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Reality Check.

Why AR is taking off, and what retailers and brands can do now to benefit.

A lot has been said about Augmented Reality (AR) recently. Frankly, not a lot of it has been particularly good or useful.

Poorly designed, gimmicky experiences have left brands and consumers wondering 'what's the point'?

But the tide is well and truly turning for AR. Now's the time for retailers and marketers of consumer brands to pay the channel some attention.

And here's where we think the opportunities lie.

It's time for the brave to get on board.

It's understandable that marketers have been reluctant to step into AR. With so many channels to get to grips with, why focus energy on something that seems like hype?

It's hard enough to pin down an effective consumer journey across well-established channels, let alone think about slotting in another one. Why waste time and hard-fought-for budget on something that's so new and unproven? And if you do spend your marketing dollars on AR, how much should you spend and on what? Who should you work with to get the most out of it? Your ad agency? A digital agency? A management consultant? Or a brand design agency? And what does success look like? It's not hard to see why those who have already ventured down the AR path have ended up with something cheap and gimmicky.

“AR will see a rapid adoption in gaming and entertainment, followed closely by retail”

(Tractica)

Annual global downloads of mobile AR apps

2014:

272,000,000

2019:

1,200,000,000

Installed base of actively used mobile AR apps

2014:

135,000,000

2019:

2,200,000,000

(Tractica)

But it is time for marketers to start paying the channel some attention, particularly those working with retail and on consumer brands. Why? Well, to start with, follow the money. Venture capitalists are investing heavily in AR tech companies and AR stock is up. No wonder. 2021 will see an estimated 1 billion people using it on their phones and \$60bn added to the top line of some very nifty businesses ([Digi-Capital](#)).

This investment is going hand-in-hand with a rapid advancement in the technology itself as evidenced by the introduction of iOS11, Apple ARKit, as well as Google's ARCore. AR will see a rapid adoption in gaming and entertainment, followed closely by retail ([Tractica](#)). In 2017, at least 40 million Americans will have engaged with some form of AR on a monthly basis ([eMarketer](#)). And as the roll-out of 5G speeds up, so will AR.

That's why retail brands like [Ikea](#) and [Anthropologie](#) and consumer brands like [Dominos](#) and [Burberry](#) have tested the waters early, learning what they can, quickly. Smart.

Will AR be yet another nail in the coffin for traditional retailers?

The short answer is, of course, no.

Technology is never deterministic. However, retailers do need to adapt to blend their physical world with that of their digital consumers. Particularly given that online-only retailers, such as Amazon, with its launch of [Amazon View](#), are actively integrating AR browsing to help consumers buy more stuff. 'Virtual commerce' apps are helping online retailers address real practical problems that consumers face when making considered purchases online. Yes, traditional retailers like Ikea and [Target](#) have already recognised the opportunity of AR (although Target's app left quite a bit to be desired). But by bridging the gap between the physical and the digital through virtual browsing, online retailers are at an economic advantage to capitalise on the opportunity that AR brings. 'When customers can see virtually how products will look or function in a real setting before buying them, they have more-accurate expectations, more confidence about their purchase decisions, and greater product satisfaction.' [Harvard Business Review, Nov 2017]



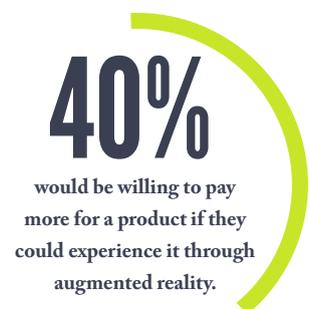
(Retail Perceptions)

“Retailers need to adapt to blend their physical world with that of their digital consumers”

Think Phygital

To avoid the squeeze, bricks-and-mortar retailers need to think about how they can cross the physical store with the digital world; they need to think Phygital.

Physical stores are treated more and more like a flagship, becoming a critical factor in the marketing arsenal to help brands spread the 'gospel' (take the Apple store, for instance). Retailers have the opportunity to turn their estates into destinations for brand experiences. As consumers carry their lives with them everywhere they go, retailers can amplify their store experience across an omni-channel environment with mixed reality experiences that fully engage the phygital consumer.



(Retail Perceptions)

The AR opportunity for consumer brands

According to Apple CEO Tim Cook, there will be no industry or sector that will be untouched by AR. However, apps like Ikea Place are pointing the way to the immediate promise of AR for consumer brands. We believe there are two main areas in which AR offers immediate value and potential for retail and consumer brands.

Firstly, AR will succeed where it can help consumers have a significantly better and more entertaining physical product or service experience than they would without it. Significantly, because the barrier to using AR will remain high. Although we will see a real advancement of the technology, the experience of it will – for now – remain limited to the phone screen. However, if the consumer benefit outweighs the technological barrier by adding a bit of utility and fun, then the opportunity is there to earn a rightful place on the home screen. Could Ikea, for instance, use AR to analyse and enhance flat pack assembly? Or could the frustrations of setting up a home Internet connection be alleviated by gamifying it through a set-up coach?

