THE RETAIL REVOLUTION.

HOW CONSUMERS ACCEPT, UNDERSTAND AND TRUST AI

CONTENT

INTRODUCTION

THE ARTIFICIAL INTELLIGENCE REVOLUTION IS NOT ABOUT THE ROBOTS, IT'S ABOUT THE CUSTOMERS

If you're not thinking about the coming AI revolution you are already falling behind, twice as many European consumers say they are as familiar with AI as unfamiliar. All of a sudden a promise from Science Fiction has become an everyday reality for the majority of consumers.

Brands such as Amazon and Spotify, personal assistants like Siri and Cortana, technologies including programmatic trading and search; all of these rely on machine learning to deliver a competitive advantage.

So AI is already delivering on its long term promise, which means consumers are better prepared for the much more dramatic changes to come.

LARGE AI INVESTEMENT

GLOBALLY, TECH GIANTS SPENT AN ESTIMATE $20 BILLION TO $30 BILLION ON AI IN 2016

SOURCE: MCKINSEY

NEW CHANNELS TO ENGAGE WITH CONSUMERS

IN 2015, MESSAGING APPS SURPASSED SOCIAL NETWORKS

IN 2017, THERE WILL BE 33 MILLION VOICE-FIRST DEVICES IN CIRCULATION

SOURCE: BUSINESS INSIDER & VOICELABS

A POWERFUL DISRUPTION FORCE

BY 2019, AI PLATFORM SERVICES WILL CANNIBALISE REVENUES FOR 30 PERCENT OF MARKET-LEADING COMPANIES

SOURCE: GARTNER

LACK OF IMAGINATION AND PERCEIVED BENEFIT

IN MARCH 2017, FACEBOOK MESSENGER BOTS HIT A 70 PERCENT FAILURE RATE

49 PERCENT OF CONSUMERS DON'T UNDERSTAND THE NEED OR BENEFIT OF AI

SOURCE: PSFK & RETAIL REVOLUTION

RESEARCH:
THE CHALLENGE

THE CHALLENGE

Artificial Intelligence is encroaching into our daily lives, so how can brands differentiate themselves in an emerging AI-powered retail environment? What has been a technical challenge to date will increasingly become a marketing challenge, as brands understand how AI can improve everything from discovery to delivery and personalisation of experiences. AI will provide tangible and important advantages for both retailers and their customers, transforming their interactions forever.

ACROSS EUROPE*

63% CLAIM TO BE AT LEAST SOMEWHAT FAMILIAR WITH AI

22% ARE ALREADY USING AN AI DEVICE

ANOTHER 41% WOULD LIKE TO GET AN AI DEVICE OR APP

BASE: NATIONALLY REPRESENTATIVE ACROSS UK, ITALY, SPAIN, ROMANIA, RUSSIA, POLAND, NORWAY, NETHERLANDS, SWEDEN, FINLAND, DENMARK, FRANCE AND GERMANY TOTAL N=15,986
Q. How familiar are you with AI? Scale – 1 (not at all familiar) to 10 (very familiar)
Q. Would you consider AI to be a part of your life? Yes, I am already using AI; Yes, I would like to get an AI device/app; No
Source: OMD Snapshots, 2017

RESEARCH: OVERVIEW

THE RESEARCH

OMD and the Goldsmiths research team at the University of London embarked on a dedicated research project to understand consumer perceptions of, and behaviours with, artificial intelligence across different retail environments. The report explores how consumers feel about AI across 14 European countries to unearth similarities and unique opportunities across the different markets.

14 MARKETS

OVER 16,000 NAT REP RESPONDENTS

1 HACKATHON

6 SUBJECT MATTER EXPERTS

18 TECHNOLOGIES TESTED

6 CHATBOTS CREATED

RESEARCH:
OUR APPROACH

The research used a mixed method approach giving insight into how consumers accept, understand and trust AI, exposing how brands can implement AI services that deliver meaningful human impact.

STAGE ONE

Setting the scene through extensive desk research into the field of AI in retail and initial consumer experiments, testing a diverse range of bots with six UK* participants from the general public.

STAGE TWO

Immersing 15 UK* participants into the world of retail focused AI using exploration techniques to capture consumer experiences and expectations.

A Hackathon and subject matter expert interviews were also conducted, providing us with valuable insight into the current AI landscape and future trends.

