

# Humanizing Growth Series



Lucas Perraudin

FACEBOOK



Frank van den Driest

Institute  
for Real  
Growth

**F** I'm pleased to have with me today, Lucas Perraudin. Lucas is currently at Facebook, heading up AR and VR for the EMEA region. Today, we're going to talk about commerce. What's going on? Where are we coming from? And where are we going?

## STATE OF COMMERCE

**L** Firstly, this is a very complex topic that has a very high rate of change. If you have a hard time keeping up, you're not the only one. I work at Facebook, and even I sometimes struggle.

Another thing I will say up front is that while there is an evolution of commerce, one behavior doesn't necessarily replace another. They will all coexist over time. And that also makes things more complex.

Let's talk about how people still shop – it's bricks and mortar. People still mostly buy in physical stores. Outside of COVID, the consensus statistic was that around 70% of everything bought was still bought in physical retail. But it doesn't mean that physical retail has been a stable purchase point. The role of physical retail in the customer journey is evolving as we speak.

The conversion rate at physical retail is twice what it was 10 years ago. When people show up in a store, they have a propensity to buy that is twice as high as it was 10 years ago. Why? Because they browse online before. They do a lot of research. And by the time they show up in a store, they're actually there to buy. And this has a lot of implications - having the right inventory at the right price and being consistent in the physical store with the experience that was served online is incredibly important.



In the next two, three years, you will hardly show up at a physical store without knowing that what you want to buy is actually there. This means there is very little chance for substitution. Once you get to the store, you are very likely to buy what you came there for. That exact product.

The implication for brands is a full funnel marketing strategy. You need to be reaching potential buyers with appropriate messages at every stage of the customer journey.

The other implication is the consistency. You need to make sure that what you advertise is in stock. Often channel marketing, sales and supply chain aren't in sync. But now it's really important that what you advertise is actually purchasable within the purchase location that the go-to-market decisions were made in. It's great for marketers, it's great for sales, because once you've done the upper funnel work, you probably are going to sell. Your brand value realizes really well in that channel.

Another way, as we know, that people are increasingly buying is via ecommerce. If we compare ecommerce to bricks and mortar - what are the big differences? Number one, you don't buy as much each time you buy. Why? Because when you go to a mall or to a supermarket, you have to take your car. You have to mobilize yourself. It's a big investment of your life. Once you're there, you buy what you wanted to buy, but you also buy things around it because once you're there and you've made all that effort, you are going to amortize that effort. The consequence for brands is that the average basket size is bigger.

In ecommerce, the purchasing mechanism is in your pocket. You know what you need right here, right now and you can purchase it. If you need something else in two hours, you just buy again. Online buying is laser focused - the average basket size is lower, and the average margin is lower. Because usually, things you sell around the main purchase have more margin. You have to factor all this into how much you pay for getting your customer.

This has a big impact for brands in ecommerce where brand strategies are not full funnel as in traditional commerce - they focused at the bottom of the funnel. You only need to convert once the customer is there. How do you know a customer is in market? When I go and search for a product online, tons of signals are being sent, "Lucas is looking for that product." Then, there are technologies that come into play that try to show me the best product for my need. And if I have a high affinity, I'm going to buy it. Once I decide to do this, I'm going to a shopping cart. And what happens is that, when I'm in that shopping cart, I get shown several other similar products. These products, they might not be a brand that I know, but there are 3000 people just like me that are tell telling me that this product is 5 stars, and the one I wanted to buy (which I saw the advertising for) is 4.8 stars. I'm going to buy that product from a brand I've never heard of, based on the recommendation of my peers. All of the brand's value creation investment is going to the drain, because the brand that brought the customer to the purchase point, and the brand that sells, are different. There's tremendous substitution potential.

**F** How big is this? Can you quantify the difference in conversions from the brand that you intended to buy to another brand, the physical shelf versus the digital shelf on the platform?

