



# 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<sup>1</sup>) 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.

<sup>1</sup>Defined as an internet-connected speaker equipped with voice recognition technology

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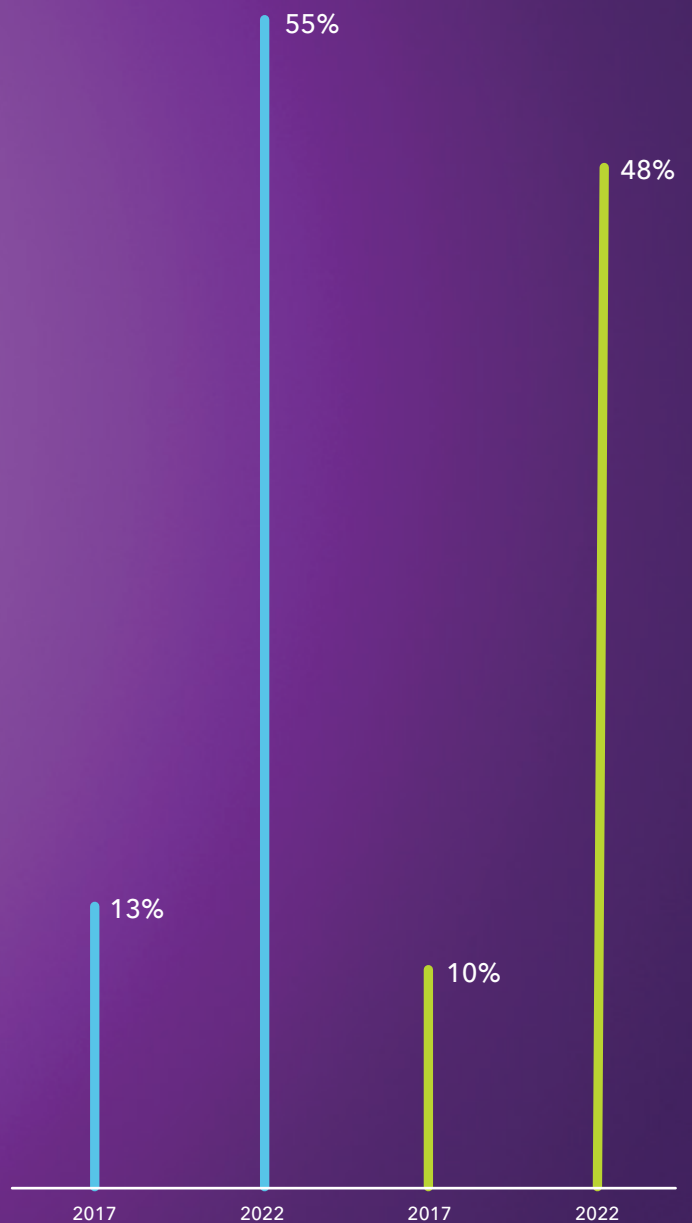


FIGURE 1: SPEND ON VOICE SHOPPING IN US AND UK

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



HOUSEHOLD SMART SPEAKER PENETRATION



# 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. 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



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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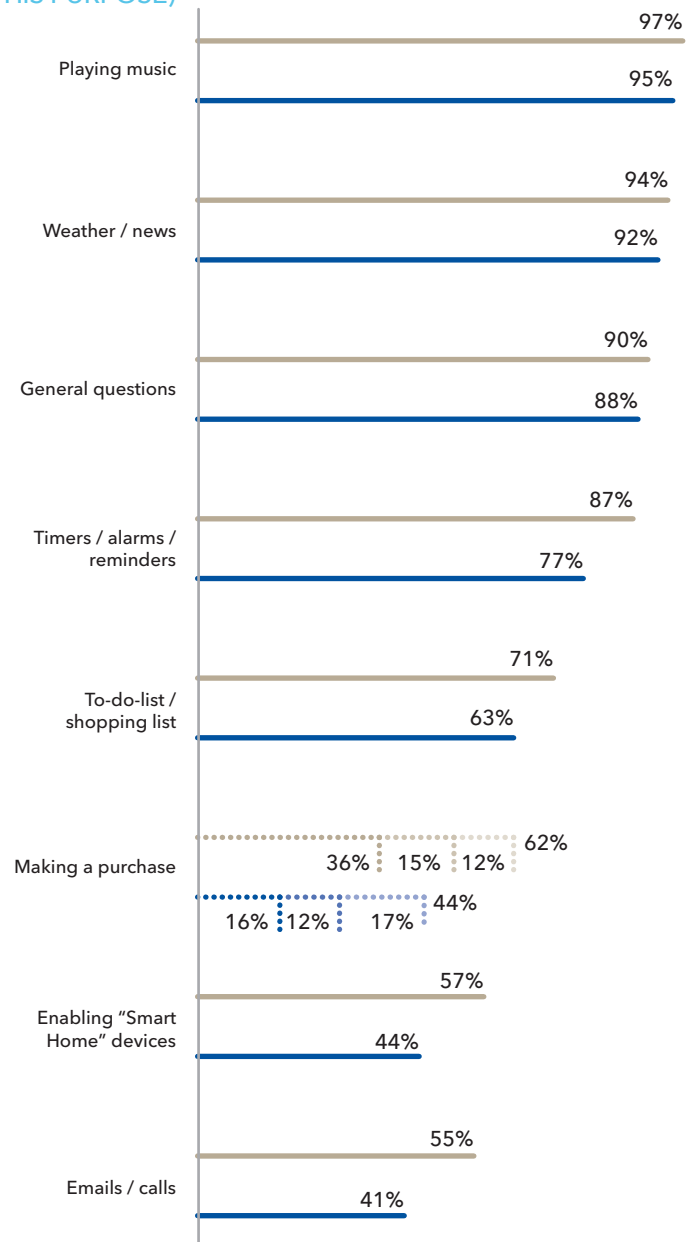
# Talking shop – how voice is changing the shopping landscape

