The talking shop

The rise of voice commerce

OC&C
Strategy consultants

uncommon sense
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.

**The talking shop - the rise of voice commerce**

Voice shopping and its associated devices (mainly smart speakers¹) 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.

¹Defined as an internet-connected speaker equipped with voice recognition technology
FIGURE 1: SPEND ON VOICE SHOPPING IN US AND UK

SPEND ON VOICE SHOPPING IN THE US AND UK ($BN)

US Market

- 2017: $2bn
- 2022: $0bn

UK Market

- 2017: $40bn
- 2022: $5bn

HOUSEHOLD SMART SPEAKER PENETRATION

- 2017: 13%
- 2022: 55%

- 2017: 10%
- 2022: 48%

US Market

- 2017: $2bn
- 2022: $0bn

UK Market

- 2017: $40bn
- 2022: $5bn

US Market

- 2017: 13%
- 2022: 55%

UK Market

- 2017: 10%
- 2022: 48%
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. To support this research OC&C has conducted an extensive consumer survey, both in the UK and the US, to map how consumer behaviour is adjusting to this channel.

FIGURE 2: COMPARISON OF VOICE DEVICES AND AI LANDSCAPE

<table>
<thead>
<tr>
<th></th>
<th>Alexa</th>
<th>Google</th>
<th>Siri</th>
<th>others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated units</td>
<td>24.2M</td>
<td>8.1M</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>Estimated units shipped to US &amp; UK¹</td>
</tr>
</tbody>
</table>

1. As of December 2017 based on OC&C survey
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.
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%
- Weather / news: 94%
- General questions: 90%
- Timers / alarms / reminders: 87%
- To-do-list / shopping list: 71%
- Making a purchase: 62%
- Enabling “Smart Home” devices: 57%
- Emails / calls: 41%
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\(^1\,2\)

<table>
<thead>
<tr>
<th>Amazon Echo shoppers</th>
<th>Groceries</th>
<th>Non-groceries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>55%</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>78%</td>
<td>13%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Google Home shoppers</th>
<th>Groceries</th>
<th>Non-groceries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>41%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>53%</td>
<td>22%</td>
</tr>
</tbody>
</table>

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.
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.
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?

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**FIGURE 5: CATEGORIES EVER PURCHASED USING SMART SPEAKERS (VOICE PURCHASERS WHO HAVE EVER PURCHASED THIS CATEGORY, INDEXED TO 100)**

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

**Most common purchase categories, indexed to 100**

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

- **Entertainment**: Knew exact product (13%), Knew product type, details not important (26%), Knew product type, details important (79%)
- **Furniture**: Knew exact product (1%), Knew product type, details not important (6%), Knew product type, details important (74%)
- **Health & beauty**: Knew exact product (5%), Knew product type, details not important (2%), Knew product type, details important (9%), No knowledge of product (19%)
- **Electronics**: Knew exact product (3%), Knew product type, details not important (3%), Knew product type, details important (12%), No knowledge of product (26%)
- **Grocery**: Knew exact product (2%), Knew product type, details not important (19%), Knew product type, details important (19%), No knowledge of product (69%)
- **Homewares**: Knew exact product (3%), Knew product type, details not important (66%), Knew product type, details important (66%), No knowledge of product (61%)
- **Clothing**: Knew exact product (27%), Knew product type, details not important (3%), Knew product type, details important (13%), No knowledge of product (16%)
- **Average across all categories**: Knew exact product (13%), Knew product type, details not important (2%), Knew product type, details important (16%), No knowledge of product (69%)

**FIGURE 7: AVERAGE BASKET VALUE, VOICE VS NON-VOICE ONLINE, BY PRODUCT CATEGORY² ($³)**

<table>
<thead>
<tr>
<th>Category</th>
<th>Voice</th>
<th>Non-Voice</th>
<th>Voice - Non-Voice</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>-$421</td>
<td>$239</td>
<td>-$661</td>
</tr>
<tr>
<td>Homewares</td>
<td>-$134</td>
<td>$74</td>
<td>-$59</td>
</tr>
<tr>
<td>Grocery</td>
<td>-$56</td>
<td>$32</td>
<td>-$24</td>
</tr>
<tr>
<td>Health &amp; beauty</td>
<td>-$48</td>
<td>$32</td>
<td>-$16</td>
</tr>
<tr>
<td>Clothing</td>
<td>+$17</td>
<td>$64</td>
<td>+$47</td>
</tr>
</tbody>
</table>
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 TYPE¹**

- **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

- **Basic functional products**
  - Other
    - Lab supplies
    - Software

- **Functional products with multiple specifications**
  - Electronics
    - Headphones
    - Camera & photo
    - Electronics accessories
  - Specialist
    - Power & garden tools
    - Trade & pro tools
    - Motobike accessories & parts
  - Health & fitness