STAGE THREE

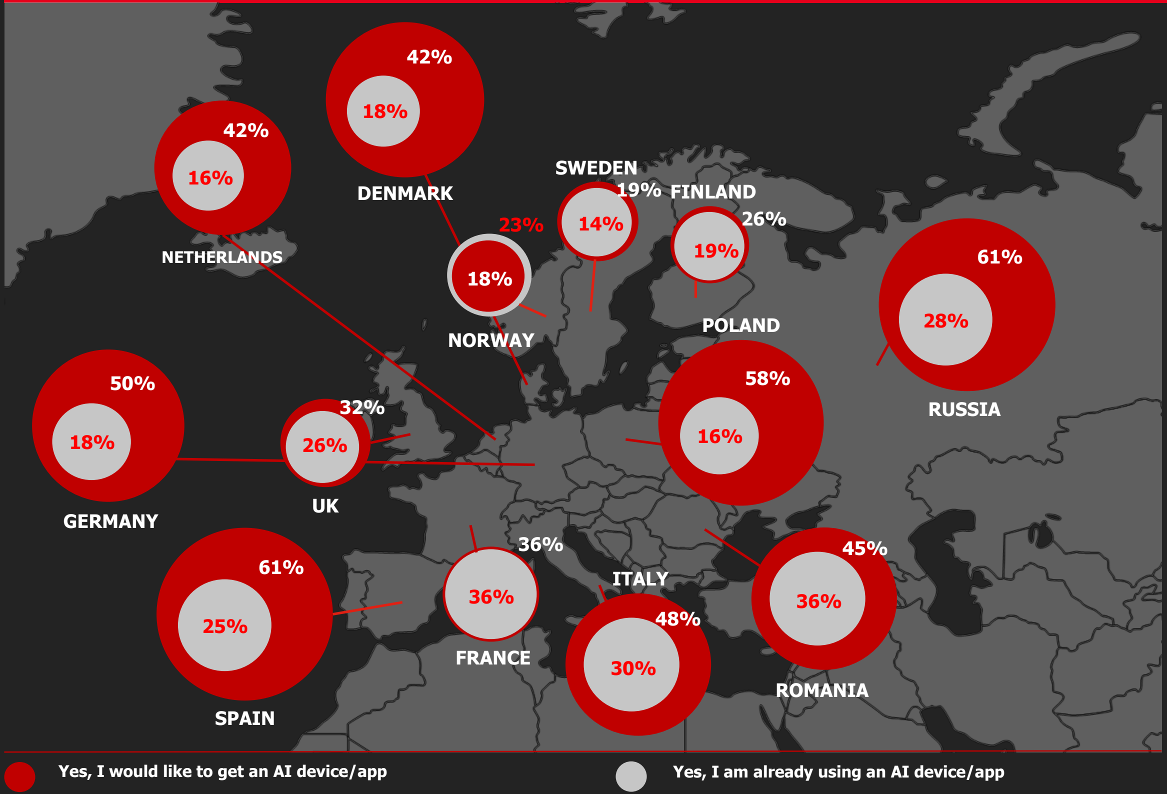
Quantifying our understanding of how consumers perceive AI in retail through a robust and in-depth survey, giving insight into the possibilities, potential and pitfalls of implementing AI across 14 markets.

*We conducted the qualitative research in the UK as it was the most developed consumer-facing AI market at the time of study.

RESEARCH:
KEY THEMES EXPLORED

KEY FINDINGS

EUROPEAN CONSUMERS ARE OPEN TO AI TECHNOLOGIES



22%

OF EUROPEANS ARE ALREADY USING AI

AND ANOTHER

41%

WOULD LIKE TO

Base: EMEA Total n=15986

Q. Would you consider AI to be a part of your life? Source: OMD Snapshots, 2017

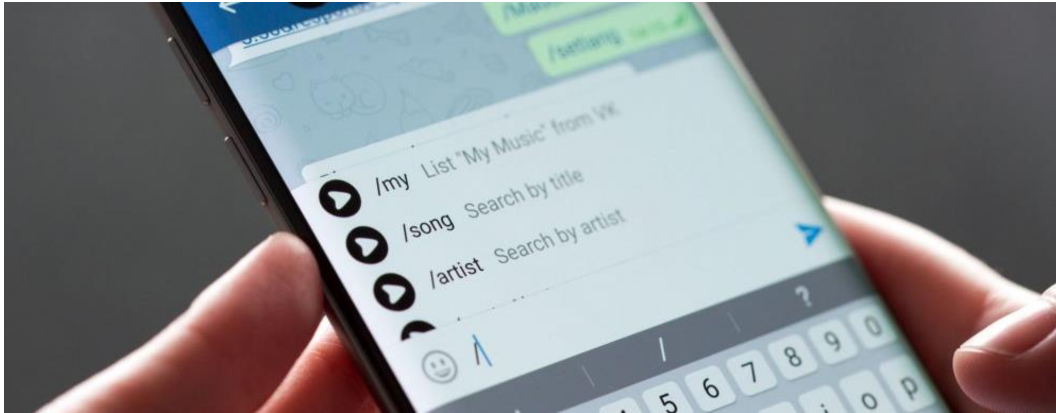
BRANDS SHOULD INSPIRE PEOPLE AROUND THEIR EVERYDAY NEEDS

ALTHOUGH TWO-THIRDS OF SHOPPERS HAVE EMBRACED AI AND KNOW WHAT THEY EXPECT FROM IT - A GOOD DEAL, TAILORED TO THEM, DELIVERED QUICKLY AND EASILY - THEY DON'T REALLY KNOW WHAT IT CAN DO.

