

IMAGINING *Retail's Future*

ONE ON ONE WITH DANIEL ALEGRE, PRESIDENT OF RETAIL
AND SHOPPING AT GOOGLE. > By Mike Troy



Conversational commerce is the next big thing in retail and those who require proof need look no further than Amazon. It has gone all in on a strategy to penetrate households with devices such as Echo that enable users to communicate with its Alexa voice assistant and perform all manner of tasks — including shopping. Alexa's life-simplifying pleasures go well beyond shopping and can be habit-forming. That's what Amazon is counting on, ingraining itself deeper and deeper into the lives of Americans whose children will grow up as the first Alexa-native generation. That's a scary scenario for retailers looking five to 10 years into the future at the prospect of ubiquitous conversational commerce, or as some call it, voice shopping.

While no retailer individually, not even Walmart, is equipped to offer a competitive response to the potent combination of millions of Amazon Alexa devices supported by a steadily expanding network of world class fulfillment centers, all is not lost. Far from it. Google has entered the conversational space in a big way with its Google Home device, an expanding collection of smart displays and partnership with other manufacturers to integrate Google Assistant voice capabilities into their products. Google is moving fast and creating a unique value proposition a growing number of retailers find compelling.

"We have a host of things that are very valuable to the retail and shopping sector and I'm pulling it together so that our partners have a one Google approach and view of what we can bring to the sector," said Daniel Alegre, President of Retail and

▲ Daniel Alegre serves as President of Retail and Shopping at Google, a role that entails crafting the company's overall strategy and leveraging Google assets to aid retailers' digital transformation.

Shopping with Google. “I’m responsible for crafting the overall retail and shopping approach for the company. We are enabling for the retailer a control over their experience and bringing them much closer to the consumer.”

That’s a tall order, but as Alegre notes, Google has its own universe of very relevant assets when it comes to things like search, images, YouTube, product listing ads and the Google Express delivery service. And like Amazon, Google is a company that builds for the future and scale.

Walmart and Target were among the first to buy into the Google retail vision and the potential of voice in a big way last fall. In September, Walmart integrated with Google to make several hundred thousand items available for voice shopping via the Google assistant. In 2018, the company plans to turn on the ability to order groceries via the Google assistant for pick up at store, further eliminating friction from the process of list-making. Target also announced it expanded its relationship with Google so customers could access its assortment through voice command and also receive the 5% price reduction if they pay with one of Target’s REDcard products. In 2018,

Target has vowed to work with Google to offer store pick up within a two hour window and to bring other innovations to market.

At the end of last year, there were a total of about 50 merchants directly integrated with Google and accessible via the Google Assistant. While that may not seem like a large number, there were none as recently as 2013 and Google introduced its Home device in 2016 and voice shopping in 2016. However, it wasn’t until last year, and during the holidays in particular, that Google made an Amazon-like push to sell devices. It had plenty of help in that effort from merchants active on the platform who make a margin on each sale but also have a vested interest in seeing Google Home reach a penetration rate equal to or greater than Amazon’s Alexa.

“We purposely kept the number of merchants very small as we expanded nationally, but we expect to have more come on board. I can’t predict what that number will be in a year,” Alegre said. “We do know that we are going to continue to provide a deeper, richer experience with the retailers we have and then expand it as we gain comfort with the customer experience.”

Retailers also need to have a comfort level with Google when it comes to the sharing of their information and how customer data is used. The prospect of Google joining Amazon as a second enemy rather than a valued ally is disconcerting to retailers.