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)



..... 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

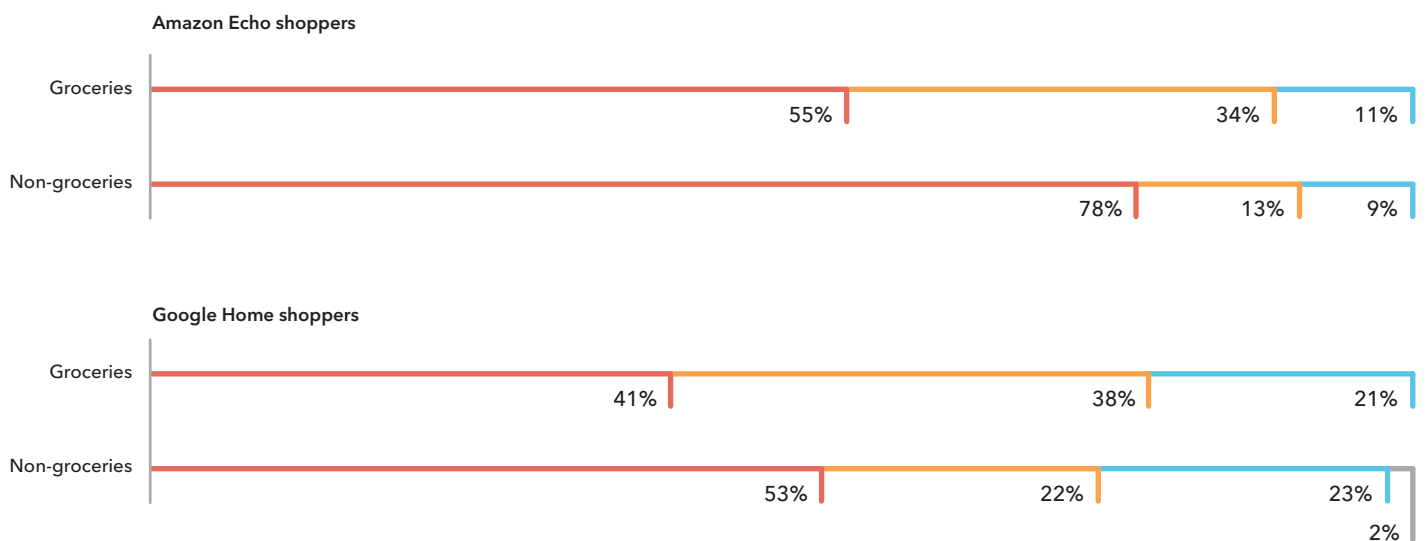
 n= 1,059  
 n= 395



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<sup>1,2</sup>



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.

