



How Will V-Commerce Arrive? Consumers Show the Way

Virtual reality and augmented reality will transform retailing. But how, exactly? Several months after we first addressed the question (*Augmented and Virtual Reality Will Reshape Retail*, Harvard Business Review, September 9, 2016), the likely impact of these dynamic new technologies on the retail industry is becoming a bit clearer.

Augmented reality (AR) and virtual reality (VR) bring the potential for entirely new shopping experiences and new kinds of added value. They are the gateways to “v-commerce,” a blend of brick-and-mortar retailing and ecommerce that borrows elements of each while overcoming the limitations of each.

But what strategies will get us there? What is the best initial use of AR and VR? Given the level of investment needed, and the risk of getting it wrong, these are pressing questions. For answers — as with so many matters in retailing — look to your consumers to point the way.

What is virtual reality? What is augmented reality?

- Augmented reality: Data and graphics overlaid on an image of the physical world. Generally presented on a smartphone screen.
- Virtual reality: A live view of a fully digital world, with interactive and immersive elements. Generally presented in a wraparound headset.

L.E.K. Consulting recently surveyed 1,000 consumers who had already experienced AR and VR technology. The results offer an initial look at what consumers hope to do when they shop in augmented or virtual realities. Retailers, take note. Understanding emerging consumer preferences may help you determine where and how to point your digital strategy.



Figure 1
V-commerce as the next wave of retail

How Will V-Commerce Arrive? Consumers Show the Way was written by **Dan McKone, Robert Haslehurst** and **Maria Steingoltz**, Managing Directors in L.E.K. Consulting’s Consumer Products and Retail practice. Dan and Robert are based in Boston, and Maria is based in Chicago.

For more information, contact retail@lek.com.

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Virtual reality and augmented reality are growing steadily

Have AR and VR truly arrived? They are on the way. Investment is ramping up sharply, and AR and VR penetration and adoption rates are growing steadily — with the possibility of a genuine, sustainable upward trend on the horizon. Digi-Capital reported in February that the AR and VR industry generated \$2.3 billion in investment in 2016, over three times the approximately

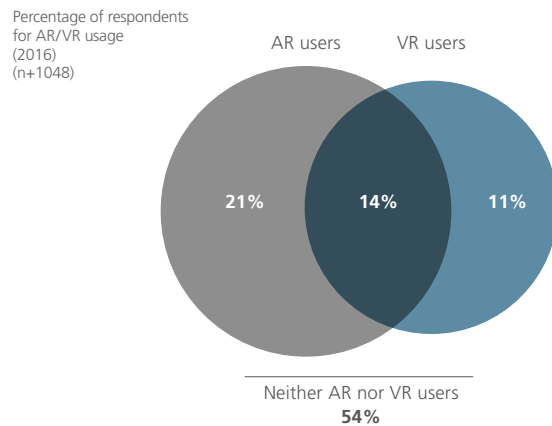
AR and VR in action

AR and VR aren't on the horizon — they're here right now.

Here's how retailers are using the new technologies to create compelling experiences.

Gap	Consumers use AR on their smartphones to see how clothing will look on them — displaying it on their personalized proportions.
Sephora	AR app lets customers experiment with makeup. Mirror-camera technologies let them match colors to skin tone or try out a desired look.
Alibaba	Thanks to the Buy+ VR app, consumers can walk the aisles of a virtual store, browsing and buying from wherever they happen to be. Alipay lets them make their payments directly.
Lowe's	Lowe's Holoroom allows customers to design a room and then tour the space, customizing and visualizing the look as they add furniture and fixtures. In the process, Lowe's can promote its full range of products, increase customer engagement and drive upselling.
Thomas Cook	The travel company's Holiday 360 VR app allows customers to preview their trip — prices, options and VR views — before booking.
Wayfair	Furniture and design retailer Wayfair uses VR to show consumers merchandise in virtual showrooms, where shoppers can see products on the shelf, learn about them and see them working together — because the room takes shape as they fill their baskets.

Figure 2
A substantial portion of respondents have used AR or VR at least once



Source: L.E.K. analysis

\$700 million invested in 2015. These levels suggest investors are confident in a quadrupling of users by 2019.¹ AR, which requires only a smartphone, will grow faster. Apple recently launched a set of key new AR-centric features in iOS, which will likely accelerate AR even further. What is critical for retailers is that the significant increase in installed base and comfort, which will be driven by applications like gaming, will provide a brand-new way of having rich communications with customers.

