

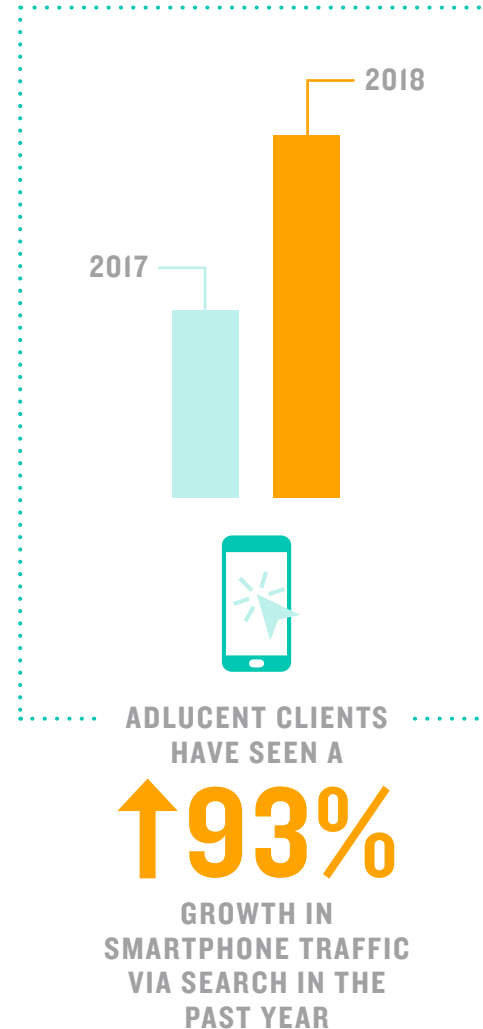
# SMART SPEAKERS: HELPING BRANDS FIND THEIR VOICE

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## TO PLAN FOR THE FUTURE, WE MUST LEARN FROM THE PAST.

Over ten years ago, Apple introduced the iPhone. Within the first year of launching, only 4% of American consumers had purchased the smartphone.<sup>1</sup> But by 2009, that number had grown to nearly 40 million as Apple began to lower prices and increase wireless carriers. As consumers warmed up to the smartphone, they began browsing the internet and researching products on these devices. Retailers found themselves unprepared and were slow to react to this shift to mobile. It took retailers many years to deliver the mobile shopping experience that consumers were demanding; from responsive web design, to apps, to mobile friendly checkout. Many missed early opportunities to represent their brands and drive revenue on the mobile channel.

Today, between 50 and 60% of all web traffic comes from smartphones. In fact, Adlucent clients have seen a 93% growth in smartphone PPC traffic in the last year alone.<sup>2</sup> While retailers can expect to continue to capitalize on mobile traffic, they should begin planning for the next major consumer behavior shift: **voice**.



# TALKING ABOUT VOICE

Voice search is the function of a human talking to a machine and the machine replying back with a response (via voice or display). Voice can cover functions such as chat, messaging, or other natural language interfaces used to interact with people, brands, or services.

While we can track the origins of voice back to IBM in the 1960s, voice assistants as we use them today originated in 2011 with Apple's Siri personal assistant feature on the iPhone. In 2016, Sundar Pichai, CEO of Google, shared that 22% of mobile searches were voice-based.<sup>3</sup> So while the launch of Amazon Echo in November of 2014 initially started the conversation about voice, the majority of voice searches today are still

