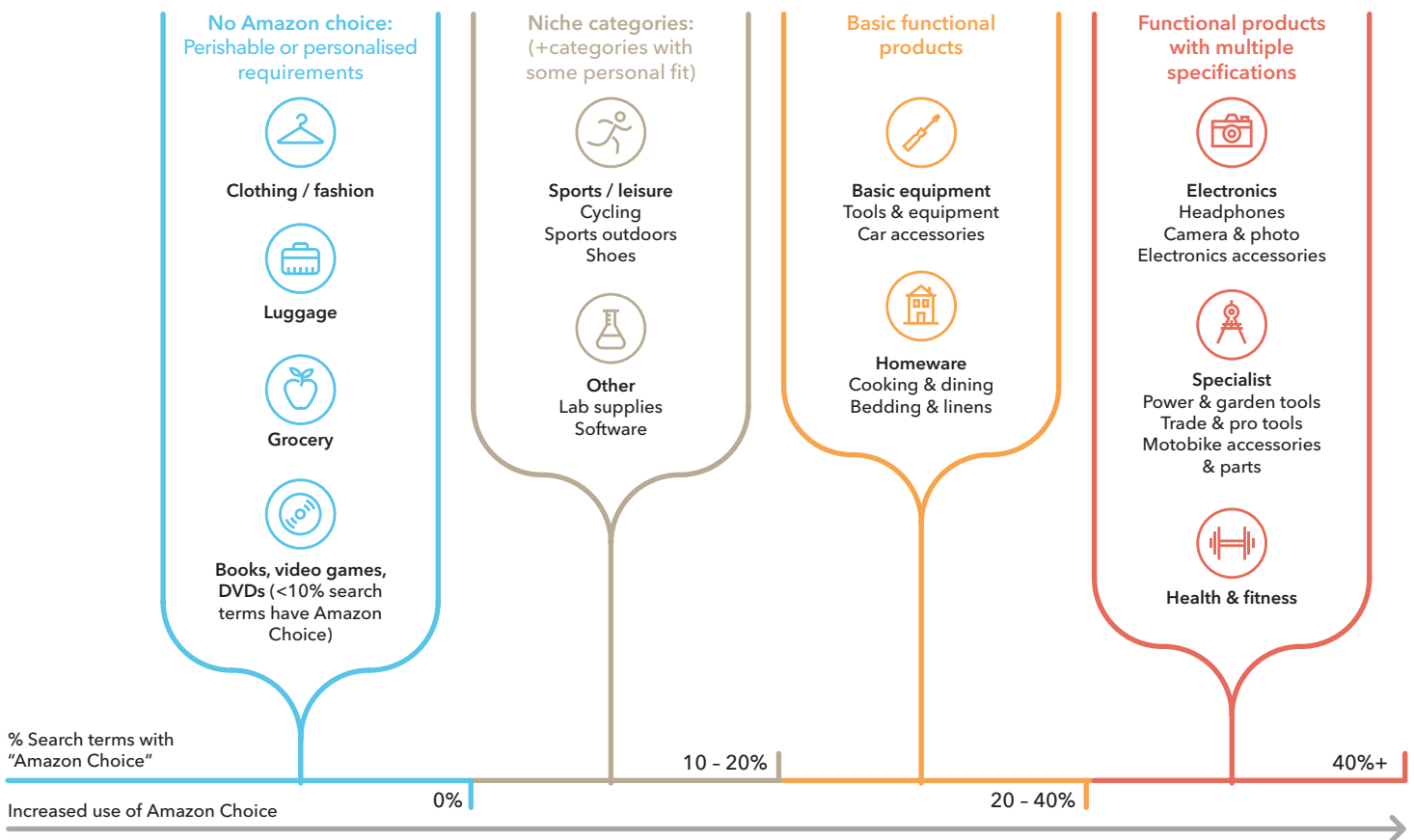## FIGURE 8: AMAZON'S CHOICE PRESENCE BY CATEGORY TYPE[1]

No Amazon choice:
Perishable or personalised requirements

Clothing / fashion

Luggage

Grocery

Books, video games, DVDs (<10% search terms have Amazon Choice)

Niche categories:
(+categories with some personal fit)