Or take medication. The impenetrable information stuffed into drug leaflets is known to contribute to preventable medication errors in patients. The implications of these errors on patient health, healthcare and healthcare costs are not insignificant. It is why organisations like the World Health Organisation are actively encouraging member states and drug companies to provide patient engagement tools that will address drug non-adherence. AR can help visualise and simplify drug information to make it more accessible and more informative for consumers.

AR devices for factory workers that superimpose production assembly are already being piloted by thousands of companies, and it is only a matter of time before AR will do the same in the world of consumers. Humans are visual beings, processing between 80 – 90% of information through vision. 'By superimposing digital information directly on real objects or environments, AR allows people to process the physical and digital simultaneously, [...] improving our ability to rapidly and accurately absorb information, make decisions, and execute required tasks quickly and efficiently' [*Harvard Business Review*, Nov 2017].

“ AR will succeed where it can help consumers have a significantly better and more entertaining physical product or service experience. ”

In the consumer world, AR will need to surmount the unhelpful dysfunctions that have become embedded in certain categories and industries to significantly improve the consumer experience.

Secondly, marketers should consider the channel where it can create a premium brand experience through storytelling. This is where brands and the entertainment industry will ultimately meet to create high-quality branded experiences. Take the wine brand '19 Crimes' from Treasury Wine Estates, which celebrates the criminals and scholars that were banished from the UK and built Australia. The brand targets young UK men who are least likely to buy wine. Using an [AR app](#), built by Tactic, a discovery process is unlocked that reveals real and authentic stories that have inspired the brand.

In both cases, however, the success of AR has to come back to the core of all marketing, i.e. value. That is, the benefit of the product enhancement or brand experience that AR brings has to significantly outweigh the hardware challenges that AR carries with it.

$$\text{Value} = \frac{\text{Relevance} + \text{Timeliness} + \text{Quality of Experience}}{\text{Perceived hardware barrier}}$$

This formula shouldn't imply an exact science, but it highlights the key areas that marketers need to think about when stepping into AR (or any other channel for that matter). Value here is a function of how relevant, timely and good the experience is in relation to the effort that has to be put into getting that experience. If the sum of the experience is greater than the barrier to experiencing it, then get going!

$$\text{Value} = \frac{\text{Relevance} + \text{Timeliness} + \text{Quality of experience}}{\text{Perceived hardware barrier}}$$

The brand breaks with typical practice in the wine industry to tap into a different category of buyers. While this application lacks a bit of depth, it shows the promise of what could be. Here, AR overcomes the drawbacks of interruptive observational digital channels to provide a shared, more immersive and fun experience 'in the moment'. As this example shows, such applications aren't limited to luxury brands, but they are created with a luxury mind-set, which understands that today's consumers are looking for experiences rather than being talked at by brands.

AR enables any surface to become a stage for immersive and emotional storytelling, and this will transform the way in which brands engage with their audiences ([Stylus, 2017](#)).

“ Marketers should consider the channel where it can create a premium brand experience through storytelling. ”

Why AR is different to other digital media

If the balance across the above value equation is out of kilter, AR becomes an unnecessary cost. Given the current hardware barrier to delivering the consumer experience, the chances of AR becoming overpaid on a product are high. It is easy to see how AR – when used only for augmented advertising – can be one of the first channels to be dropped from an activation plan.

However, we believe that AR should be viewed differently to other digital media. Why? Because, unlike other digital media, it is possible for AR to be inherently integrated into a product or service. Rather than being a marketing cost, AR can create business value by becoming a product feature itself as well as a vehicle for conveying a brand narrative. AR can enhance a product's functionality or ease of use, improve product support, and increase product loyalty. Moreover, it can simultaneously enhance a brand's salience through the amplification of its iconic assets. This is why brands considering integrating AR into their approach need to do so by breaking it out of the augmented advertising or marketing activation silo and designing it upfront into a holistic product and consumer experience that creates consumer value and amplifies the brand. AR opens up a whole new avenue for product differentiation beyond the limitations of the product itself – combined with a healthy dose of brand distinctiveness.

Win-win-win for retail, consumer brands

So, what does this all mean for the interplay between retailers, consumer brands and consumers?

Traditionally, the relationship between retail and consumer brands has been an uncomfortable one. This is rooted in their complimentary, yet competing business objectives. Retailers want to create scale to win on price, as well as keep consumers coming back. And when consumers do come back, retailers want to increase the value of their shopping baskets. Consumer brands, on the other hand, want shelf prominence to build brand salience, equity and loyalty to drive profitable growth. Their interest is to get more consumers to keep including them in the shopping basket. Retail is focused on creating market differentiation. Consumer brands are focused on creating brand distinctiveness.

However, the technology-enabled consumer is changing the dynamic between retail and consumer brands, and AR will bring them closer together. Why? Well, AR has the potential to bridge the competing interests of retailers and consumer brands by turning the product or pack into a channel for differentiation, while remaining physically distinctive. AR can create several paths towards differentiation, by enabling companion experiences that expand the capability or enhance the experience of products and brands.