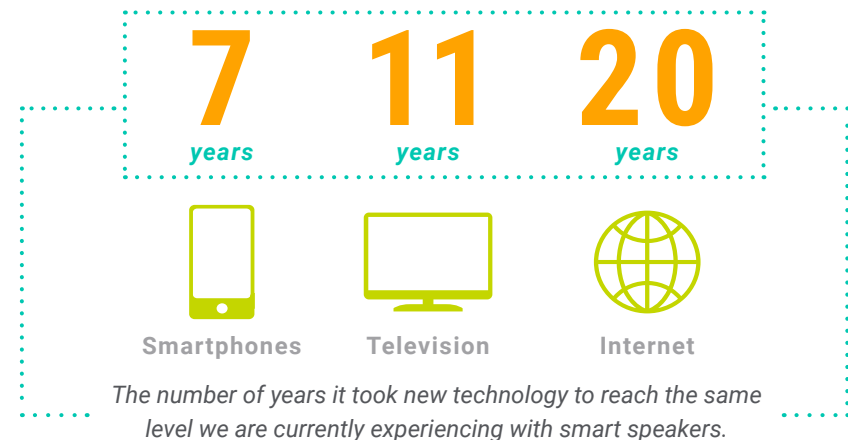
happening on mobile devices. But we know that consumers aren't necessarily loyal to any particular device. Consumers often bounce from mobile phone to desktop, to tablet and back—searching via the simplest mechanism available to them. This means that searches will naturally shift from mobile to always-on access points listening for instructions, sometimes referred to as ambient computing.

The Smart Speaker is the first such mainstream device and it's functioning as the Trojan Horse for companies like Amazon, Google, Apple, and Microsoft to enter your home.

# COMING TO YOUR LIVING ROOM... AND KITCHEN...AND BEDROOM...

About 20% of all households that have wifi have Smart Speakers today.<sup>4</sup> And that number is growing rapidly. By 2022, analysts are estimating over 55% of households will have at least one voice device in their home, creating the fastest adopted technology shift in modern history. As a comparison it took smartphones seven years to reach the same level we are currently experiencing with smart speakers, the television 11 years, and the internet more than 20 years.<sup>5</sup> The acceleration of technology, paired with easy-to-use software and intuitive artificial intelligence, is making these devices rapidly more useful and consumers are more willing to purchase them. In addition, prices are falling exponentially—when Amazon introduced Alexa, it was \$179. In just over two years, prices for Alexa devices are now as low as \$29.99 and are expected to be available for less than \$10 in the near future. By removing barriers early on, companies like Amazon are ensuring their smart speakers end up in every home.

But it isn't just Amazon's market. Spurred by Amazon's dominance in Smart Speaker sales and voice searches, Google has fought back. While they arrived late to the game, they've made great strides. Today, Amazon owns 52% of the US Smart Speaker market while Google controls 32% (with the remainder being shared by the likes of Apple and Microsoft).<sup>6</sup> And of those surveyed who currently own one a smart speaker, 42% said their Smart Speaker is essential to their everyday lives.<sup>7</sup>

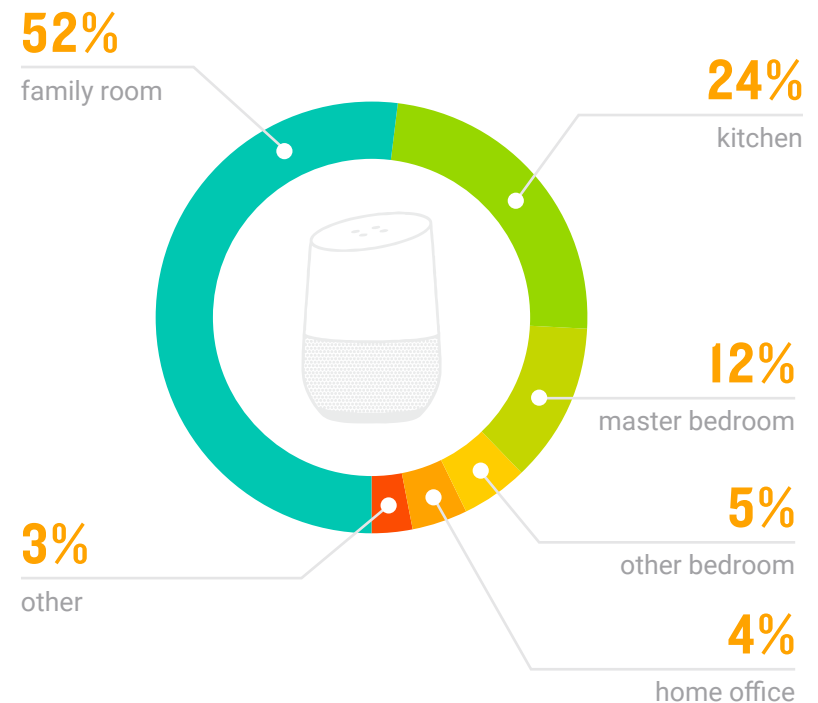


# HOW CONSUMERS ARE USING SMART SPEAKERS

Estimates also show that consumers will spend an average of \$400/year with Amazon via voice, translating to an incremental \$10 billion in revenue for Amazon over the next two years.