Consumers want AI services to help them do the things they already do in a more efficient and streamlined way rather than to replace and therefore automate their activities. This also highlights one of the key points where AI projects can fail; the moment that the AI becomes more difficult or slower to use than their previous approach is the moment customers will abandon it.

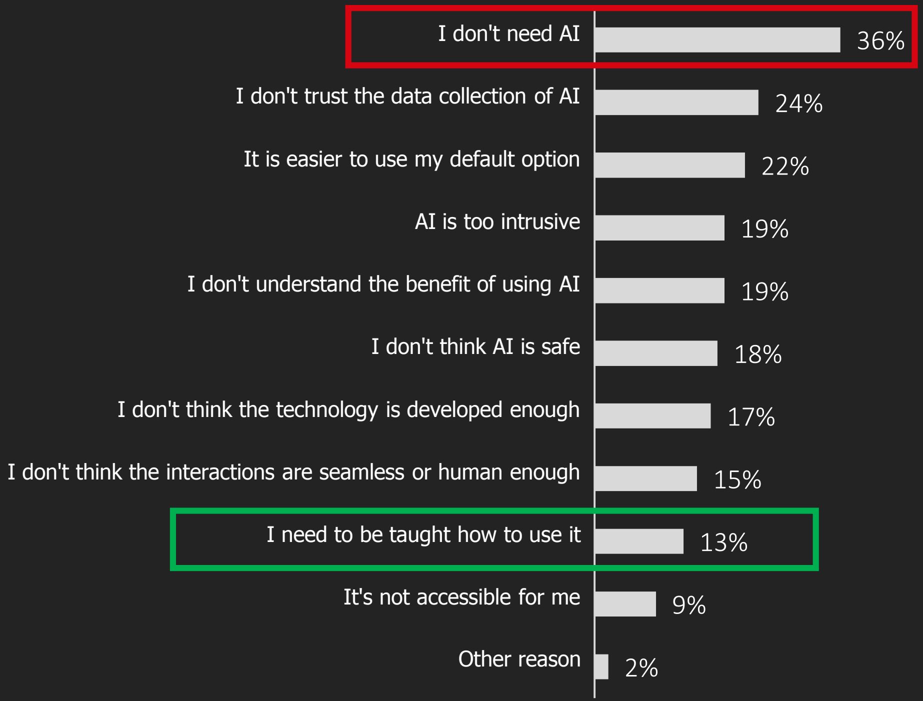
In the UK, almost two-fifths of survey respondents who wouldn't consider an AI said they "didn't need AI", while more than a quarter said it was easier to use their default option, and just over a fifth said they didn't understand the benefit of using AI.

What's surprising is that this "So what?" problem is particularly pronounced among younger audiences. 46% of 18-34 year-olds said they didn't need AI, while 37% said it was easier to use their default option.



YOUNGER AUDIENCES HAVE DIFFERENT BARRIERS TO ADOPTION

AI Barriers



Significantly higher for <35s

Significantly higher for >35s

> **I shouldn’t have to deal with what amounts to an inferior search function with a text to voice gimmick, as I can go through and process far more information myself in less time.**
>
> **Steven (18-34, London)**

Source: AI the retail revolution UK qualitative study

Base: EMEA, amongst those who would not consider AI n=3345
Q. Why would you not consider an AI capable device or app as being part of your life? Source: OMD Snapshots, 2017

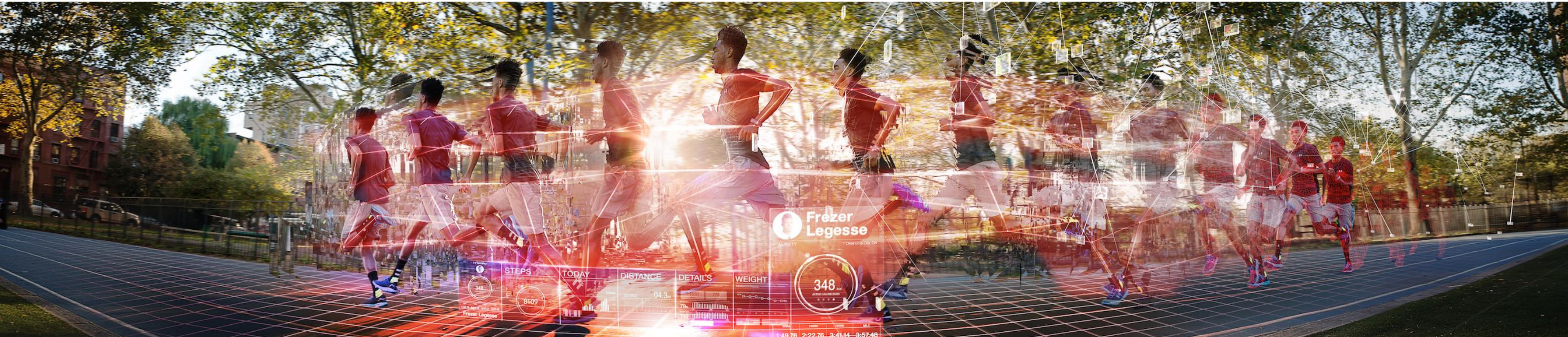
HOW WILL AI MAKE SHOPPING A BETTER EXPERIENCE?