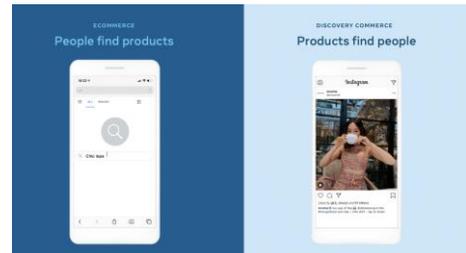
**L** There are no official figures, these platforms are located in silos. They do not share that data. But two things we know 1. It's north of 20%. That's an estimate we get. And 2. The trend is one of the fastest growing trends. If it's 20 right now, it will probably be a third if not more, soon enough.

Of course, people will go back to stores. Physical retail is here to stay. It's over deployed right now. It has more share than that it will have in the future, but people will go to malls and supermarkets. There is a human connection. There is something about the entertainment of going to retail. That is going to stay. It's not going away.

## DISCOVERY COMMERCE

What is going to disrupt the world of commerce massively? Something we call Discovery Commerce. When you hear Discovery Commerce, it means you're buying on a social network. The very important consequence of moving to Discovery Commerce is that intent capture is disappearing. Let me explain what I'm talking about.

Remember, when you go to a mall, you take your car, I know that you're going to buy because you're going there in your car. With ecommerce, you start searching, you are sending the signal of intent, "I am in market. I'm interested in that product, that category." And then, "Start serving me ads/info for brands in that category".



But because most of us are on social sites a lot, we send signals all the time - what we like, what our friends like, what we're interested in. And what happens is that the algorithm knows so many things about you that it will start showing you products for which you have not yet had that conversation with yourself that you need that product. You haven't internalized the fact that you need that product. But you have in fact, sent out many signals that you're ready for it. You are going to discover that product in social network environments, and you are going to convert as you discover it.

That's called Discovery Commerce because the funnel is completely collapsed. By the time it sends you an ad, you make awareness, consideration, preference, purchase in the same millisecond. You're like, "Oh, this is a great product. That's a great offer. I'm going to buy it." Not everyone going to do this but what I can tell you is that with the ongoing improvements capacity of algorithms, it will start sending you more and more precise products.

**F** Yuval Harari has written that the big platforms may know things about ourselves that we don't even know. Do you recognize this? I mean, you work for a big platform. Do you say, "We sometimes know more about people and their preferences than they know themselves".

**L** We would never go into more personal issues but what the algorithm does is formalize things that we probably haven't internally formalized as much. I'll give you a personal example-I have been seeing these nice design boards on Instagram, every day, for the last three days. I haven't specifically looked for them. But I'm doing some home improvement in my kitchen right now. I've been looking for things, looking at design examples.

So, I have formally expressed an interest in the field. But the algorithm is actually very good. This morning it served me a brand with a design I really love. I don't know this brand. It's quite expensive. I don't know if it's worth the price. But the algorithm is getting very precise.

**F** But that's good news for brands versus what you just described in current e-commerce for the Amazons and Alibaba's of this world.

**L** Indeed. I like to call Discovery Commerce the revenge of the marketers, because discovery and purchase happen at the same time. The underlying theme of sales and marketing alignment in Discovery commerce is huge. Basically, you need to think about your marketing as being shoppable. Your assets need to be shoppable. You optimize for shoppability of your assets. But you still need to provide your brand message, your preference message, and your purchase message in the same moment.

The format will change, there will be variations around the format, and things like that. But marketers have a unique chance to create brand value and create transactions at the same time. It's a revolution.

## CONVERSATIONAL COMMERCE

**F** Some people talk about Conversational Commerce?

**A** You've probably heard about a bunch of movements that have been done on the WhatsApp or Messenger side of things lately. It's been in the news. We spend time on social networks, including messaging apps. A lot of people are saying that it's the best way to interact with them. That's the one they're most comfortable with. And it's the way they would like to engage with brands.

You need to work on the experience. Again, it will be about, as for Discovery commerce, what is the tone of voice? What is the relevant type of interactions? What is the format? And more importantly, and the biggest challenge in conversational commerce, what's the service level? Think about TV as one to millions. I'm a brand, I can talk to millions, tens of millions, hundreds of millions at the same time of people, with the same message being broadcast at the same time.