But this growth won't stop when each home has a speaker. 42% of consumers surveyed are planning to purchase another speaker for their home.<sup>8</sup> Consumers see the value of having multiple smart speakers so they can easily access one then the other as they freely move about. By 2021, the average number of smart speakers in the home will be 2.4 per household. But we expect that voice assistants won't be limited to one device. Thirty-nine percent of consumers surveyed stated that they are very interested in having smart speaker technology in their car/vehicle, followed up with 31% saying they'd prefer to have it on their phone, and 24% expressing that they'd be very interested in having it in their TV.<sup>9</sup> As homeowners interact with smart speaker technology and seamlessly shift across devices, we expect to see search volumes increase exponentially.

## WHERE ARE HOMEOWNERS KEEPING THEIR SPEAKERS?



# CONSUMER RELIANCE ON SMART SPEAKERS: NOW AND INTO THE FUTURE

Today, the majority of Smart Speaker owners use their devices to listen to music. With commands like “Alexa, play some Jazz music” or “Ok Google, play songs by Coldplay,” consumers are able to easily access whatever strikes their musical whim. While music was the initial major use case for the creation of the Smart Speaker, other uses including shopping are picking up quickly. In fact, 57% of smart speaker owners have shopped via these devices and 25% have spent over \$150 on a purchase.<sup>10</sup> We must emphasize this last stat because initial use cases for these devices were relegated to reordering everyday consumables like toilet paper or dish soap. However, consumers are doing much more than using these devices for replenishment, with 58% saying they have ordered a new product they never purchased before. Also encouraging is that consumers say they are spending more money since getting the smart speaker—likely from purchases made on these devices.



**25%**

of smart speaker owners have spent over \$150 on a purchase



# BECOMING PART OF CONSUMERS' EVERYDAY EXISTENCE

Imagine having your own digital assistant who is omnipresent and always accessible wherever you are, making it a breeze for you to seamlessly ask for information without ever reaching for your phone. This scenario

isn't that far-fetched. For device makers like Google and Amazon, it's all about getting their AI Voice Assistants into every device that makes sense. Let's take a look at how this could play out:



## COMPUTERS:

In the future, consumers can expect a deeper integration where the computer is always on and always listening. This will be slow since both Cortana and Siri are behind the curve, but could be a relatively simple solution for the likes of Apple and Microsoft who already own the desktop/laptop market.



## PHONES:

While most voice searches are still happening in a browser, smartphones represent the fastest growing adoption of voice, this will predominantly be on Android devices since Siri is still a subpar voice assistant.



## SMART DEVICES:

This is a relatively new area but may become a predominant way to interact with voice assistants as devices become smaller and more powerful. Google, for example, has integrated their AI assistant into Google earbuds and Bose headphones. As these devices mature and no longer require tethering, they may be the predominant way we interact on the go. If you've seen the movie Her, you can imagine what we're talking about.



## TVS AND SCREENS:

We currently have TVs with Alexa built in, creating a voice and display user experience, which we predict will be how we really interact with voice assistants moving forward—since some information is better visualized than vocalized. Imagine being able to speak anywhere and your requested information simply appears on the nearest display: be it your phone, a watch, or screens around the home/office.



## CARS:

Ford, Hyundai and BMW recently announced Alexa integration in the car, which is an important battleground to win as American spend an average of 101 minutes a day in their cars.



## OFFICE:

Amazon announced their office integration to enable scheduling, conference room reservations, lights, AC etc controlled by their devices.