QUICK, EASY AND RELEVANT - ARE NOW JUST HYGIENE FACTORS FOR CUSTOMERS WHO INCREASINGLY EXPECT RETAILERS TO RECOGNISE THEM AND TAILOR THEIR OFFERING ACCORDINGLY

People want to know whether AI will make their shopping cheaper, faster or in some other way ‘better’.

Consumers recognise the benefits of different types of help in different sectors. So people shopping in a wide range of categories - including groceries, beauty & personal care, books & music and furniture & decor - would welcome assistance in making more informed decisions. In other categories - such as travel, events and movies & TV - they want to be surprised by new opportunities and ideas. And when shopping for beauty & personal care products, health & fitness, or groceries, they’d be open to personalised suggestions.

However, AI is still in the early days of proving itself to mass audiences and needs to be more than a novelty option for most purposes. Given that there’s still something of an AI sales job to be done, it would be wise for brands to use AI in very practical ways and demonstrate functional utility; not just as a frivolous gimmick.



BRANDS SHOULD USE AI TO REDUCE SHOPPER FRUSTRATIONS BY LEVERAGING CONSUMERS' OPENNESS TO SPECIFIC AI ASSISTANCE TYPES

ASSURANCE

Not knowing the quality or fit of products online

56%

CONVENIENCE

Queuing at the till

52%

RELEVANCE

Not being able to get relevant assistance in time

50%

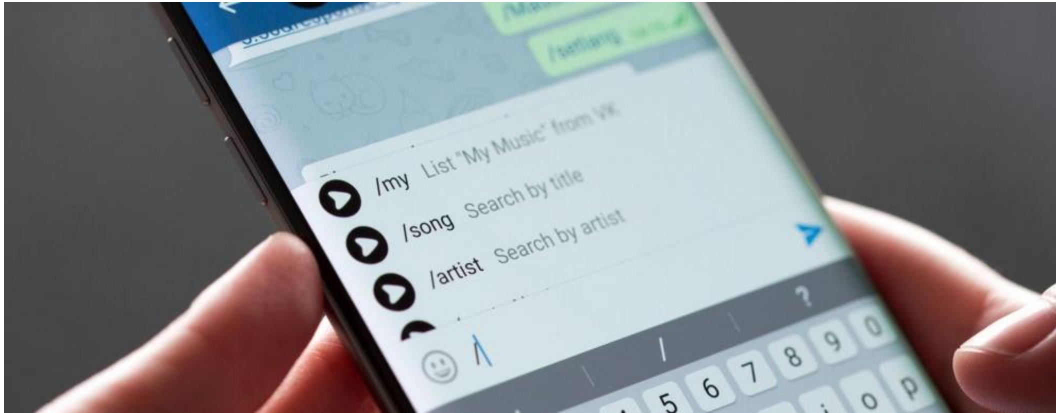
Base: All respondents understanding AI Total n=12021
R4. How much do the following situations frustrate you when shopping - top 2 box ; willing to put in a lot of effort (5) & willing to put in a quite a bit of effort (4)
OMD Snapshots, April 2017

AUGMENTATION OVER AUTOMATION

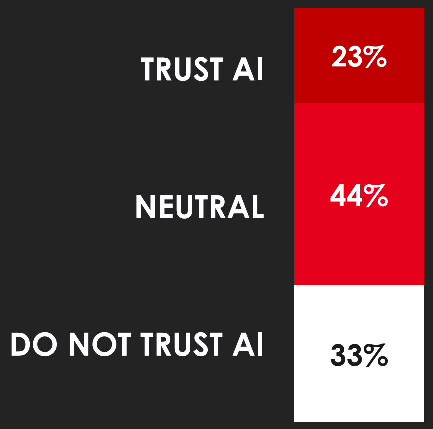
RETAILERS NEED TO THINK ABOUT HOW THEY CAN USE DIFFERENT INTERFACES AND DIFFERENT APPROACHES TO ATTRACT DIFFERENT CUSTOMER DEMOGRAPHICS.