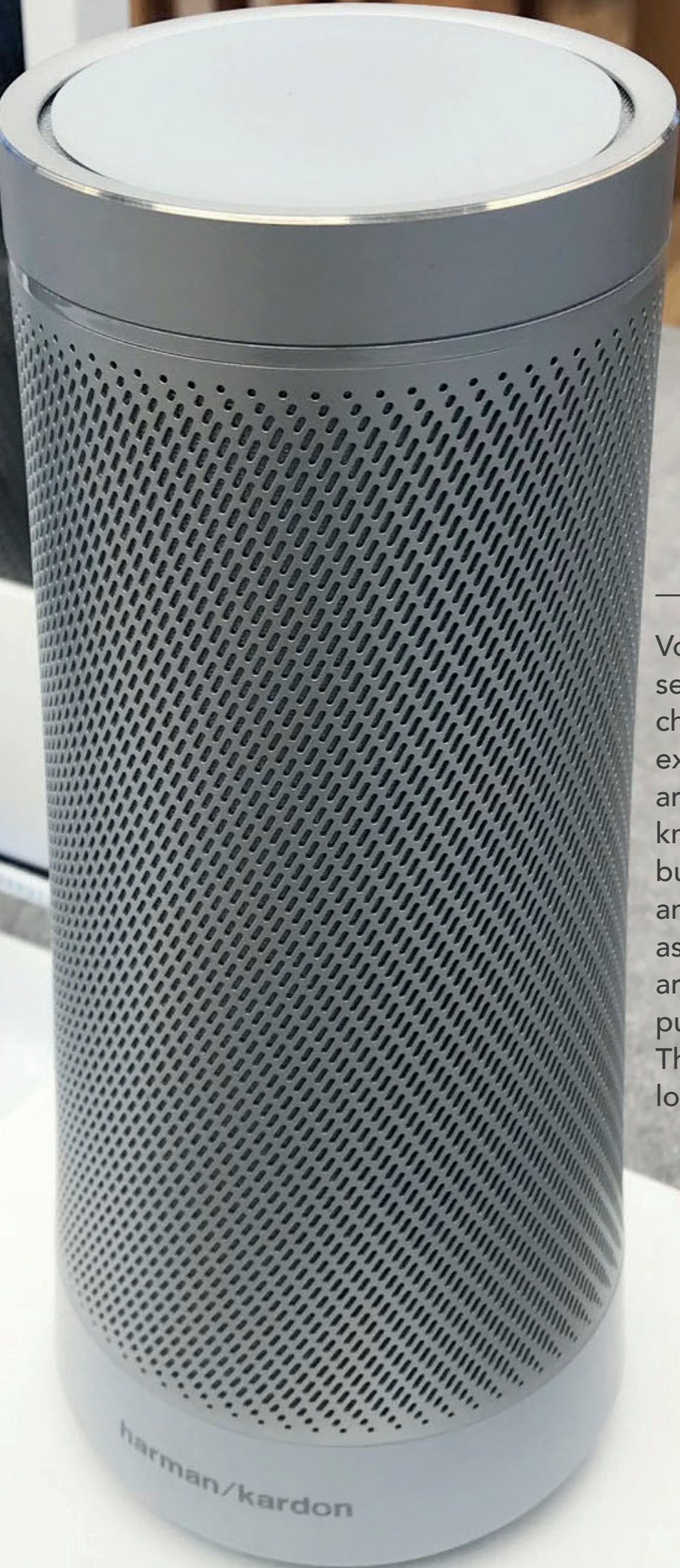


Other online retailer

Physical store

Incremental purchase





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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 PURASERS WHO HAVE EVER PURCHASED THIS CATEGORY <sup>2,3</sup>, INDEXED TO 100)