“This is win-win for retail and brands, enabling retail to drive repeat footfall through promotional content and brands to maintain salience through brand-reinforcing packaging.”

Take an electric razor, for instance. Rather than creating an Argos-only promotional World Cup SKU, why not create a pack or product activated Argos-only VIP World Cup experience?

Through AR, brands can use their product or packaging to create brand experience extensions, rather than potentially brand-diluting line extensions, to enhance brand storytelling in store and support growth. This is a win-win for retail and brands, enabling retail to drive repeat footfall through promotional content and brands to maintain brand salience through distinctive, iconic, brand reinforcing packaging.



61%

of shoppers prefer to shop at stores that offer augmented reality, over ones that don't.

(Retail perceptions)



34%

of users say they would use AR while shopping, and 61% say they would prefer to shop stores that offer AR.

(Google)

By doing this not only at the point of purchase, but also at the point of use (e.g. the home), brands can drive post-purchase engagement in a marketplace where brand loyalty is often usurped by competitive promotional behaviour. For example, a toothpaste brand such as Aquafresh Kids might create a series of engaging children's stories or introduce gamification activated through its distinctive product or packaging to stimulate better brushing habits. Something both parents and kids can get excited about. In doing so, AR extends the product's usefulness to the consumer, creating brand stickiness and stimulating repurchase.

A win-win-win for retail, consumer brands and ultimately the consumer. Provided the experience delivers real consumer value.

“Rather than being a marketing cost, AR can create business value by becoming a product feature itself.”

5 ways to Rah Rah AR

Sound a bit daunting? Well, it needn't be. Marketers should start learning quickly and get ahead. Here are a few pointers for those who are ready:



1. Test & learn

Make AR part of your test & learn approach. Start small and start where you can address real consumer pain points or extend the usefulness of your existing products. Your consumers will love you for it. And if they don't, fail quickly, assess, learn, and adapt.



2. Bake it in

Place the consumer at the centre of the AR experience. In doing so, break AR out of the brand activation silo and connect it to your product innovation cycle. It has to be based on a deep understanding of the consumer need, the brand's ability to extend credibly into this arena, and the tangible added value that it will bring to the consumer. AR creates value by becoming part of products themselves [Harvard Business Review, Nov 2017]. Design it into your product early on, rather than adding it on as an afterthought.



3. Think premium

When you bake AR in to extend the usefulness of a product or the brand story, do so with a 'luxury' mind-set to ensure a high-quality experience. There is no point in creating gimmicky one-off experiences that deliver little in terms of long-term consumer value. The 21st century consumer is looking for experiences that are authentic, entertaining and fun beyond the functional benefit of a product.



4. Integrate to activate

When it comes to activation, think about and integrate AR as part of the entire channel mix to tell a cohesive and unified brand story. The channel must enhance the sum total of all of the brand storytelling efforts across your other channels. As such, it needs to play a distinctive, yet additive role in your total brand activation and product experience.



5. Measure everything

And finally, measure. Apply as much rigour to measuring the effectiveness of AR as you would to any other digital channel. Although this is still a developing field, assign objectives to the AR experience in your overall channel mix and put success criteria against it. This can include simple engagement metrics, such as experience completion rates or return rates, but should also stretch into more empathetic and implicit measures such as satisfaction or enjoyment of the experience. And where appropriate, relate it back directly to conversions to the online shopping cart.

Who should you turn to?

So where is the best place to start if you're ready to step into AR? Your ad agency? Your digital agency? Your management consultant? It could be any one of these, but we think the best place to start is with your design agency. (Well, we would wouldn't we?)

But, we're serious. The reason for this is that for AR to succeed beyond being just a gimmicky brand activation, you have to put the consumer at the heart of the experience. As mentioned above, for AR to add consumer value, it shouldn't be a brand activation afterthought (the territory of ad and digital agencies), but should be baked in early into your product and brand development processes. This is where designers play.

They are trained to get into your consumers' shoes. They don't just rely on market analysis to try and guess what people want. Instead, they use empathy to see things from the perspective of the consumer, visualising them beyond just numbers on a spread sheet (the territory of the management consultant). They will think beyond the problem, give you a new perspective on your consumers' needs, and help you to create a better consumer experience. Designers prototype to let you and your consumers experience the finished article before it's launched to get feedback that in turn informs the development process. They will work closely together with engineers, software developers and collaborators to finely tune the experience. And finally, designers, when introduced at the start of a project or problem, bake in iconicity and brand distinctiveness through-the-line, across every touch point and every experience.

“ For AR to succeed beyond being just a gimmicky brand activation, you have to put the consumer at the heart of the experience... this is where designers play. ”



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If you want to take the ARgh out of AR, contact us. We are the world's most effective brand design consultancy, and work with some of today's most iconic global consumer and retail brands.

Together with our digital agency, Framework Creative, we design immersive, multidimensional experiences using the latest technology that put consumers at their heart.

The power of AR lies in experience. Experience drives behaviour and all experiences must be designed.

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