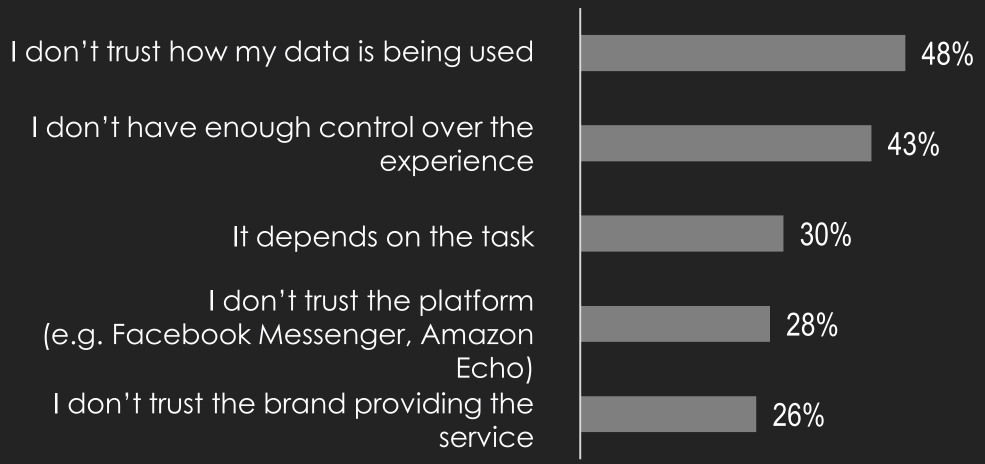
The risk, as with so many earlier technologies, is that companies will focus on what the machines are capable of, rather than what customers want. Going forward the key is augmentation rather than just automation. Machine learning, natural language and other AI services are poised to help retailers offer better interactions, solve problems and achieve common goals. Humans and machines both play a part, and this is where we get the best of the technological potential.

The over-riding drivers will be delivering value for customers, winning their trust by being transparent about who is collecting their data and how it is being used, and making them feel like they're in control of their interactions.



COMMIT TO TRANSPARENCY AND SHARED POWERS





Q5a. How much do you trust AI interactions?
Q5b. Why do you not trust AI interactions?
Base: Total n=13156 - all understanding AI
Source: OMD Snapshots, April 2017

LOOKING TO THE FUTURE

Retailers need to think about how they can use different interfaces and different approaches to attract different customer demographics. But the overriding drivers will be delivering value for customers, winning their trust by being transparent about who's collecting their data and how it's being used, and making them feel like they're in control of their interactions.

AUGMENTED INTELLIGENCE: AI working with the user in the consumer experience.

AI that enhances user experience in retail activities - a partnership. Segment AI to highlight the space of supervised learning and collaboration between people and smart machines in the consumer interaction.

FRICTIONLESS EXPERIENCE: The paradox of seamless friction.

Interactions that approximate seamlessness in the conversation – such as a pause, a point of friction to the machine, but a feeling of natural encounter for humans. Seamlessness should also happen behind the scenes as smart machines turn data into consumer insights.

GLOBAL SOCIETY: A rise in communities of users and experts coming together.

AI that provides opportunities for creating and sharing experiences both online and in-store environments. People still want the human touch, and seek expert knowledge sharing. Don't replace the human expert.

ADAPTIVE & RESPONSIVE: The new personalisation.

Emotion detection capabilities that deepen a sense of affinity with brands. The evolving power of AI responsive technology will not reduce options, but it will increase targeting potential.