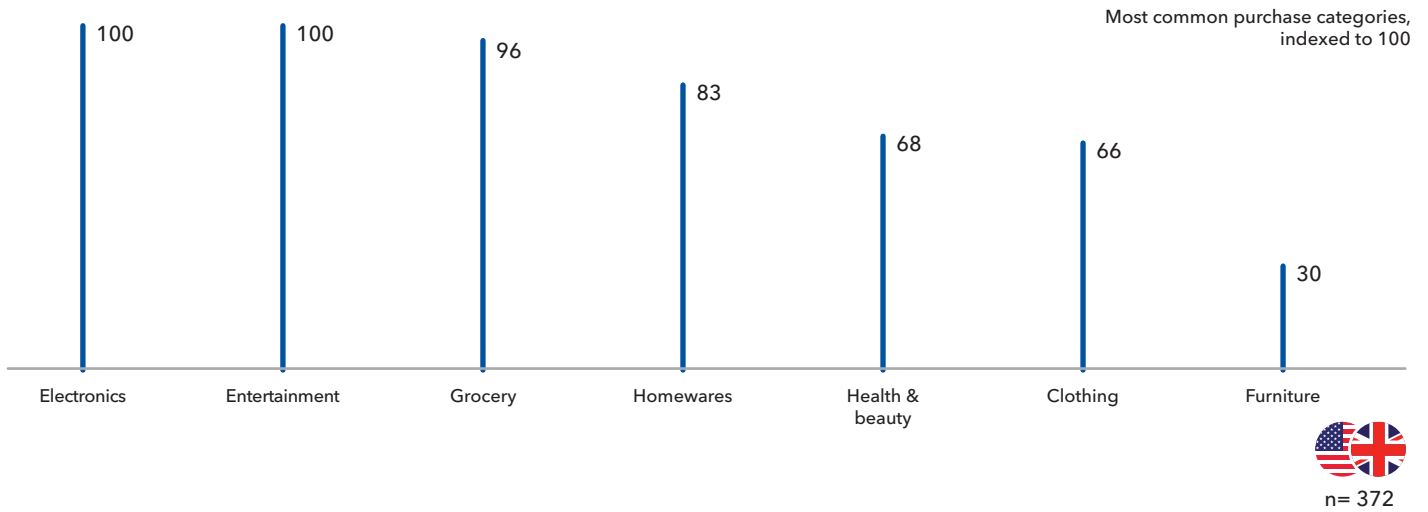


FIGURE 6: KNOWLEDGE OF PURCHASED PRODUCT WHEN STARTING THE VOICE SHOPPING JOURNEY

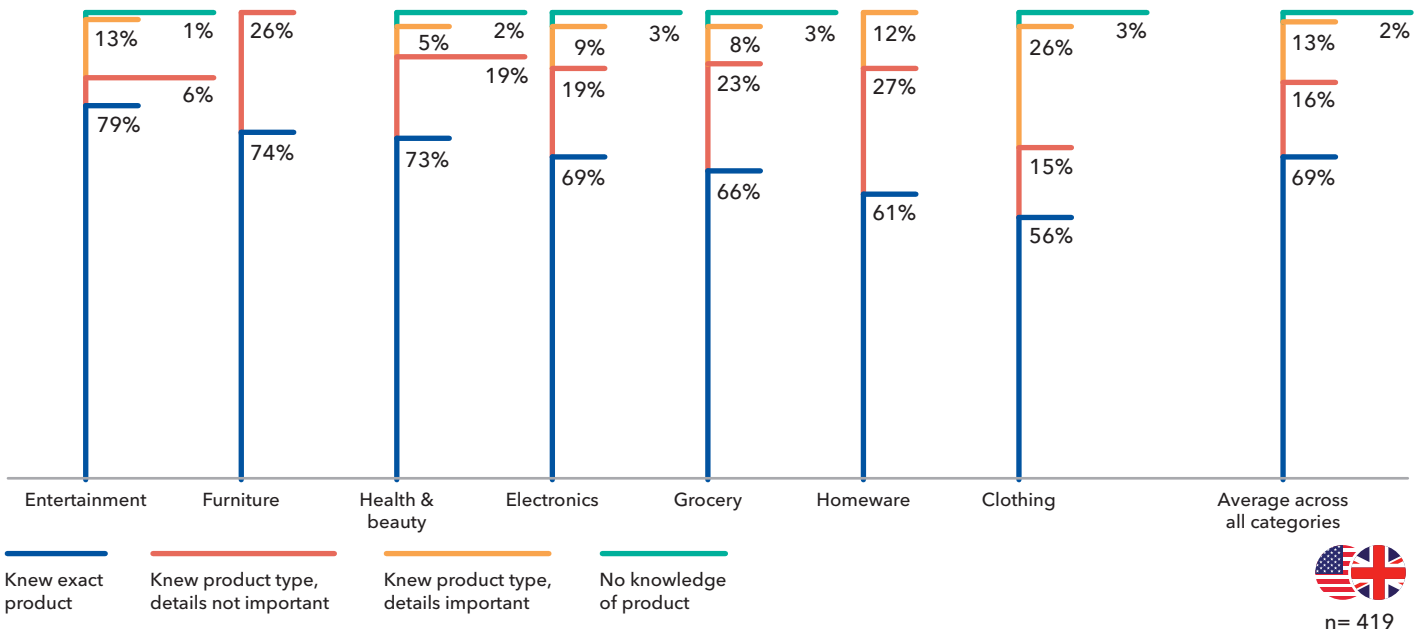
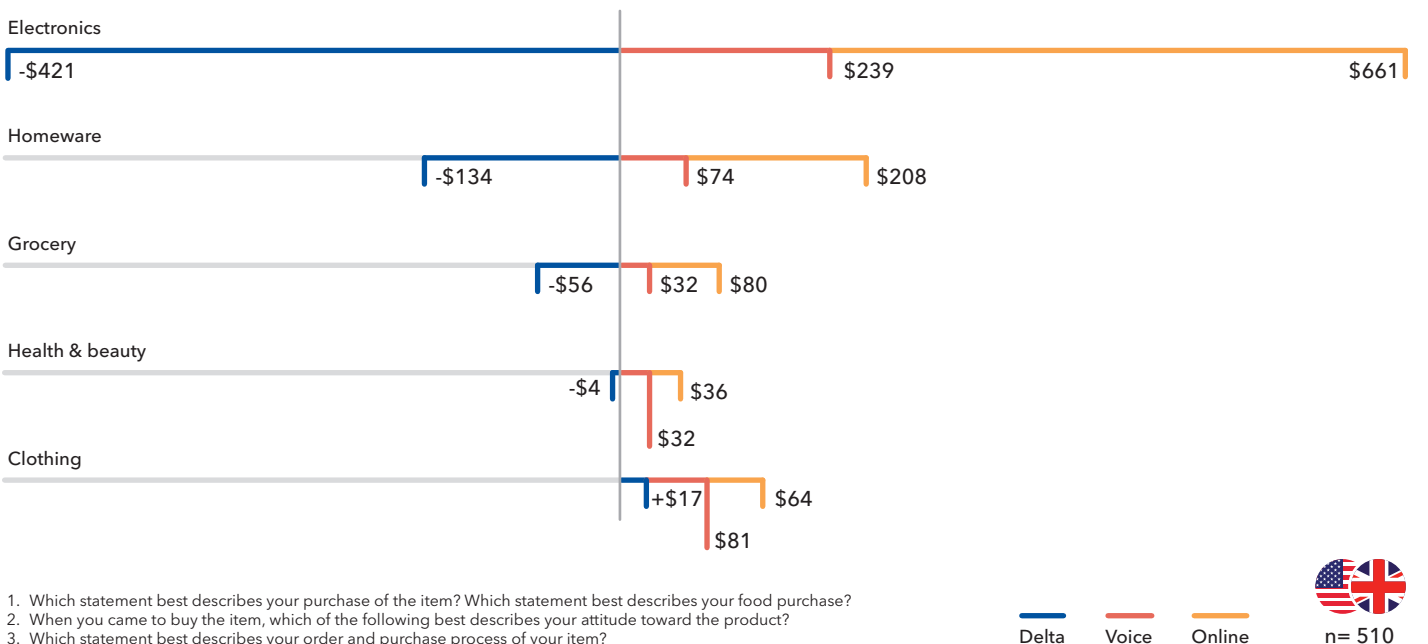


