

ISSUE 87 SUMMER 2017

# Augmented Reality Comes to Retail

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# Leading Ideas

## Augmented Reality Comes to Retail

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by Kamil Klamann  
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In the summer of 2016, pedestrians on New York's Fifth Avenue encountered crowds of (mostly young) people, hastily running into Central Park, smartphones in hand, shouting out Pokémon character names and cross-street locations. Within weeks of its release on July 6, 2016, the Pokémon Go app attracted 40 million daily active users and created a level of in-app engagement that Facebook could only envy.

The Pokémon Go fad has faded, but it holds important lessons for companies intent on reaching and engaging consumers where they are, especially retailers: The game, the first truly social augmented reality (AR) experience, enthralled a new breed of omniconnected consumers as nothing else had done previously.

The people who embraced the augmented reality of Pokémon Go inhabit a world where the line between *real* and *digital* is so blurred that they essentially became one and the same — constantly augmented and improved by invisible technologies. And they are hungry for better, more personalized experiences.

AR, which has been around since the late 1960s, has long lived in the shadow of virtual reality (VR). Whereas VR wants to transport us to a new virtual world that provides unique immersive experiences, AR brings these experiences to the world we already inhabit. For example, IKEA has released an AR app that allows shoppers to place digital furniture and other products from the catalog into pictures of their rooms at home. But for the most part, the early ambitions of AR have not borne much commercial fruit. AR

features have generally lived inside retailers' stand-alone apps that consumers didn't want to download. Moreover, Google Glass, which was perceived as socially awkward, failed miserably. The AR ecosystem has lacked a shared platform with mass acceptance that, like Google's ad network, allows brands to simply plug in and thus removes the consumer friction of downloading individual apps. And there was no "killer" use case to make AR popular and, more important, social — until Pokémon Go.

The Pokémon Go craze has opened consumers' minds to similar experiences that will take place in a more connected future. New forms of augmented reality will allow brick-and-mortar retailers to take today's showroom experiences to the next level, creating unique encounters that blend digital and physical shopping.

Today, a few farsighted retailers are in the first, introductory phase of applying AR to the shopping experience. On a range of independent platforms, these companies are experimenting, trying to understand their audiences and grasp how their brands fit into this new environ-

ment. As the field enters its growth phase in the next two to three years, it will consolidate into a few dominant players, and companies must figure out what distinctive offerings they can produce and how to integrate them into omnichannel strategies. Once the medium matures in four to five years, AR will become table stakes for retailers and brand marketers, and companies will have to determine how they can curate bespoke content and create unique experiences in this new medium. Over the long term, it is clear companies must use AR to lead customers through four stages: creating awareness; increasing consideration; converting customers at key decision and purchase points; and building enduring loyalty.

**Creating awareness.** AR represents a singular opportunity for retailers to develop a more refined level of targeting based on demographic profiles, past in-store behavior, and live recommendation engines. Much of this will involve linking location tracking with advertising delivered to smartphones. For example, Tom typically buys a US\$4.99 gel laundry detergent. Target could display an AR ad on Tom's phone of a new, more powerful \$5.99 gel suited to similar laundry needs, instead of posting a generic static endcap display for laundry powder.

Virtual shopping assistants are another likely use case. In 2013, IBM launched an AR shopping app that provided shoppers instant product details and comparison when they pointed their smartphone at the grocery shelf, allowing them to sort the products there by nutritional value, highlight gluten-free or organic options, and display coupons. Retailers can use the same app for shelf stocking. In 2014, Tesco employees tested IBM's AR app to report out-of-stock products and instances when conditions on shelves didn't comply with display plans.

As AR becomes more powerful,

years to come, these expectations will grow, pushing physical retailers to deliver memorable interactions at every touch point.

Virtual "try-on" experiences are the first step that brands have taken toward using AR to raise customer engagement. In 2014, L'Oréal released its Makeup Genius app, which allows shoppers to virtually try on different shades of blush and mascara before making a purchase decision. Once the makeup is "applied" on the face through the smartphone camera, the L'Oréal facial recognition system follows face movement and angles, showing what

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we are likely to see a higher degree of personalization of in-store product recommendations. Perhaps pointing your smartphone toward a shelf in a clothing store will not only provide information about the origins of the wool in the cashmere sweater, but also reveal special deals that are tailored to your profile — such as a discount in advance of the ski season.