Sports / leisure
Cycling
Sports outdoors
Shoes

Other
Lab supplies
Software

Basic functional products

Basic equipment
Tools & equipment
Car accessories

Homeware
Cooking & dining
Bedding & linens

Functional products with multiple specifications

Electronics
Headphones
Camera & photo
Electronics accessories

Specialist
Power & garden tools
Trade & pro tools
Motobike accessories & parts

Health & fitness

% Search terms with "Amazon Choice"

| | 0% | 10 – 20% | 20 – 40% | 40%+ |

Increased use of Amazon Choice →

FIGURE 9: AMAZON CHOICE STATUS IMPACT ON SALES GROWTH
ADDITIONAL RATINGS PER DAY (PROXY FOR SALES)

Before becoming Amazon Choice — 0.9

After becoming Amazon Choice — 2.7

x 3

Customer centricity is at the heart of Amazon Choice. Right now 'Choice' cannot be sponsored by brands; instead products must meet three criteria:
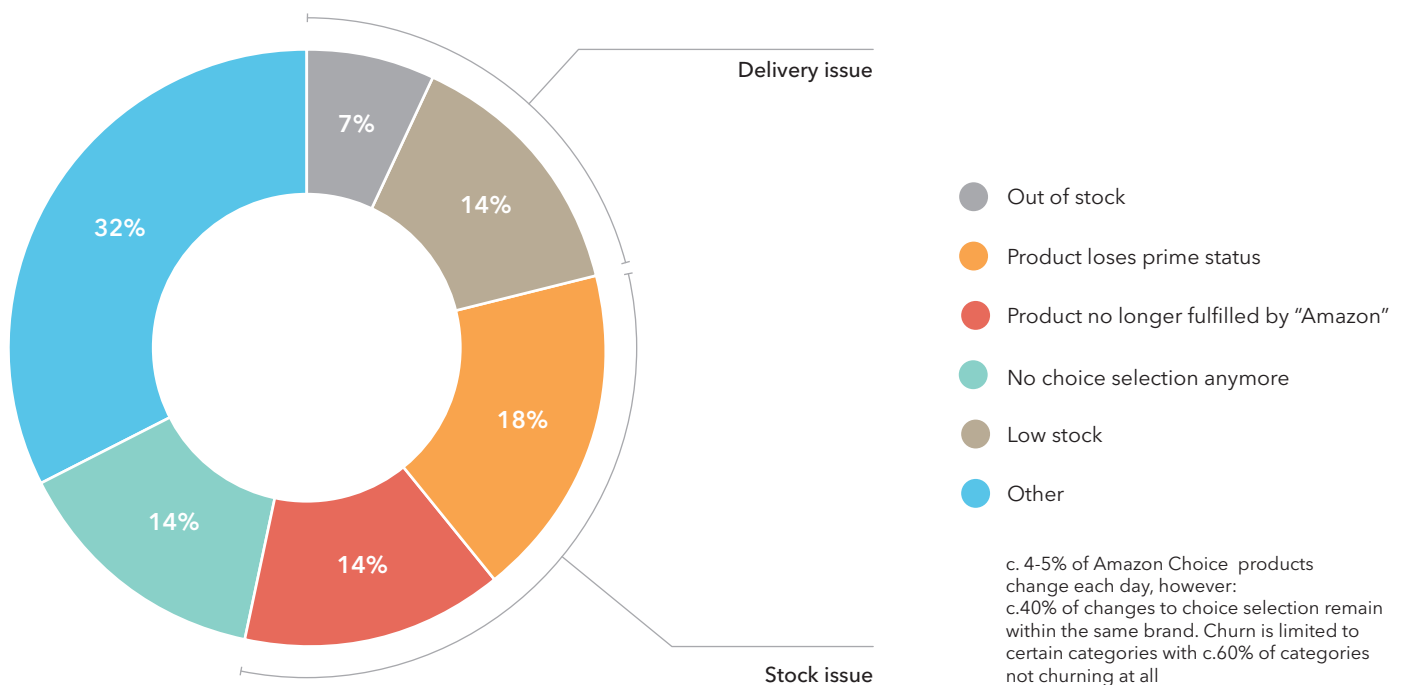
1 Being popular and well-priced