With digital, I have say 20 or 50 assets for a campaign, and the algorithm chooses the most suitable combination of assets depending on who it's talking to. It's still one to many, but more personalized.

With Conversational commerce, it's one to one. If somebody messages my brand, who is going to respond on the other side? What are they going to talk about? How consistent is my messaging going to be versus my overall brand messaging? Am I ensuring the right experience so that all the brand building work that has been done across funnel doesn't get destroyed in the interaction?

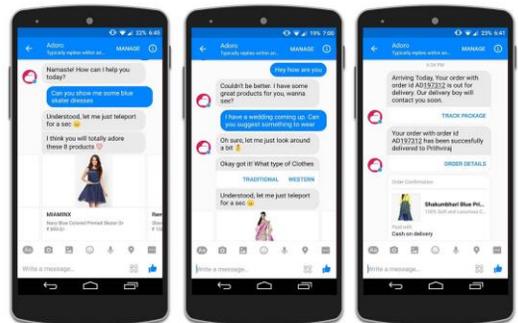
There is a lot of automation being worked out on how to respond fast to customer, make sure you can feed your catalog in there, your pricing, relate to others of your online and offline properties. It's being worked on right now as we speak.

**F** One of the participants asks - Why do the algorithms so often still get it wrong? What's happening there? Consumers don't understand.

**L** There are many things behind that phenomenon. But let me just talk about two. Number one. We as marketers and salespeople always try to do horizontal integration. We try to get data from all the customer touch points we have - Google, Facebook, TV, display networks, in store etc. And then have a single view of the customer. And we have that single view of the customer, so we can see where they've been touched, with what. We know when they've made a transaction, and we can stop stimulating them.

Unfortunately, all of that is not available to the vertical platform. When you optimize for Google, and you feed Google, and you sell in store, you're not telling Google that you sold in store. This will create inefficiencies, because there are siloes out here and we don't openly share customer data with everyone all the time. And that's a good thing from a customer data privacy point of view.

The drawback is the quality of the targeting and personalization is not optimal. And some other channels will keep on serving ads for somebody that is thought by the algorithm to be in market but isn't. Because the key information that that person has made a purchase hasn't reached the algorithm.



## DATA SHARING TO IMPROVE CUSTOMER EXPERIENCES

**F** I just read about an example in China, where Burberry is working with Tencent. They are sharing data. As a customer of Burberry, you can schedule a visit to the store and based on the data and the preferences Tencent have, there will be a range of clothes waiting for you to try. What do you see? What's the big thing happening there? Is that where things are going in the short-term? Is that where people should invest?



**L** Huge topic. Short answer - No.

Why - because there's a whole mega trend around data signals and privacy. To protect privacy, we have to increasingly let people choose what data they want to share. There are increasingly more silos in the data, that is going to prevent or at least slow down this type of initiative.

You can do it in China. I'm not an expert on data privacy laws in China and maybe it is OK there but outside of China it's very complicated. So, I wouldn't jump on this right now.

**F** But aren't people happy to sacrifice their data and privacy for convenience. Isn't that the trade off?

**L** You and I, yes, and probably most of the people on the call. But we know that we are not the general population. We're under 1%. We all live in a bubble. Right now, it doesn't sound like it's the preference of the general population.

We are out to find out in the coming months and years. We know the cookie is going away. We know that a number of things in the industry around opt-in and opt-out are changing third party cookie data in a way that means it will actually vanish over time. There will be other ways to share your data. We don't have the answer. But to answer your initial question, whether brands should invest in this right here, right now, I think you should probably wait to see where this settles to make sure the investments you're making are worth your while.

## AR and VR

**F** Let's move onto AR and VR or as the experts called it XR. What's to come?

**L** Let me talk about the end state. The end state is that there's a race of technologies to replace the smartphone

If you want to talk about XR, the underlying theme appearing is that we are going from a main computing interface- the mobile phone, to a main computing interface- an augmented reality pair of glasses. We have some smart people working with us, who are telling me it's happening. We don't know when exactly, but it is happening. There are still problems to be solved but they're working on it really, really hard.