FIGURE 7: AVERAGE BASKET VALUE, VOICE VS NON-VOICE ONLINE, BY PRODUCT CATEGORY<sup>2</sup> (\$<sup>3</sup>)



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

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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<sup>1</sup>

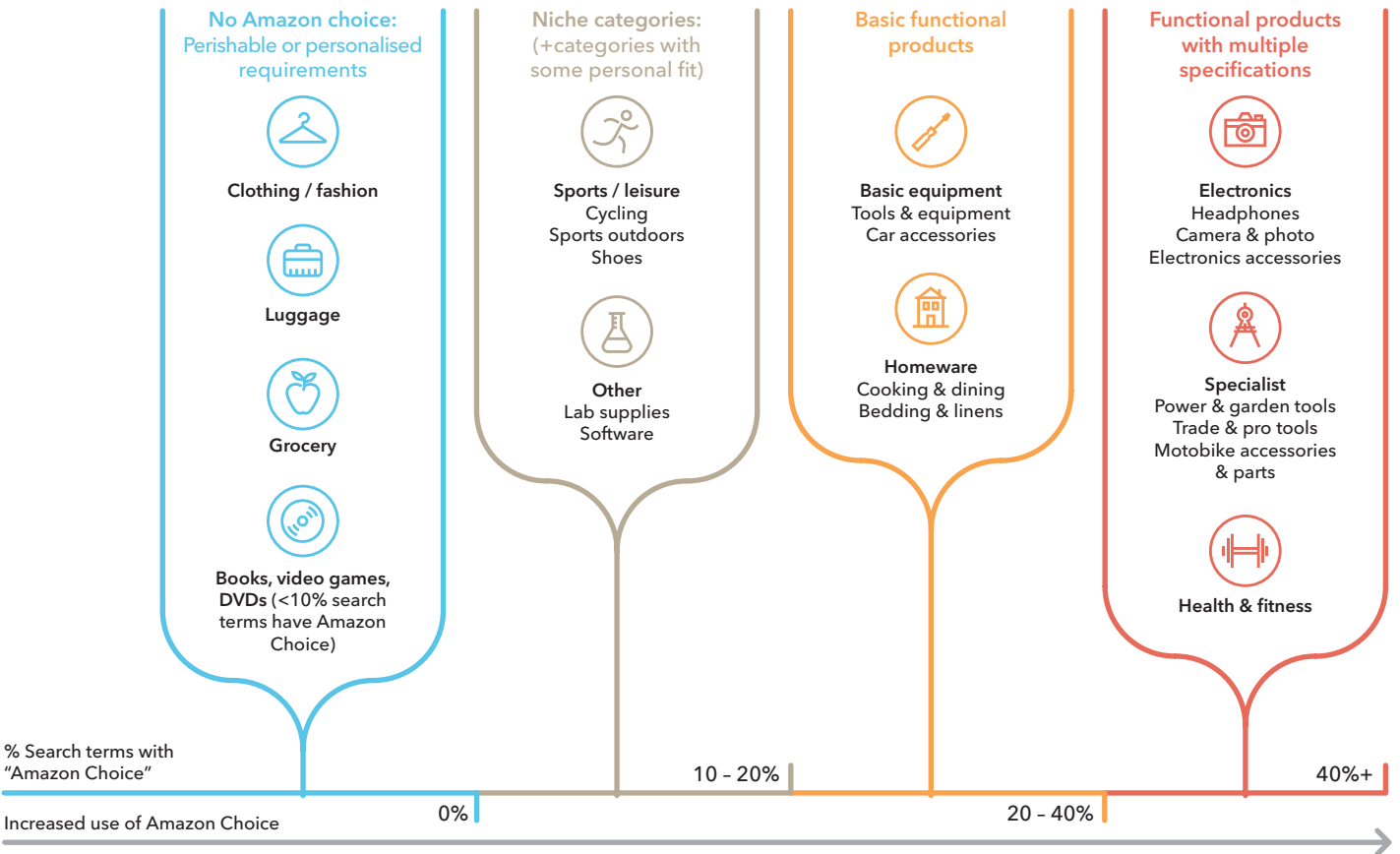


FIGURE 9: AMAZON CHOICE STATUS IMPACT ON SALES GROWTH # ADDITIONAL RATINGS PER DAY (PROXY FOR SALES)



# Customer centricity is at the heart of Amazon Choice. Right now 'Choice' cannot be sponsored by brands; instead products must meet three criteria:

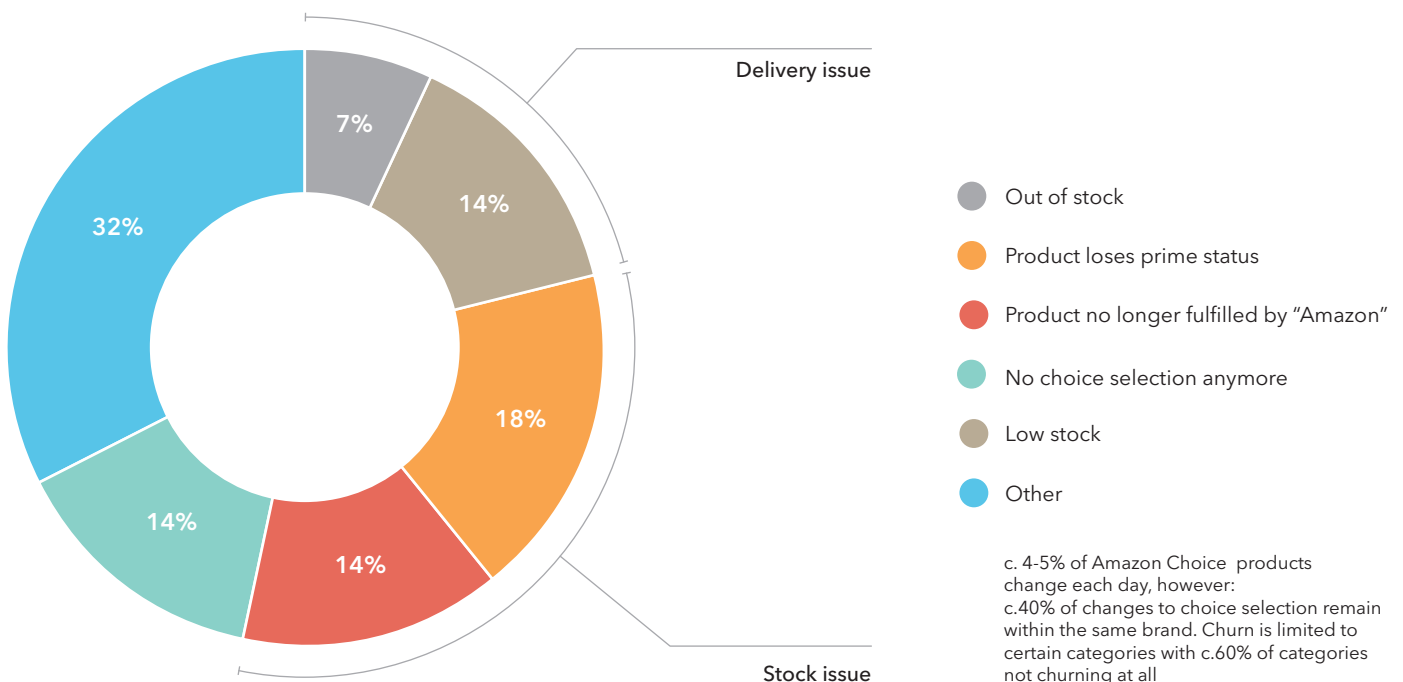
- 1 Being popular and well-priced
- 2 Having strong customer experience metrics
- 3 Maintaining a strong supply chain

FIGURE 10: AMAZON CHOICE SELECTION CRITERIA

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





Tracked  
LBT No Signature 24

Rate this packaging: [www.amazon.co.uk/packaging](http://www.amazon.co.uk/packaging)

amazon.co.uk

Bewerten 5

Questo imballaggio: [www.amazon.it/imballaggio](http://www.amazon.it/imballaggio)  
amazon.it

amazon.fr

amazon.de



D!mGGvf2N/1/3333/premium - uk/1 of 1/306 (09/12)