2 Having strong customer experience metrics
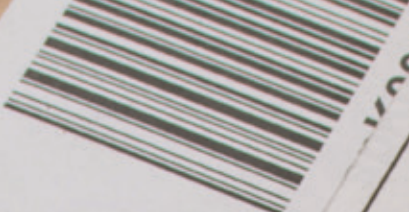
3 Maintaining a strong supply chain

The product must be popular and well priced[1]...		...have excellent customer experience metrics...		...and have excellent supply chain performance	
Ratings	Average product rating **4.5**	**Returns**	**Low** return rate	**Amazon to customer**	All products **Prime eligible** (i.e. fulfilled by Amazon)
	Average number of reviews **846 (variable)**		**Strong** product guarantees		**Max 2-3 day delivery** (& no stack limitation)
Popularity	"Best seller" Ranking > **#8**	**Experience**	**Low** proportion of negative customer experiences	**Supplier to Amazon**	Perfect order rate (i.e. errors in orders delivered to Amazon) **>99% across all products**
	Low basket abandonment rate		**High** customer response rate within 24 hours		**High** order punctuality rate
	Pre-fulfilment cancellation rate **<2.5%**		**Accurate** product information which is not misleading		**Low** order delivery time
Pricing	Majority priced at **"value end"** of market – particularly amongst cheaper products				

OC&C's research has shown that brands are finding these criteria difficult to meet. Around 4-5% of "Amazon's Choice" products change daily, mainly as a result of stock or delivery speed issues. The loss of "Choice" is costly to suppliers – resulting in an average 30% drop in sales. Products loosing choice status typically experience a c.30% reduction in sales but still tend to remain bestsellers.

- **7%** Out of stock
- **18%** Product loses prime status
- **14%** Product no longer fulfilled by "Amazon"
- **14%** No choice selection anymore
- **14%** Low stock
- **32%** Other

Delivery issue

Stock issue

c. 4-5% of Amazon Choice products change each day, however:
c.40% of changes to choice selection remain within the same brand. Churn is limited to certain categories with c.60% of categories not churning at all
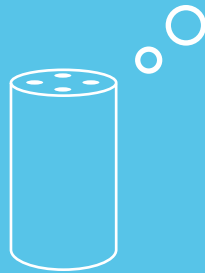
Talking the Language – how can retailers and FMCG companies get up to speed?

The rise of voice shopping has important implications for retailers and consumer goods companies, and those who are able to move quickly will reap significant first-mover advantage.

Google brings its same day delivery service to Los Angeles
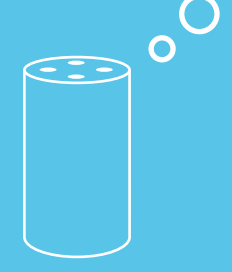
"Alexa, add shower gel to my basket"
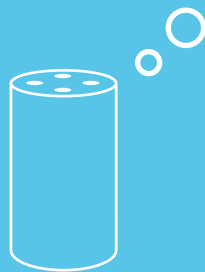
"Ok Google, where can I buy a gas BBQ?"

"Ok Google, order my usual from Dominoes"

"Alexa, when are my chairs due for delivery from West Elm?"

"Alexa, I need to return an item"

There are a number of key questions that retailers and FMCG companies should ask themselves so that they can best position themselves and take advantage of this trend:

A. Key recommendations for retailers

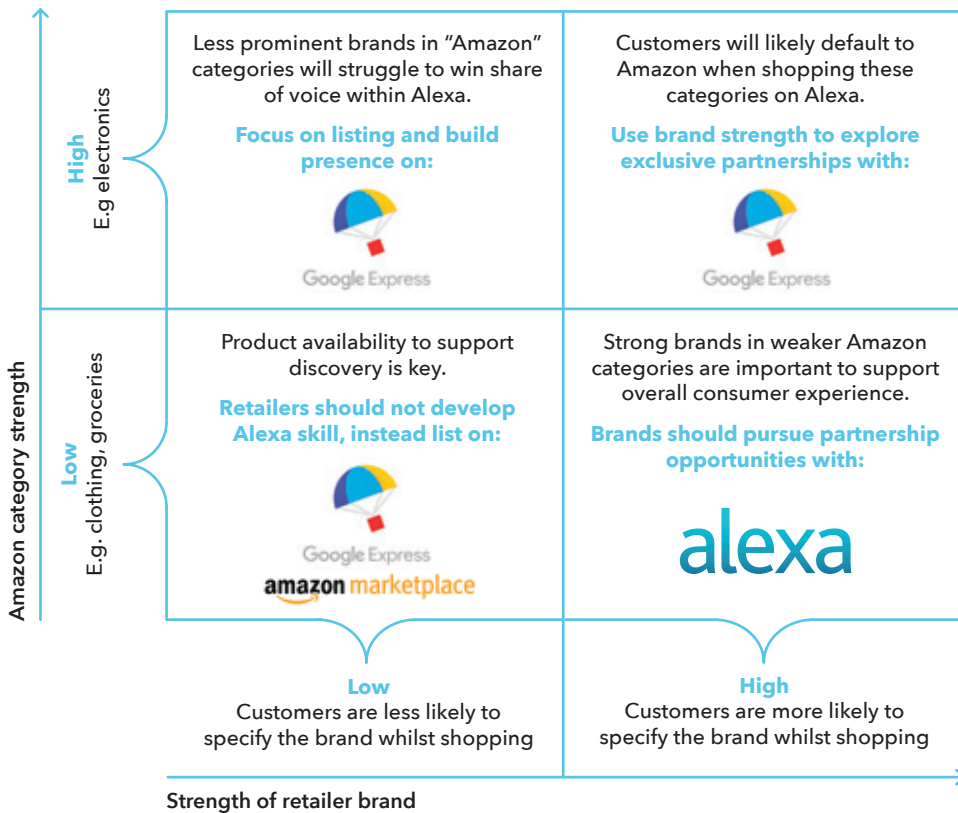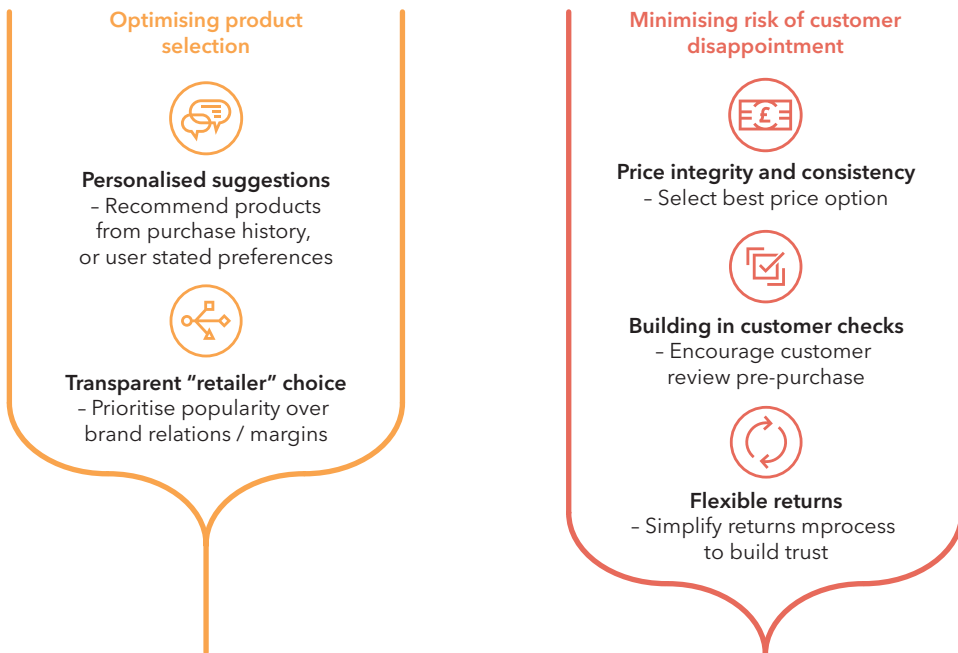### I) CONSIDER WHAT VOICE COMMERCE COULD ACHIEVE FOR YOUR BUSINESS

Voice objectives

Drive incremental spend
Capturing "spontaneous" or "distressed" purchases or providing inspiration e.g. recipes that encourage additional spend

Customer lock-in
Through improving customer experience and collecting customer data to enrich CRM

Customer satisfaction
Improve the overall customer experience by providing easily accessible and "real-time" information

Cost reduction
Reduce costs for customer support and customer research / surveys

II) DECIDE HOW YOU SHOULD TAILOR YOUR VOICE PROPOSITION TO MEET THIS OBJECTIVE

Voice proposition / functionality		Description of voice proposition	Example customer uses	Retailer objectives with voice			
				Drive incremental spend	Customer lock-in	Customer satisfaction	Cost reduction
	Information	Basic operational information e.g. store opening hours, stock availability	"Do you have the Samsung Galaxy S7 in stock?"			✓	
	Inspiration / content	Transaction related or lifestyle related content e.g. recipes, style advice	"What should I cook for dinner?"	✓	✓		
	Customer care provision	Transaction related customer care e.g. aftercare, complaints	"I'd like to complain about my order."		✓	✓	✓
	Enable transaction	Full transaction or "add to basket" capabilities enabled	"I need a new toothbrush."	✓	✓		