Once you've integrated this, what does it mean? And stepping back, not just for advertising or marketing, it changes the way humans and computers interface. You used to interface through a phone. Now, with augmented reality, you are immersed into the experiences. I'll illustrate this with an example. News. Not ads, but news.

You want to see the summary of last night's football game? Well, you might see here, and Lionel Messi might be next to you. Sitting next to you, kicking that free kick, and scoring that goal. And you feel like you're in that Barcelona Stadium on the pitch with him. And that's how you live this. The emotional engagement you have with that news is 10 times, 100 times, the one you had when you were watching it on your phone.

Another example. There are floods in Bangladesh. You are in Bangladesh with the people suffering, your level of empathy and emotional implication is incredibly higher than anything you've experienced previously. So that's going to change the way we interact with information.

What does it mean for brands? It means transparency. Going from being told things, to living these things for real, or in an augmented way, where they immerse you into some kind of reality of what they are, is incredibly emotionally engaging. Brands will have to tell emotional stories and will have to be transparent.

If you sell Fair Trade coffee, customers might expect you, in the future, to have live webcams that let customers go and see your people actually working on this. The brand and my glasses are taking me to somewhere in Peru, and I can see that people in the coffee plantation are treated really well, that health and safety is respected. So, I trust you. You have to be that transparent. So that's what XR and AR, augmented commerce will change for us.

At the same time, AI can now show us people who don't actually exist and yet we can't differentiate them from people that do exist. That's the opposite of transparency.

**L** There is a huge ethical mission that comes with these technologies. That will drive social acceptability of the technology. If people don't trust that the tech is transparent, they will not accept the technology.

One of the big things AI companies are working on is social acceptability. How do you know the glasses that somebody you meet is wearing are not normal? When I'm looking at you, I can see your resume, I can see all of your Facebook posts. How do I make sure you are comfortable that we're in a balanced human connection here that I don't know so many more things about you than you do? How do we signal this? What are the standards of safety? All these things, are they right? There are a lot of things on the way to make this safe and socially acceptable. And I know that people in Facebook are working on this as a primary mission.

**F** What is your take on these two incredible forces, technological advancement, and on the other hand, governments and institutions or maybe corporates self-regulating, putting the brake on things because it's just not ethical?

**L** We have to learn to live with more advanced technology and we have to make sure that technology remains here to serve the people. And that's something that regulators have a huge role to play in and that's who I will look to. Self-regulation is possible and good intentions are great, but I think everyone would welcome clearer regulations.

Now, what needs to change practically in the business, organize. Sales and marketing are colliding. Sales, marketing and ecommerce.

There are a lot of companies out there where the sales team, the marketing team and the ecommerce team are different teams. They all have different technologies, they are different agencies, different KPIs etc. These silos can't continue to exist.

Number two, the one thing you can do very practically, very fast is optimize for platforms. Remember vertical integration versus horizontal? I would encourage everyone to go vertical right now. Feed the ecommerce platform, the digital platform, the social platforms with all the assets, product information, pricing data they need to represent you in the most advanced manner. Give them lots of pictures, lots of product descriptions, lots of brand messaging, real time pricing, real time availability.

### HUMANIZING TECH IN ECOMMERCE

**F** Let's say Facebook is a company that is dominated by tech people. What do you do to ensure that what they do, and their work is human centric, and is humanizing the growth of the company, but also of the of their clients?

**L** This is not an official Facebook statement, it's a statement from me. I'm not the right person to talk about Facebook policy. But for me, In Facebook, it's really easy, because Facebook is truly a purpose-driven company. And the purpose of Facebook is helping people get together and empower them to build communities. And everyone at Facebook, when you come in, you're being told this is the mission, everything you will do here will be optimized for serving that mission all the time.

**F** And that helps them to put the consumer or the user front and center when they do the work, is what you're saying?

**L** Yes, exactly. There's an obsession for our mission, our responsibility.