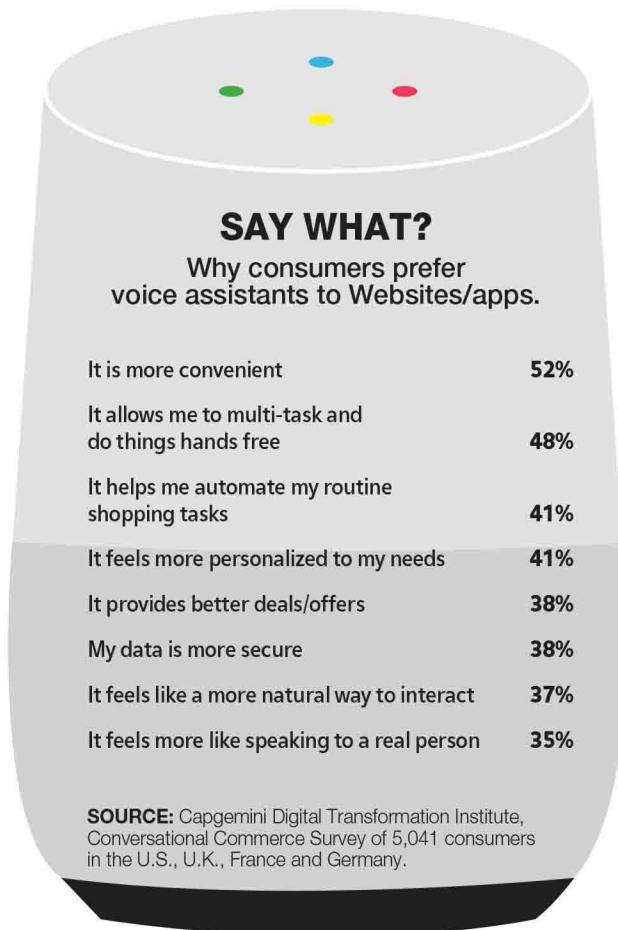
“We make it crystal clear that retailer X will not benefit from retailer Y’s information that resides with Google. We realize that retailer purchase information is one of their core assets to be guarded as a competitive advantage and for them to share it with us is something we don’t take lightly.”

THE GOOGLE WAY

Experience is key with voice shopping and interacting with voice assistants, but Alegre defines the term differently than operators of physical spaces who tend to think of experience in sensory terms related to lighting, flooring, signing, merchandise presentation and dozens of other touchpoints. For Alegre, experience is the emotional reaction a Google user has to a search query, how well their voice is recognized or the simplicity of interacting with the Google Assistant. It can be magical or frustrating.

“If you really want to make voice search inquires powerful you can’t really make mistakes,” Alegre said.

A decade ago when most search was conducted on a desktop, Google could be forgiven for returning off target responses because there was ample real estate on large screens to have the right answer be the fourth of fifth answer. Accuracy had to improve with the shift to mobile and much smaller screen sizes. With voice, the accuracy bar has been raised so high there is little margin for error and it declines daily as consumers expectations increase.



“If the wrong answer, product or ad is returned to the user the experience becomes so poor the device ends up being used to just play music or present recipes,” Alegre said.

Accuracy begins with the ability to process natural language, which is one area where Google arguably has an advantage over Amazon if for no other reason than search is Google’s core business and it has been at the search and voice game a long time. The billions of dollars the company invests annually in artificial intelligence and machine learning means the Google Assistant can distinguish between English speakers with regional accents, different tones of Mandarin or multiple Indian dialects, according to Alegre. It can even understand the very poor Mandarin Alegre said he speaks in addition to Spanish, French, German and some Russian.

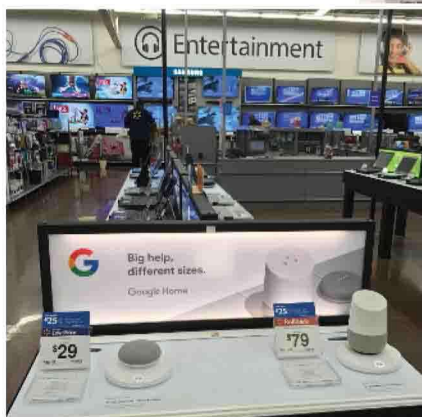
That understanding is at the heart of the future growth of conversational commerce and some of the most viable early uses cases are viewed as food and consumable product categories. That’s because many purchases at a supermarket, drug store, dollar store or mass market retailer are transactional in nature and therefore prone to be disrupted by alternative and more convenient methods.

“When a loyal Walmart customer links their account with Google, at that point we are porting their past purchases with Walmart onto the Google experience. When they say, ‘okay Google, buy me a tube of toothpaste,’ the ideal is it already knows what you are asking for and it will ask if you want to re-order a prior purchase,” Alegre said.”

If a Google user wants to see other options from different retailers, that desire can be communicated and conceivably a customer could view options from Target or other retailers who have integrated with Google.

“Voice and voice capabilities are extraordinarily powerful for transactional experiences where a consumer knows exactly what they are looking for and tells Google to get it for me,” Alegre said.

The more challenging voice shopping experience, for the time being anyway, involves higher consideration purchase categories or those that have a fashion element. For example, in situations where a consumer needs guidance and information, wants to envision how a product would look in their home or help with assembly, leveraging voice capabilities is a more



Google Home was heavily promoted during the 2017 holiday season, with major retailers such as Best Buy (above left), Walmart (left) and Costco (above) among those prominently featuring the device.

elaborate process. In some of those cases, Google can tap into retailer, supplier or user-generated content on YouTube to provide answers, but it’s not as easy as a reorder transaction, which is why companies such as Walmart and Target moved aggressively to partner with Google.