AI FITS DIFFERENT NEEDS ACROSS CATEGORIES

Options based on characteristics

BEAUTY & PERSONAL CARE
32%

FASHION & APPAREL
32%

HEALTH & FITNESS
27%

New opportunity and discovery surprises

TRAVEL
25%

CONSUMER ELECTRONICS
25%

MOVIES & TV
20%

Quicker customer service

CONSUMER ELECTRONICS
35%

UTILITIES
30%

MEDICINE & HEALTHCARE
27%

Assistance to make more informed decisions

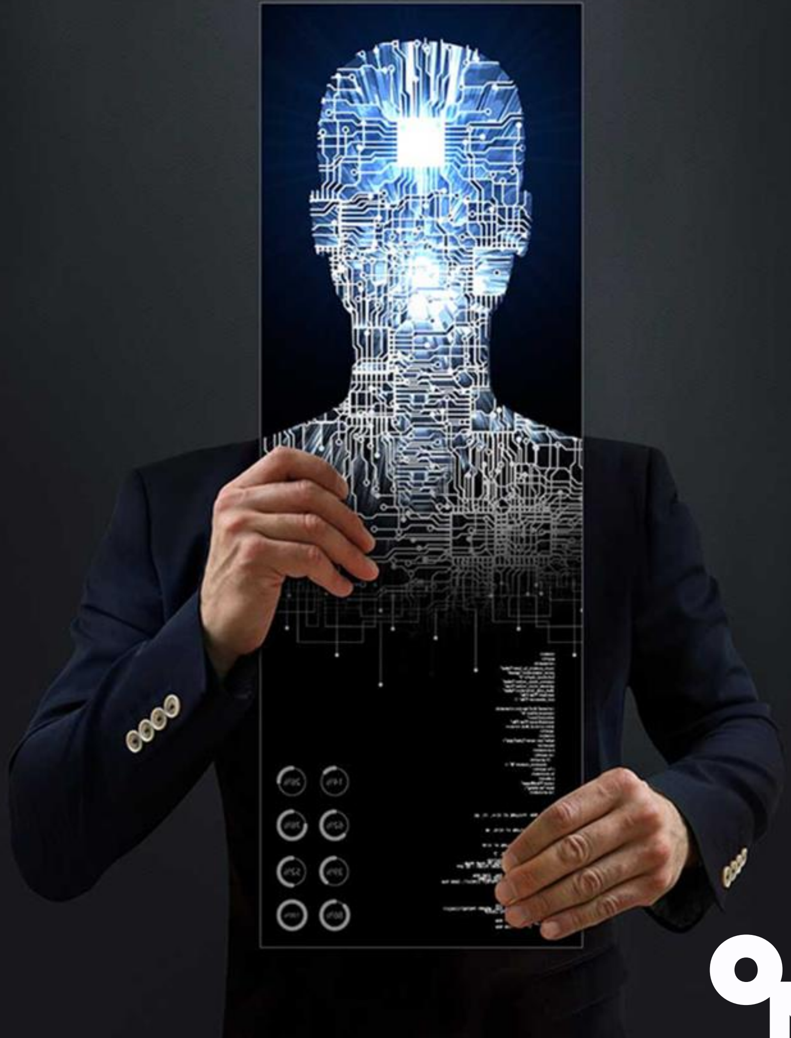
GROCERIES
33%

HEALTH & FITNESS
25%

MEDICINE & HEALTHCARE
25%

Base: EMEA Total n=15986
Source: OMD Snapshots, 2017

SEGMENTATION



SEGMENTATION: CLUSTER ANALYSIS

FILTERING THE DATA

The analysis does not include respondents who were screened out from the survey at Q3, accounting for 11 percent of the overall sample. Additionally, in order to sharpen the segmentation a small number of people were excluded from the analysis. These were people who gave top (10), middle (5) or bottom (1) scores for ALL the questions in Q9, accounting for 6 percent of the sample. Excluding these people from the analysis provides better distinction in the factors Choice and Human.

We used the CLARA method, which is good for large datasets, to conduct the Cluster Analysis. The analysis was based on four factors that included adjusted scores to compensate for the tendency of some countries which give overall higher/lower scores:

- **Tech –** focusing on interest in and positive attitude to technology (e.g. "I am comfortable using new technology", "I buy new technology as soon as it is available")
- **Function –** dealing with the functional benefits of AI (e.g. "It can make my life easier", "It can make experiences more fun", "It can help with instructions in a more natural way‟
- **Choice** – concentrating on aspects of transparency and choice (e.g. "It allows me to choose what data it can access", "It explains how it is using my data‟
- **Human** – focusing on the social and creative aspects of AI (e.g. "It uses images, emojis and gifs to express emotions and make interactions more fun", "It uses facial recognition to offer a better experience")

SEGMENTATION: FIVE KEY GROUPS

ENTHUSIAST	SOCIAL	CAUTIOUS	PASSIVE	UNINTERESTED
22%	23%	26%	17%	12%
High scores across all factors	Tech to simulate human interactions	Positive but tech suspicious	Functional relationship	Low scores across all factors
	NEED: Seamless payment	**NEED:** Transparency	**NEED:** New experiences	
	NEED: Use AI to initiate conversations that will lead to purchases	**NEED:** Better product detection	**NEED:** Help and assistance with customer experience	

Weight: effective sample size = 13,858

“I shouldn’t have to deal with what amounts to an inferior search function with a text to voice gimmick, as I can go through and process far more information myself in less time.”

- Steve, 18-34, No children (single), Early adopter, London

“I think that would be very useful. If you were able to put in measurements and photos so the stylist could 'see' your body shape, skin tone etc., and could then select clothes for you to try - that would be brilliant.”

-Cathy, 35-49, Children (married), Early majority, London

Source: Retail Revolution, UK qualitative study, 2017

SEGMENTATION: MEET THE ENTHUSIASTS

Erik and Emma are a married couple in they 40s. They have a child and live in their own flat. They are comfortable using new technology and interested in having smart home technologies.

When it comes to shopping, they value easy payment methods, user-friendly online shopping experience, quick delivery as well as seamless returns. They are more likely than others to spend a lot of time looking for inspiration, researching products or services and considering their next purchases. When they research products or services they turn to a search engine first. Consumer reviews as well as friends’ and family’s recommendations affect their decisions. Incentives also motivate them to make a purchase.