What consumers want

Consumers show strong preference for room design, product customization and virtual shopping with friends. Savvy retailers are acting accordingly — getting their feet wet, and testing AR and VR applications at an increasingly fast pace. (See *AR and VR in action* at left). They know that it's risky to ignore the potential. Holding back from investment may mean that competitors will get there first.

Are these retailers making the right moves? Consumers will decide. In our survey, we asked the early adopters which types of v-commerce applications they were most interested in. At this stage, although this group of v-pioneers doesn't represent the mass population, the low barriers to entry to VR and AR mean that this group is material enough to learn from.

The responses showed that what consumers want most out of retail AR and VR is not just a feature set but also a richer, more personal experience.

Our early adopters said that they were most interested in a handful of activities where the appeal is evident — designing a room or physical space, creating custom-designed items, or going on a virtual shopping "trip" with friends or a celebrity.

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The most popular activity — designing a room or physical space — resonated with 80% of our early adopter group (see Figure 3). It is probably the most familiar use case in the market today. And it's the most practical because it's easily supported by current smartphone technology. Consumers using their smartphones are able to browse physical or virtual showrooms and get information about furniture and decor: They can “see” it projected into physical space and appreciate how it will work in a home setting. In Wayfair's VR showrooms, shoppers can see products on the shelf, learn about them and see them together in a room that comes together as they fill their baskets.

Custom design, at 70% of our group, is a close second. Consumers can start with an image of themselves on their smartphones and then search for items like the perfect shade of makeup or an eyeglass frame that perfectly suits them. It's an AR version of the time-honored tradition of trying things on — but much more effective because designs are custom-created, not just off-the-shelf. The same approach works in cases where the biggest issue for consumers is not their image but how the product itself looks — jewelry, for example, or shoes.

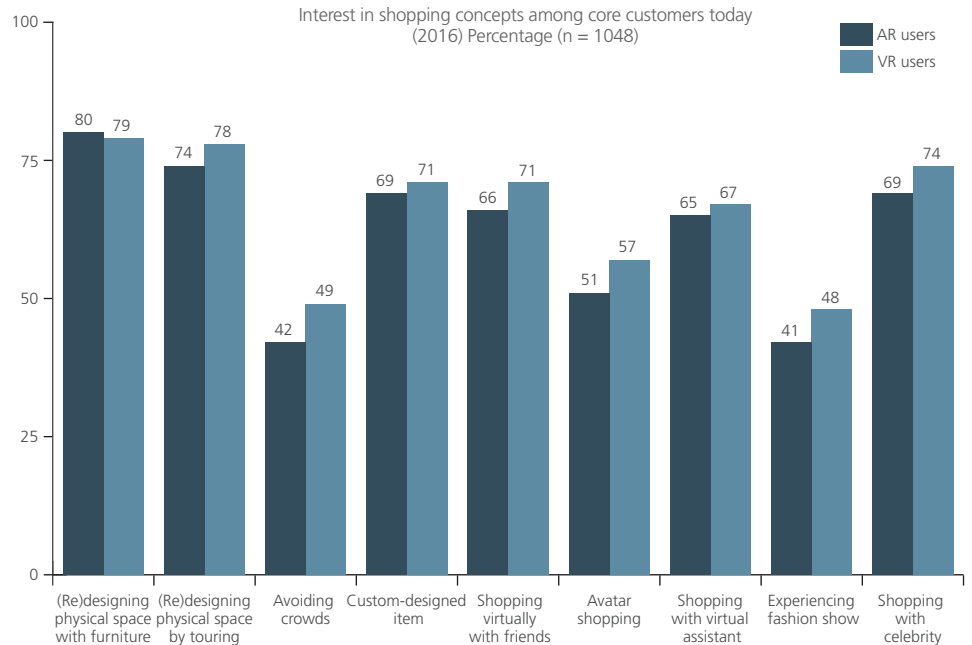
It's interesting to note that virtual shopping — where consumers use VR headsets to shop a virtual store with a friend who isn't physically present — generates strong interest, also resonating with 70% of our early adopters. The very description of this coming technology resonated with them in spite of the fact that this technology is not commercially available. Gaming — and representations of VR in popular entertainment — seems to have planted the idea in the popular imagination. And consumers have used advanced AI — like Alexa and Siri — so it's not difficult for them to anticipate an AI virtual personal shopper.