**FIGURE 9: AMAZON CHOICE STATUS IMPACT ON SALES GROWTH**

<table>
<thead>
<tr>
<th># ADDITIONAL RATINGS PER DAY (PROXY FOR SALES)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before becoming Amazon Choice</td>
</tr>
<tr>
<td>After becoming Amazon Choice</td>
</tr>
</tbody>
</table>

% Search terms with “Amazon Choice”

- Increased use of Amazon Choice
  - 0%
  - 10 – 20%
  - 20 – 40%
  - 40%+

Increased use of Amazon Choice
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

**FIGURE 10: AMAZON CHOICE SELECTION CRITERIA**

<table>
<thead>
<tr>
<th>The product must be popular and well priced’...</th>
<th>...have excellent customer experience metrics...</th>
<th>...and have excellent supply chain performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average product rating <strong>4.5</strong></td>
<td>Low return rate</td>
<td>All products Prime eligible (i.e. fulfilled by Amazon)</td>
</tr>
<tr>
<td>Average number of reviews <strong>846 (variable)</strong></td>
<td>Strong product guarantees</td>
<td>Max 2-3 day delivery ( &amp; no stack limitation)</td>
</tr>
<tr>
<td>“Best seller” Ranking &gt; #8</td>
<td>Low proportion of negative customer experiences</td>
<td>Perfect order rate (i.e. errors in orders delivered to Amazon) &gt;99% across all products</td>
</tr>
<tr>
<td>Low basket abandonment rate</td>
<td>High customer response rate within 24 hours</td>
<td>High order punctuality rate</td>
</tr>
<tr>
<td>Pre-fulfilment cancellation rate &lt;2.5%</td>
<td>Accurate product information which is not misleading</td>
<td>Low order delivery time</td>
</tr>
<tr>
<td>Majority priced at “value end” of market – particularly amongst cheaper products</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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.

**FIGURE 11: REASON FOR “LOSS” OF AMAZON CHOICE LABEL (% DAILY CHANGE IN PRODUCTS)**

- Delivery issue: 32%
- Stock issue: 18%
- Out of stock: 14%
- Product loses prime status: 14%
- Product no longer fulfilled by “Amazon”: 14%
- No choice selection anymore: 14%
- Low stock: 14%
- Other: 7%

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, order my usual from Dominoes”

“Alexa, I need to return an item”

“Ok Google, where can I buy a gas BBQ?”

“Alexa, when are my chairs due for delivery from West Elm?”
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**

<table>
<thead>
<tr>
<th>Description of voice proposition</th>
<th>Example customer uses</th>
<th>Drive incremental spend</th>
<th>Customer lock-in</th>
<th>Customer satisfaction</th>
<th>Cost reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic operational information e.g. store opening hours, stock availability</td>
<td>&quot;Do you have the Samsung Galaxy S7 in stock?&quot;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Transaction related or lifestyle related content e.g. recipes, style advice</td>
<td>&quot;What should I cook for dinner?&quot;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Transaction related customer care e.g. aftercare, complaints</td>
<td>&quot;I’d like to complain about my order.&quot;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Full transaction or “add to basket” capabilities enabled</td>
<td>&quot;I need a new toothbrush.&quot;</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
III) PARTNER STRATEGICALLY WITH DIFFERENT AI PLATFORMS TO ENSURE THAT YOUR PROPOSITION IS OPTIMALLY PRESENTED

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

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 process 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 |

**Chance of being “found”**

| 30% involve some element of discovery / recommendation |
| Search requests |

This will likely increase as share of voice channel grows

| Shift in marketing focus from visual to “voice” eg: brand name repetition simple, powerful product names |
| Product categorisation |

| Define the repertoire of “search terms” - encourage people to search for terms where your product is prominent e.g. “sensitive toothpaste” |
| 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

<table>
<thead>
<tr>
<th></th>
<th>Ability to influence?</th>
<th>Implications for consumer goods companies</th>
</tr>
</thead>
</table>
| **A** Prime-eligible Products | ✓ | • Ensure all products are fulfilled by Amazon  
• Partner with Amazon to forecast demand patterns and ensure stock availability at all times  
• Invest in automated delivery solutions to minimise order errors and maximise delivery speeds |
| **B** Products in stock for immediate dispatch | ✓ |  |

### Search Prioritisation

1. Products already in the basket | ✗ |
2. Products the customer has already ordered | ✓ |
3. “Amazon Choice” Product | ✓ |
4. “1st Search” Result | ✓ |
5. Another Search Result | ✓ |

**Requirements**

- Ensure all products are fulfilled by Amazon
- Partner with Amazon to forecast demand patterns and ensure stock availability at all times
- Invest in automated delivery solutions to minimise order errors and maximise delivery speeds

**Implications for consumer goods companies**

- Maximise chances of being a “previously ordered” product:
  - Product giveaways to get into customers’ baskets
  - Become suggested “add-on” product

- Focus efforts on a single product per category
- Set competitive prices
- Incentivise user feedback to boost reviews/ratings
- Invest in customer care e.g. detailed and accurate product listings, swift customer service etc.