Évaluez cet emballage

amazon

12/15

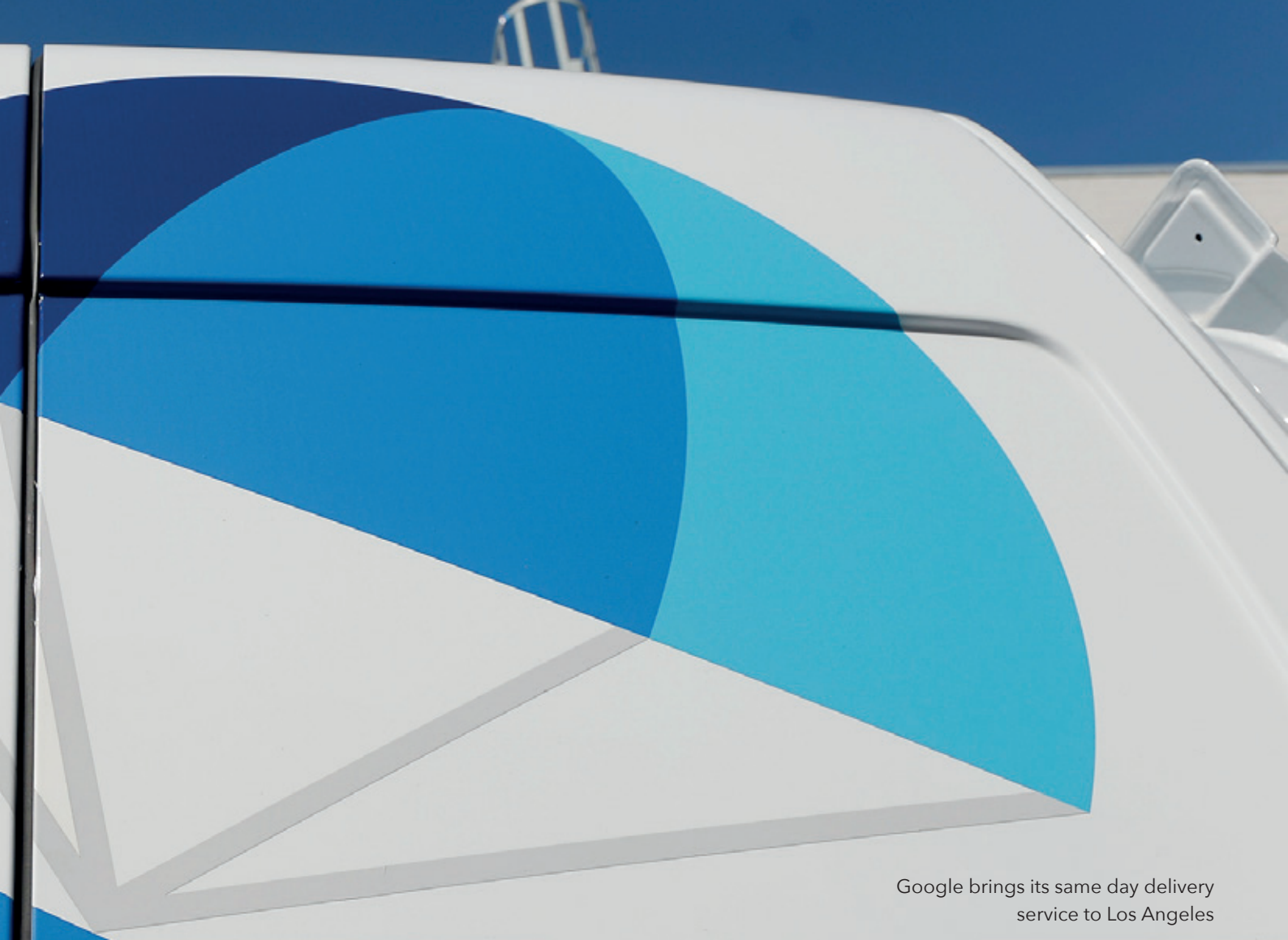




*google.com/express*

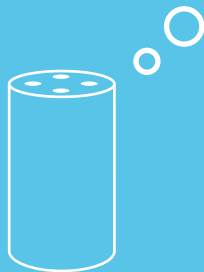
# Talking the language – how can retailers and FMCG companies get up to speed?

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"



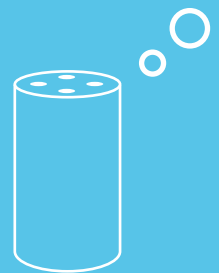
"Ok Google, where can I buy a gas BBQ?"



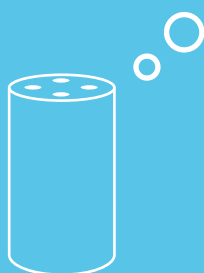
"Ok Google, order my usual from Dominoes"



"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:

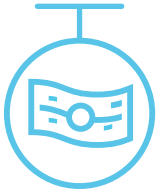
## A. Key recommendations for retailers

### 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



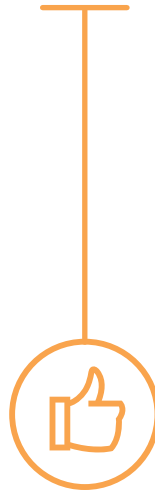
#### Customer lock-in

Through improving customer experience and collecting customer data to enrich CRM



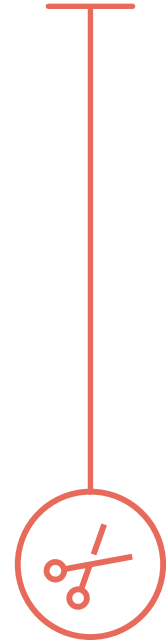
#### Customer satisfaction

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



#### Cost reduction

Reduce costs for customer support and customer research / surveys

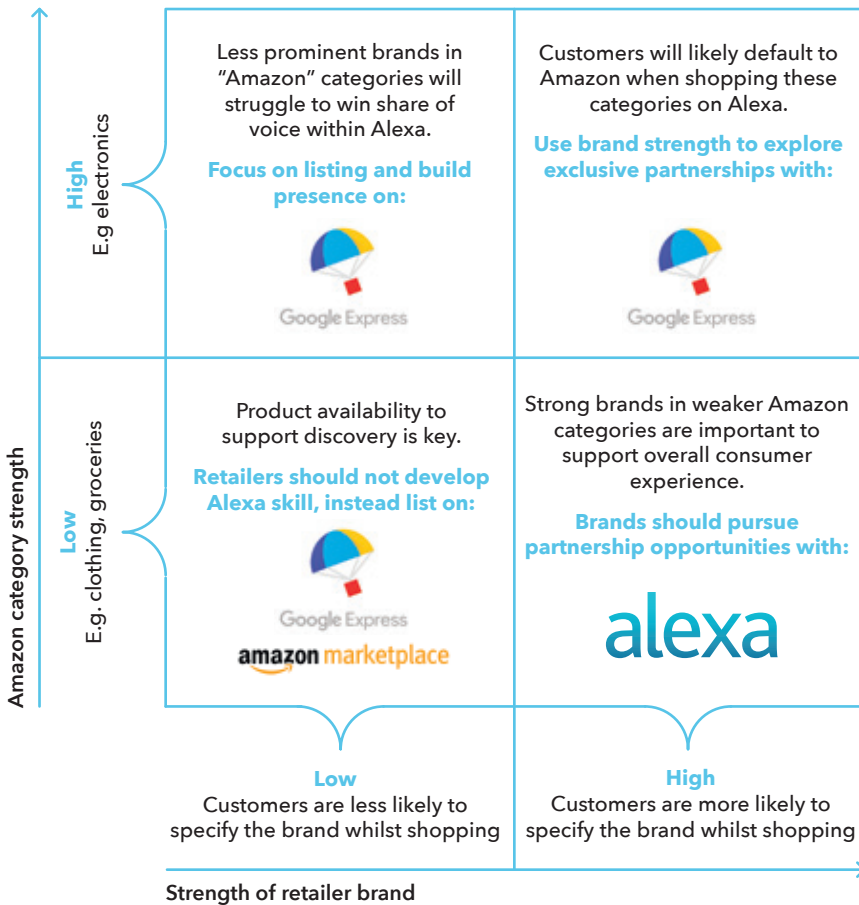


### II) DECIDE HOW YOU SHOULD TAILOR YOUR VOICE PROPOSITION TO MEET THIS OBJECTIVE

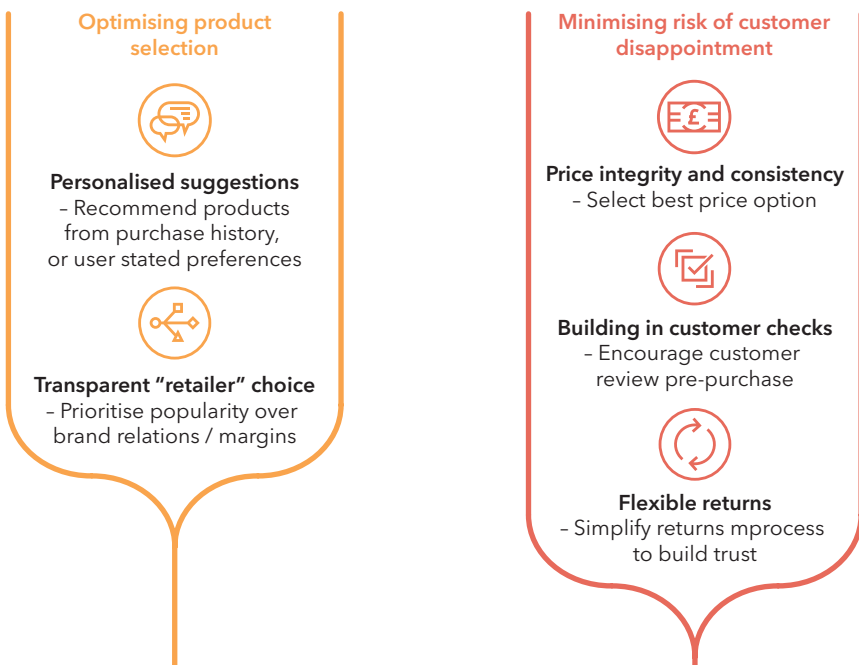
		Retailer objectives with voice					
		Drive incremental spend	Customer lock-in	Customer satisfaction	Cost reduction		
Voice proposition / functionality	Information	Description of voice proposition Basic operational information e.g. store opening hours, stock availability	Example customer uses "Do you 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



### IV) FOCUS ON BRIDGING THE "TRUST" PERCEPTION GAP



### 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	✓	<ul style="list-style-type: none"> <li>Ensure all products are <b>fulfilled by Amazon</b></li> <li>Partner with Amazon to forecast demand patterns and <b>ensure stock availability at all times</b></li> <li><b>Invest in automated delivery solutions</b> to minimise order errors and maximise delivery speeds</li> </ul>
	B Products in stock for immediate dispatch	✓	
Search Prioritisation	1 Products already in the basket	✗	<ul style="list-style-type: none"> <li>Maximise chances of being a “previously ordered” product:                             <ul style="list-style-type: none"> <li>- <b>Product giveaways</b> to get into customers’ baskets</li> <li>- Become suggested <b>“add-on” product</b></li> </ul> </li> </ul>
	2 Products the customer has already ordered	✓	
	3 “Amazon Choice” Product	✓	<ul style="list-style-type: none"> <li>Focus efforts on a <b>single product per category</b></li> <li><b>Set competitive prices</b></li> <li>Incentivise <b>user feedback</b> to boost reviews/ratings</li> <li>Invest in <b>customer care</b> e.g. detailed and accurate product listings, swift customer service etc.</li> </ul>
	4 “1st Search” Result	✓	
	5 Another Search Result	✓	

**OFFICES**

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Hong Kong

Istanbul

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**Contact the authors**

Will Hayllar

Partner

[will.hayllar@occstrategy.com](mailto:will.hayllar@occstrategy.com)

+44 7799 896929

Matt Coode

Partner

[matt.coode@occstrategy.com](mailto:matt.coode@occstrategy.com)

+44 7827 850757



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