AR and VR will help you take customers on a compelling journey

For retailers the practical question is “How best to leverage AR and VR, knowing what we know now?”

Fundamentally, the new technologies are there to help retailers do what they've always needed to do — take customers on a compelling journey from awareness through conversion to engagement. V-commerce doesn't exist in a vacuum —

Figure 3
Interest in shopping concepts



Source: L.E.K. analysis

What can retailers do with AR and VR?

What can retailers do with AR and VR? Think in terms of customer benefits.

AR provides...

- **Supplemental information** — product data and reviews.
- **Better visualization of goods.**
- **Bundling** — for example, directions to other merchandise that lets you complete your outfit.

VR provides...

- **Lower friction** — a store that's open 24/7 — and is never crowded.
- **Full personalization** — a mall specifically designed for Tom or Jane.
- **Better service** — for example, a virtual assistant that looks and acts like a friendly, helpful person.
- **Social experience** — you can take a trip to the virtual mall with your friends — even if they live in different cities half a world away.

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it needs to be integrated across channels. It's one more way — a new, compelling part of the toolkit — to offer consumers a compelling experience. Virtual events (like virtual fashion shows) or new kinds of engagement (like “gamified” shopping, where consumers compete on style points against friends) are valuable, and worth the investment, if they help impact the entire customer journey (see Figure 4).

The potential benefits, from a retailer's perspective, are considerable:

- Greater consumer engagement. AR and VR can create new, special experiences that would otherwise not be possible. The emerging opportunity is to create an engaging personal experience that encourages trial of new products and builds loyalty to both the product and the store.
- Realizing an omni-channel vision. AR and VR bring digital capabilities into the store experience. This is true not only

in the physical store but also for online-only retailers, which have no store at all.

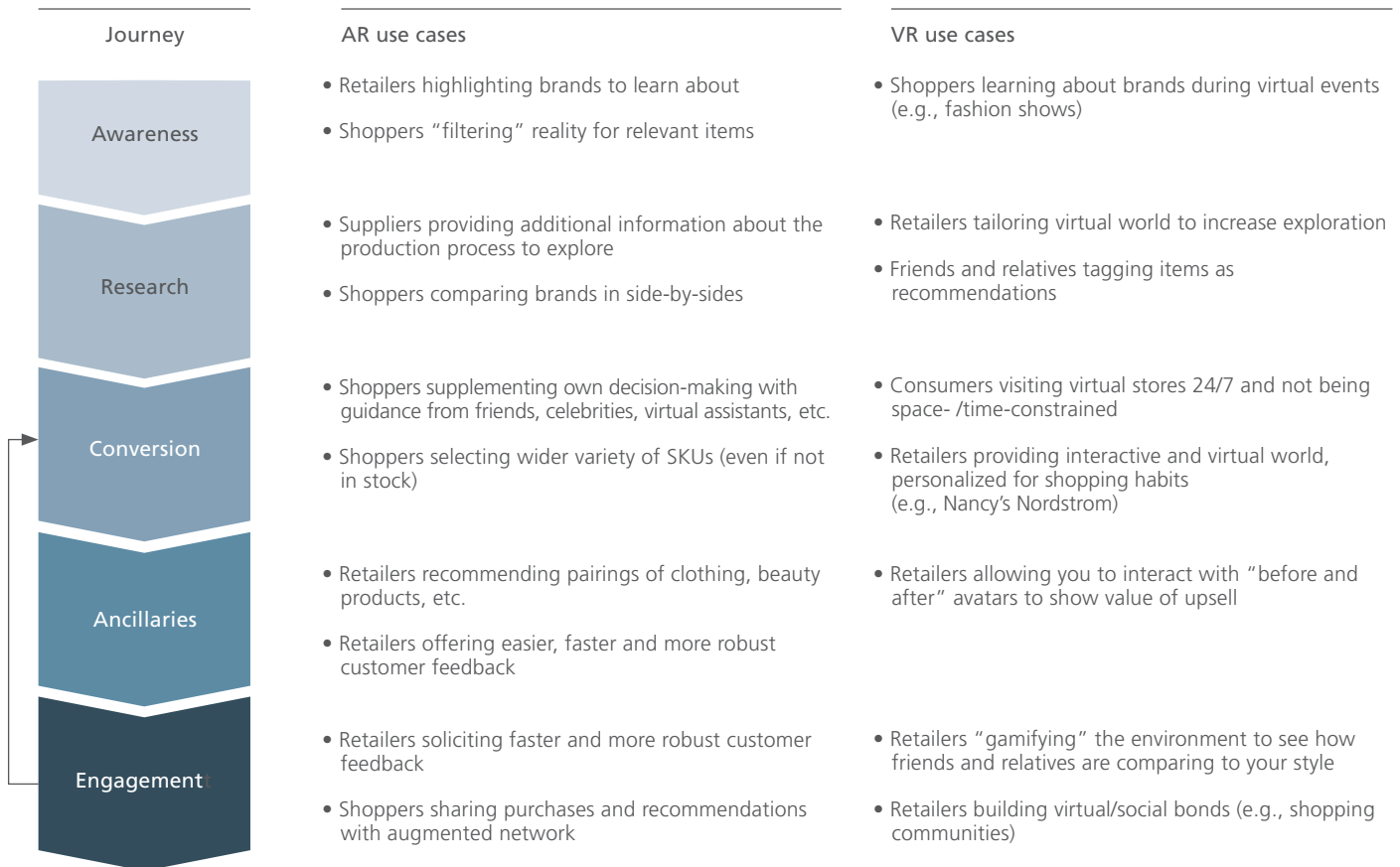
- Better conversion, a bigger basket and more revenue — thanks to the specific and immediate ability to tell stories. AR and VR allow retailers to turn product displays into vignettes, in a scalable way. These stories can drive both conversion and basket size. A customer can “see” a sofa in her own living room — and can then be shown the cushions, lamps and side tables that go with it.