A DIFFERENT BEAT

While Daniel Alegre is helping invent the future of shopping at Google, the 14 year Google veteran’s career began in an unlikely fashion. The native of Mexico migrated to Canada, attended Princeton and later earned a law degree and an MBA at Harvard. Before putting those credentials to work, he returned to Mexico when an opportunity arose to start an FM radio station. As an aspiring musician who once wanted to be a drummer, he soon learned the new radio gig came with some surprises.

“I arrived at a building that had no equipment and no antenna, only a license. I had been a drummer, but that was all I knew about the music business,” Alegre said. “I had two weeks figure things out, hire an engineer, get the antenna up and running, launch the radio station and understand how you sell. I later learned



Amazon's Alexa-enabled devices were already the company's top selling items and with the acquisition of Whole Foods it has hundreds of new physical distribution points, such as this location in New Jersey.

what it means to be there for the community during a hurricane when I was on the air for 48 hours straight.”

The innovation skills he applied to that role are proving useful now as Google and its retail partners are working on an issue of immense proportions and Alegre is again, “figuring it out.” One of the first things he figured out is that Google’s growth beyond core search had created organizational silos that made working with the company challenging. It had reached the point where whether a partner was large or small they could be interacting with as many as 10 different touchpoints. That wasn’t going to work if Google wanted to bring more retailers into the fold and increase the value of the Google Assistant.

“The one consistent ask that we were getting from CEOs at companies was, ‘can we have a relationship partner that can help us makes sense of how Google can really fit for us,’” Alegre said, referring to his role and the retail and shopping team he leads. “Retail and Shopping is an area that obviously is at an inflection point and one where we have had partners coming to us and saying, ‘we need your help transforming in the digital space.’”

That’s what Google is working hard and investing billions to accomplish. And Alegre would be the first to admit it is a work in progress because that is the Google way.

“The reality is there is no master plan at Google. At heart, we are a start-up that has a lot of strengths and assets, but we are trying to solve really big problems for the greater good. That means you have to take certain situations and approach them like a start-up and say, ‘let’s figure it out.’”

Figuring out voice shopping is the type of really big problem that Google founders Larry Page and Sergey

Brin like to tackle, according to Alegre. They want to bring 10X change to solving a problem rather than an incremental tweak. They start with what is a really difficult problem to solve and how can technology be brought to bear to develop a solution, is how Alegre explains the thought process and the approach Google is taking with the Google Assistant, Google Home and integrations with a growing roster of partners.

“We feel we need to be part of the solution for retailers. We want them to be successful because they have been long term partners of ours,” Alegre said.

There is something in it for Google too, of course. The company generates revenues by selling devices and it earns a commission on retail sales it helps facilitate. Alegre doesn’t share specifics, but the amount isn’t large or he wouldn’t be getting asked, “why did you launch this if there isn’t really any money involved?” His response is like that of so many technology entrepreneurs in Silicon Valley who apply a philosophy of building something useful and figuring out later where the money is.

“If you focus on innovation and you can bring value the rest will figure itself out,” Alegre said.

As far as retailers are concerned, figuring out e-commerce and the conversational aspect of it is something they need to happen soon rather than later. Amazon isn’t slowing down and just like with other things it has done, such as creating an expectation that shipping online orders should be free and not take more than two days, shoppers will want to communicate with other retailers the same way they do with Alexa or they won’t bother.

Somewhat ironically, one of Google’s biggest partners is Amazon and it also has a deep relationship with Apple, which is expected to launch its own conversation device called Homepod this spring. Amazon distributes apps through the Google Play store and Google syndicates ads to Amazon.

“In the space we are in, those that you would consider competitors with Google are also likely to be partners,” Alegre said. “We’ve had a more than a decade partnership with Amazon and it is a very positive relationship but at the same time there areas where we are going to compete and both companies are aware of that situation.”

However, unlike Amazon, which has an “us against them” worldview, Google is an open platform when it comes to surfacing information in queries or working with retailers to develop and grow conversational commerce. If it is successful with the latter, it is possible to envision a scenario in which a federation of retailers have a direct connection with Google, access to the Assistant is pervasive via the Home device or other means, more shoppers discover the magic of voice shopping and use it with greater regularity. There is a lot of work to be done to execute such a vision with 2018 setting up as a pivotal year for Google and its partners to make further inroads with shoppers and possibly turn the tide against Amazon, or at a minimum slow its market share gains. **RL**