Ultimately, as AR integrates with big data and machine learning, we will see intelligent personal shoppers that can provide consumers with information, recommend products, and

even look for special bundle deals and coupons, depending on the consumer's preferences and behaviors.

**Increasing consideration.** Consumers, driven by their online shopping experiences, already expect a high level of engagement. In

the makeup would look like from different perspectives. By early 2016, Makeup Genius had been downloaded more than 20 million times. And it has inspired similar efforts from innovators such as Meitu, a Chinese company that built a range of try-on apps for makeup, hair, and fashion; the app has been installed on more than 1 billion unique smartphones.

As AR matures, we will start to see applications that combine the online and offline environments. Ultimately, retailers will have to think hard about what the ideal shopping experience is like, regardless of the medium. People could experience Nespresso machines in-store, surrounded by the aroma of freshly brewed coffee. Then, using an AR app and photos of their kitchen at home, they could see what the machines would look like on their countertop, customizing colors to see which best matches



Illustration by Federico Jordán

the backlash, order the machine with a single click, immediately subscribe to monthly shipments of assorted coffee pods, and request warranty support.

**Converting consideration to action.** Although Pokémon Go showed AR's ability to drive foot traffic, AR has yet to prove its mettle in converting consideration into purchase. This may be the biggest challenge AR will have to tackle to be able to provide return on investment.

Technologies such as Google's Tango platform will come to help. Tango enables mobile devices to be more sentient about the world around them, understanding the environment they're situated in, including space, orientation, and motion, without using GPS. In March 2017, Lowe's Innovation Labs announced Vision, its in-store navigation app, leveraging Google's Tango for indoor mapping. Now Lowe's customers with Tango-enabled smartphones can search for products, add them to shopping lists, and locate the product within the store using augmented reality.

China's largest online grocery store, Yihaodian, created more than 1,000 virtual shops in public places. Shoppers can use the company's AR app to browse products and make purchases that are then delivered to their homes. Similarly, upon pointing a smartphone at a Nike ad in *Runner's World*, a user can jump straight to the shopping cart on Nike's website.

As AR becomes integrated with other technologies such as beacons — Bluetooth-enabled devices that can communicate with nearby shoppers' smartphones — we are likely to see localized and personalized coupon offers at key purchase points within the store aisle or at the check-

out counter. The ultimate goal will likely be fully automated and personalized one-to-one marketing that seamlessly tracks shoppers' movements on- and offline, offering engaging AR experiences at critical decision-making points.

**Building enduring loyalty.** The more adept a company is at creating loyalty, the more sustainable its marketing efforts are in the long term, and the higher an ROI it can ultimately achieve. Further, repeat customers tend to spend 60 percent more per transaction than first-time customers. AR affords opportunities for loyalty programs that are otherwise unattainable.

The current generation of apps already allow stores to integrate AR with existing programs, bridging the gap between the online and in-person experiences of shoppers. For example, Walgreens' Aisle411 app allows shoppers to discover products and deals in-store as well to collect loyalty points by exploring the store's aisles.

As shoppers become more acclimated to the idea that AR can improve their shopping experience, we will likely start to see greater integration between the digital and face-to-face experiences. This, in turn, will allow brands and retailers to create customized loyalty programs that correspond to a shopper's exact interests as well as their online and offline behaviors. Imagine heading into a supermarket and having an application on your phone that suggests products based on your past purchases, one that can also seek out the best deals based on how often you've purchased that brand before.

As AR and other technologies mature, stores will gain a much better idea of shoppers' behaviors. This

will allow them to use loyalty programs in a far more targeted manner, encouraging the exact behaviors that lead a specific shopper to the counter. A thrifty consumer might enable a setting on an app that allows the shopping assistant to lead him or her through specific aisles of a supermarket that have been incentivized by a brand.

Augmented reality clearly has the power to transform retail. However, it will pay dividends only if stores and brands learn how to translate foot traffic into desired action and become seamlessly integrated into the experience. And although Pokémon Go itself may have been a fad, it probably will not take long for another (better and more ambitious) platform to emerge and fill the social AR space.

To be sure, some skepticism is warranted. But in the 21st century, paradigm shifts that used to take years now routinely happen in months. Just as retailers came to rue not investing earlier in e-commerce, or a Facebook presence, or mobile purchase apps, they may regret not investigating the potential of AR more aggressively. +

Reprint No. 17201

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