Take these steps to build AR and VR into your business plan

What specific steps should a retailer take to deploy VR or AR?

- Make AR and VR part of your digital strategy — now. Don't make the mistake of thinking that AR and VR are far out on the horizon. The time to think about them is now. And when you do, don't fall into the trap of thinking of these new

Figure 4
AR and VR will impact the entire customer journey



Source: L.E.K. analysis

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technologies in isolation. Develop your digital strategy as an organic whole. Identify the target customer (the one who most needs a solution) and determine the immediate and long-term plans for technology investment and deployment.

- Establish a compelling value proposition and define your business model. Make sure customers understand from the first encounter how the technology solves their pain and delivers the benefits they want. Be disciplined. Define the resources to be deployed, the organizational structure, the mechanism for decision-making, and the concrete financial goals and metrics.
- Consider alliances with technology leaders. Technology leaders — hardware manufacturers, software developers and

social media platforms— know the technology better than you do. But they don't know retailing, and they are looking to put what they have to use. Let mutual need work in your favor — look for alliances that give you access to world-class technology and give the technology makers a good retail story to tell.

The future of AR and VR in retail is still developing. But as insights begin to emerge about consumer preferences and desires, it is not too soon to start to invest in AR and VR technologies and begin to create consumer experiences that fill baskets — and the revenue pipeline. As v-commerce continues to take shape, continue to watch how consumers use it. Count on them to show the way.

¹ <http://www.digi-capital.com/news/2017/02/record-2-3-billion-vr-ar-investment-in-2016/#.WOau3JlyUk>

About the Authors



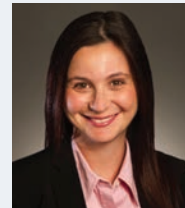
Dan McKone is a Managing Director and Partner, and a member of L.E.K.'s Global Leadership Team. Dan co-leads Edge Strategy® services at L.E.K. and is the

co-author of *Edge Strategy: A New Mindset for Profitable Growth*, a book published by Harvard Business Review Press. He also leads the firm's Customer Experience and Loyalty service line.



Robert Haslehurst is a Managing Director and Partner in L.E.K. Consulting's Boston office and is focused within our Retail and Consumer Products practices. He has been

with L.E.K. since 2000 and has extensive experience working with both retailers and consumer brands in the U.S. and globally.



Maria Steingoltz is a Managing Director in L.E.K. Consulting's Chicago office. She is focused on the Retail and Consumer Products practices and advises clients

on a range of strategic issues, including growth strategy, new market entry, customer-centric strategy, pricing, consumer segmentation, and M&A.

About L.E.K. Consulting

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