III) PARTNER STRATEGICALLY WITH DIFFERENT AI PLATFORMS TO ENSURE THAT YOUR PROPOSITION IS OPTIMALLY PRESENTED

		Strength of retailer brand	
Amazon category strength	**High** E.g electronics	Less prominent brands in "Amazon" categories will struggle to win share of voice within Alexa. **Focus on listing and build presence on:** *Google Express*	Customers will likely default to Amazon when shopping these categories on Alexa. **Use brand strength to explore exclusive partnerships with:** *Google Express*
	Low E.g. clothing, groceries	Product availability to support discovery is key. **Retailers should not develop Alexa skill, instead list on:** *Google Express* *amazon marketplace*	Strong brands in weaker Amazon categories are important to support overall consumer experience. **Brands should pursue partnership opportunities with:** *alexa*
		Low Customers are less likely to specify the brand whilst shopping	**High** Customers are more likely to specify the brand whilst shopping

IV) FOCUS ON BRIDGING THE "TRUST" PERCEPTION GAP

Optimising product selection

Personalised suggestions
– Recommend products from purchase history, or user stated preferences

Transparent "retailer" choice
– Prioritise popularity over brand relations / margins

Minimising risk of customer disappointment

Price integrity and consistency
– Select best price option

Building in customer checks
– Encourage customer review pre-purchase

Flexible returns
– Simplify returns mprocess to build trust

V) UNDERSTAND THE ASSOCIATED ORDER ECONOMICS AND FIND WAYS TO MITIGATE MARGIN DILUTION

- **Aggregate items** into a weekly / bulk delivery
- Ensure **accessories** are offered as part of transaction
- Build trust in product selection to support ordering of **higher price point items**
- Assess customer rather than channel profitability. Use voice as a means of **locking-in most valuable customers**

B. Key recommendations for consumer goods companies

I) FOCUS YOUR VOICE EFFORTS ON THE PRODUCTS MOST LIKELY TO BE SHOPPED THROUGH THIS CHANNEL

Voice proposition should focus on specific products...

Low price-point	Repeat purchases (e.g. everyday groceries)	Non-repeat "simple" products (limited specifications required)

II) FOR WELL-KNOWN PRODUCTS, INCREASE THE CHANCES OF YOUR PRODUCT BEING "SEARCHED FOR" (E.G. BY FOCUSING ON AURAL MARKETING), AND SUBSEQUENTLY "FOUND" (E.G. THROUGH PRODUCT TAGGING).

Chance of being "searched" for

70%
of all voice purchases are "searched for"

Marketing

Shift in marketing focus from visual to "voice" eg: brand name repetition simple, powerful product names

Chance of being "found"

30%
involve some element of discovery / recommendation

Search requests

Define the repertoire of "search terms" – encourage people to search for terms where your product is prominent e.g."sensitive toothpaste"

This will likely increase as share of voice channel grows

Product categorisation

Improve product categorisation
Work with platforms / retailers to improve categorisation, hierarchies and attribute tagging

Position your products better to meet the criteria for "Alexa's recommendations" as well as retailers' recommendations...

III) POSITION YOUR PRODUCTS TO BETTER MEET THE CRITERIA FOR
"ALEXA'S RECOMMENDATIONS" AS WELL AS RETAILERS' RECOMMENDATIONS.

Becoming the AI platform choice product

Alexa selection criteria	Ability to influence?	Implications for consumer goods companies

Requirements

A — Prime-eligible Products	✓	• Ensure all products are **fulfilled by Amazon**
B — Products in stock for immediate dispatch	✓	• Partner with Amazon to forecast demand patterns and **ensure stock availability at all times** • **Invest in automated delivery solutions** to minimize order errors and maximize delivery speeds

Search Prioritization — Decreasing priority

1 — Products already in the basket	✗	• Maximize chances of being a "previously ordered" product: – **Product giveaways** to get into customers' baskets – Become suggested **"add-on" product**
2 — Products the customer has already ordered	✓	
3 — "Amazon Choice" Product	✓	• Focus efforts on a **single product per category** • **Set competitive prices** • Incentivize **user feedback** to boost reviews/ratings • Invest in **customer care** e.g. detailed and accurate product listings, swift customer service etc.
4 — "1st Search" Result	✓	
5 — Another Search Result	✓	

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