# WHY YOU SHOULD PAY ATTENTION NOW

By 2020, Comscore estimates that 50% of searches will be voice-based.<sup>11</sup> Let's dig into what this paradigm shift means for retailers. When a consumer searches via voice on a Smart Speaker, the limitations of the speaker do not allow it to simply offer up several possible options like a computer screen can. Can you imagine searching on voice and the device taking 5+ minutes to read the results? That's why it's important that Smart Speakers are as accurate as possible with the results they give. In fact, Alexa and Google Home currently provide just one choice for commercial queries. If the searcher isn't interested in that product, they will offer a second. If it still misses the mark, no other choices are provided. It's critical to be the recommended result in this environment. There will be only one winner for any given search and a lot of losers.

This is the first major shift that you need to prepare for. We are moving from a world where displays offer rich information, details, visuals and selection to a world where there might be no display at all and very few results are offered. With voice, your brand needs to be the top result or it must be the default option when the Smart Speaker doesn't actually know the answer. More importantly, you will need to predict what your particular user wants, leveraging personalization to win their business.



**50%**

By 2020, Comscore estimates that 50% of searches will be voice-based.



# GOOGLE EXPRESS EVOLVES TO COMPETE WITH AMAZON IN THE VOICE GAME

Google Express' original intent was an effort to compete with Amazon's delivery services by integrating with retailer's brick and mortar stores, fulfilling directly from the store, and providing same-day or next-day delivery by coordinating last-mile logistics. To offset the costs of enabling the last-mile logistics, Google charged a membership fee of \$95/year. It's our belief that Google quickly found that they didn't have the product selection to justify the \$95/year fee and the costs of subsidizing the last mile delivery. Therefore, we suspect that Google didn't achieve the adoption they were hoping for.

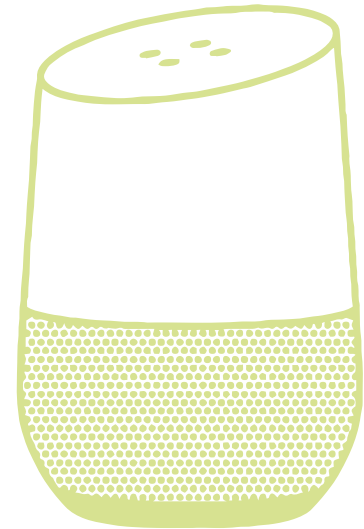
To increase Google's footprint, two big partnerships came to light. First, Walmart announced that all of their products could be found on

Google Express, bringing 12 million products to the Google platform. This announcement gave Walmart an opportunity to compete with Alexa in the voice wars. A key component of this partnership is that Walmart will share all transaction history with Google so Google Home can leverage that data to personalize voice search results. Prior to this, Google didn't have the transaction history that Amazon had and Walmart didn't have the voice assistant. This partnership made Google and Walmart both more competitive against Amazon. A few weeks later, Target announced a similar level of integration with Google. In a matter of a few weeks, Google transformed Express from a small experiment into a real platform that can compete with Amazon.

In February 2018, Google rolled out Shopping Actions, a program designed to give customers an easy way to shop for products on the Google Assistant and Search with a universal cart, whether they're on mobile, desktop or even a Google Home device.

Leading brands have been chomping at the bit to gain brand visibility on Smart Speakers and Google has now provided a path to do just that. By joining Google's Shopping Actions program a brand's products will gain visibility among consumers who voice shop for relevant items using Google Assistant (the term "Google Assistant" applies to Google's voice services offered on their Smart Speaker devices, Google smartphones, and searches on Google via desktop). Consumers who shop via Google Assistant will be able to access their shopping cart across all Google Assistant properties, allowing them to seamlessly checkout with saved payment credentials. This is Google's solution for the frictionless shopper who shops across devices and expects a unified experience throughout.

Hey Google, buy a  
makeup brush



# GETTING AHEAD WITH GOOGLE SHOPPING ACTIONS

Given this new announcement, it's more important than ever for brands to get to the top suggestion spot. This spot will be awarded to the brand who has partnered with Google in the Shopping Actions program. We expect that estimated conversion rate to sale (boosted by competitive pricing) will also play a role in who, among participating brands, will win the top spot. Once the customer (who has opted-in to allow Google and the brand to share her loyalty program information) uses Google Assistant to search, Google is likely to suggest the brand's products above other brands.