They are very familiar with AI and welcome it in their lives. They have already tried Siri, and they loved it even though Siri’s range of skills didn’t impress them. In general, they are very excited about AI. The most appealing features for them are convenience, interesting and new services, expertise as well as an opportunity to try products without the pressure of a sales consultant.

Transparency is important. For them, it is very important that the AI allows them to choose what data it can access, explains how it stores and uses it. They trust AI, although their trust depends on the task. They are open to AI interactions across multiple platforms including a retail brand’s app, Skype, Government app/website and WhatsApp. However, they want to be informed that it is an AI interaction from the beginning.

They expect more personalised experiences from AI. In their opinion, AI interactions should be able to identify different users. It is important for them to be able to choose the language of the AI interaction and that it adapts to the information they provide. They also believe that there should be parental control options.

“Really enjoyed this way of hearing the news. Instead or whole articles and headlines it suggests interesting stories in a more informal way allowing you to then decide if this was something I’d like to read more about or not. Liked the fact you could quickly click yes/no and read more or move on”

- Lauren, 18-35, Children (married), Early Majority, London

“…Reminding me to buy my brother a birthday present in good time. I’d like to know which friends are meeting where in case I want to join them…. I’d like it to help me share resources.”

- Emma, 18-34, Children (living with partner), Early majority, Bicester

Source: Retail Revolution, UK qualitative study, 2017

SEGMENTATION: MEET THE SOCIAL

Stefan is in his early 30s and lives with his partner in a newly bought flat. He likes tech and tends to buy new technology as soon as it is available.

In retail, he values easy payment methods, quick delivery and user-friendly online shopping experience. He usually uses apps for quick delivery and payment. The lack of a personalised experience based on his needs and preferences can frustrate him. When he is looking for inspiration, he turns to search engines and consumer reviews. He also often finds inspiration from social media and video tutorials.

He is very familiar with AI and welcome it in his life. He has already tried Siri, and he found it alright but its range of skills didn’t impress him. The most appealing AI features for him are convenience, interesting and new services and the ability to try products without the pressure of a sales consultant.

He expects AI for free but is willing to share his data for a better service. He somewhat trusts AI, although the trust depends on the task. He is more likely to be open to an AI interaction on familiar platforms, such as WhatsApp and Facebook Messenger. He also values AI interactions that use images, emojis and gifs to express emotions – in his opinion it makes interactions more fun.

He is quite relaxed about what to expect from AI. The most important aspect of an AI interaction for him is the ability to choose the language of the AI interaction. When he knows that he is interacting with a machine he is more likely to ask an inappropriate question to see its reply.

"I'm not happy letting an app have control or an eye on my finances. If my own bank were to bring out something like that I would consider it."

-Thomas, 18-34, No children (married), Innovator, London

"I can see huge potential. I am very comfortable interacting with a robot as long as it is secure (my details, preferences etc.). As it learnt my preferences I can see significance, i.e. not just sending me suggestions for most popular attractions, rather tailoring and hopefully finding cooler maybe less obvious/mainstream entertainment."

- Phil 50+, Children (married), Early majority, London

Source: Retail Revolution, UK qualitative study, 2017

SEGMENTATION: MEET THE CAUTIOUS

Caterina is 56 years old, married and her children are no longer at home. She dislikes when brands address her too directly.

Whether it is online or instore, she values easy payment methods, quick delivery, customer service and seamless returns. Her main source of inspiration, research and purchase decision is price. However, consumer reviews can also affect her decision. Her main shopping frustrations are a lack of basic business information online, not knowing the quality or fit of products bought online and feeling pressured by a sales consultant.

She is somewhat familiarity with AI and believes the technology isn't developed enough. Her main concerns are data usage and control over the experience. Despite these concerns, she is open to AI as long as she is informed that it is an AI interaction from the beginning.

Her trust is driven by transparency. She wants to choose what data AI interactions can access and expects an explanation about how her data will be stored and used. In fact, she is less likely than others to interact with AI across a majority of interfaces, although she would consider a Government app or website.

She expects AI to be free and isn't willing to share her data for a better service. The most appealing AI features for her are making her life easier, interesting and new services as well as the ability to try products without the pressure of a sales consultant.

"And you have to go through all the questions to ask again. So it would be a lot quicker for me to just type my general health stuff into Google and scroll to see what matches my own"

- Becky, 35-49, Children (married), Late majority, Oxfordshire

"The voice for the assistant has been super accurate and it's sooooo much quicker, which is what I'm looking for."

- Sophie, 35-49, Children (married), Laggard, London

Source: Retail Revolution, UK qualitative study, 2017

SEGMENTATION: MEET THE PASSIVE

Peter is 34 years old, married and lives in his own apartment. He leads a very busy lifestyle and doesn't have time for new things.

He shops both online or instore. When shopping, he values easy payment methods, quick delivery and customer service. He doesn't find anything particularly frustrating about his current retail experience. However, at times, he feels like there is too much information or choice.

He isn't very familiarity with AI. In fact, he doesn't understand the need for it.

Convenience and ease. He is open to AI's ability to make his life easier and purchases more convenient.

He neither trusts nor distrust AI. His key concerns are around data usage and control over the experience. He expects AI interactions for free and isn't willing to share his data for a better service.

SEGMENTATION: MEET THE UNINTERESTED

Ula is in her early 50s. She is married and lives in her own house. Her main concern is about how much data is being collected.

She is more likely than others to value customer service and instore shopping experiences. She will generally ask her friends and family for recommendations when she is researching products or services. Not knowing the quality or fit of products when shopping online and feeling pressured by a sales consultant instore are key sources of retail frustration.

She is unfamiliar with AI and doesn't trust it at all. She doesn't have any experience using AI and isn't open to trying it on any interface. Ula just doesn't think that she needs it and doesn't trust the data collection of AI. Despite not being open to AI interactions, she believes that there should be parental control options.

It is very important for her that she is informed about an AI interaction from the start. If she knew she was interacting with a machine, she is likely to ask an inappropriate question to see its reply or stop the interaction altogether. She would also feel disappointed that she wasn't dealing with a person, be less patient and give incorrect personal details.

SEGMENTATION: MARKET SUMMARY

	Enthusiasts	Social	Cautious	Passive	Uninterested
COMBINED	22%	23%	26%	17%	12%
UK	22%	24%	23%	14%	14%
FRANCE	22%	26%	22%	18%	13%
GERMANY	24%	18%	29%	16%	14%
NETHERLANDS	20%	22%	27%	14%	16%
RUSSIA	23%	18%	31%	19%	9%
SPAIN	24%	24%	21%	21%	10%
ITALY	25%	28%	16%	23%	8%
POLAND	23%	26%	21%	23%	7%
ROMANIA	30%	24%	21%	19%	6%
DENMARK	19%	23%	31%	15%	13%
NORWAY	20%	20%	31%	12%	16%
SWEDEN	20%	26%	26%	15%	13%
FINLAND	22%	19%	31%	13%	15%

Weight: effective sample size = 13,858; Bold Green figures are positively significant; Bold Red Figures are negatively significant

SEGMENTATION: ATTITUDES TOWARDS AI

	Enthusiasts	Social	Cautious	Passive	Uninterested
FAMILIARITY	**51%** are very familiar with AI	**41%** are very familiar with AI	Are somewhat familiar with AI	Are somewhat familiar or unfamiliar with AI	**49%** are unfamiliar with AI
TRUST	45% trust AI: Trust depends on the task (**52%**)	73% somewhat trust AI: Trust depends on the task (**42%**)	54% neither trust nor distrust AI: Key concerns: data (**57%**)	52% neither trust nor distrust AI: Control over the experience (**39%**)	72% Don't trust AI
OPENNESS	92% are open to AI, including 37% who are already using it.	84% are open to AI, including 27% who are already using it.	71% are open to AI, including 26% who are already using it.	63% are open to AI, including 19% who are already using it.	33% are open to AI, including 15% who are already using it.
RELUCTANCE	I need to be taught how to use it (**33%**)	I need to be taught how to use it (**24%**); I don't need AI (**25%**)	I need to be taught how to use it (**25%**); I don't think the technology is developed enough (**21%**)	I don't need AI (36%)	I don't need AI (**47%**); I don't trust the data collection of AI (**43%**)
PLATFORM	**Over half** are open to AI interactions on retail brand app, Skype, government app/website, WhatsApp, Facebook messenger and Google Home	**30%** WhatsApp, **28%** Facebook messenger, 27% Skype and 26% Retail brand app	**25%** are open to Government app/website	**12%** are open to WhatsApp and **11%** to Skype	**8%** are open to Government app/website and **7%** to WhatsApp and Skype

Weight: effective sample size = 13,858; Bold Green figures are positively significant; Bold Red Figures are negatively significant

SUMMARY

WINNING IN RETAIL IN 2020S WILL BE BASED ON APPLICATION OF TECH TO NEEDS

BRANDS WHO ASSESS THEIR END USER'S VALUES WILL BE MOST SUCCESSFUL IN THE ADOPTION OF AI

UNDERSTANDING DIFFERENT CONSUMER TRUST LEVELS AND ATTITUDES TO DATA SHARING IS KEY

BRANDS NEED TO FIND THE RIGHT BALANCE OF HUMAN TO AUTOMATION

FOR MORE INFORMATION CONTACT

JEAN-PAUL EDWARDS

Jean-Paul.Edwards@omd.com

CHELSEA HORNCASTLE

Chelsea.Horncastle@omd.com

VIRGINIA ALVAREZ

Virginia.Alvarez@omd.com

LILIYA GRECHINA

Liliya.Grechina@omd.com