Google will also suggest items that the shopper may wish to reorder to net more sales for the brand and simplify the order process for the shopper. Here's Google's example: When a customer searches for makeup brushes,

Google's top suggestion will be for makeup brushes that a Shopping Actions participating retailer sells. Google may also suggest a makeup remover from that retailer based upon loyalty program history.

By participating in Shopping Actions, retailers have the potential to grow their AOV (Average Order Value). A pre/post study conducted by Google and MasterCard showed that shoppers spent more money with participating retailers (vs. non-participating retailers) in the four months the study was live. Google also claims that basket size for participating retailers grew an average of 30%. Retailers participating in Shopping Actions will pay only when a sale actually takes place—minimizing risk and making the conversion cost optimal, too.

# SMART SPEAKERS WILL MAKE US SHIFT FROM CPC TO CONVERSION RATE

As a digital marketing agency, our job has been to predict future CVR so we can accurately set bids in real-time for our clients. We've been studying all of the variables we believe help predict conversion rates, and what we found will help you understand how to get ahead with Google Shopping Actions.

To illustrate, a large digital retailer came to Adlucent after four search agencies failed to make their advertising program profitable. But why was their program such a challenge? We found that at any given moment, 90% of our client's products were uncompetitive in the market. There were actual instances where their price was too high, shipping was too high or took too long, the ratings and reviews for the product were too

low, the image quality was poor, or the landing page description was weak. By understanding which variables corresponded to weak performance, we were able to create an algorithm to predict which products to promote—and we still use this algorithm today. We found that price was the variable that mattered most for our client. When our client's price was lower than a competitor, with all else being equal, our client would win the sale. Behind price, we found that shipping cost and timing were also predictive indicators. So conversion rate for our client was predominantly determined by our client's price and shipping relative to the competition. And since winning the top suggestion spot in Google Shopping Actions is going to come down to the participating brand that has the best conversion rate, we believe that will translate to the participating brand with the lowest price, cheapest shipping and fastest delivery.

# PREPARE WITH THESE STEPS

In a voice-based world, retailers cannot force their way into consideration by simply bidding higher, they will need to earn their way to the top of the search results by having the highest conversion rate. But since most factors that affect CVR are going to be identical across participating brands (since the transactions are happening on Google) the primary levers you have to affect conversion rate are price, shipping, customer service, your brand, and speed. It's also important to note that while brand and reputation will be helpful, we expect Google, like Amazon, to create customer service level standards that all advertisers must reach which will diminish the value of these variables. They will force an equal playing field over time when it comes to customer service.

- 1 First, to be eligible retailers will need to participate in purchases on Google Shopping Actions.
- 2 If you are not already the lowest-priced product on commodity products, you need to develop a strategy to become competitive.
- 3 Consumers are now conditioned to want 2-day delivery. We expect Google to make faster delivery standards a requirement in the future just as Amazon.com has forced third party advertisers to move toward faster standards. Prepare your company for these shorter delivery times.

# WRAPPING UP

Smart Speaker adoption in America is unlike anything we have ever experienced. The rise of these devices has forced Google to rethink its business model in order to compete with Amazon. The old way of bidding your way to visibility is no longer viable and you'll have to earn your way to the top by having higher conversion rates than your peers. We believe that the largest variable that's going to determine who Google recommends among brands that are participating in Google Shopping Actions comes down to who has the lowest price on commodity products—instigating a big shift for the industry.

It's clear that retailers like Walmart and Target have teamed up with Google in unprecedented ways because they see it as the best method to step up to the challenges Amazon has created for the industry. The brands who will thrive are those who are taking the necessary steps today to prepare for the shifting consumer shopping behaviors of the future.



Adlucent, an AMP Agency company, is a performance-driven digital marketing and intelligence agency that helps brands identify, engage, and acquire high-value customers. Based in Austin, TX Adlucent's machine learning platform helps retailers create, launch and manage high-volume campaigns through the use of extensive data and analytics. Founded in 2001, Adlucent is a successful bootstrapped company that continues to execute on its commitment to create and deliver personalized advertising programs. For more information on Adlucent, visit [www.adlucent.com](http://www.adlucent.com).

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