

MKTG 8604

New Frontiers in Retailing: Magic and Logic

Revolutionizing Retail: Exploring the Potential of the Metaverse for Immersive Customer Engagement and Sales Growth

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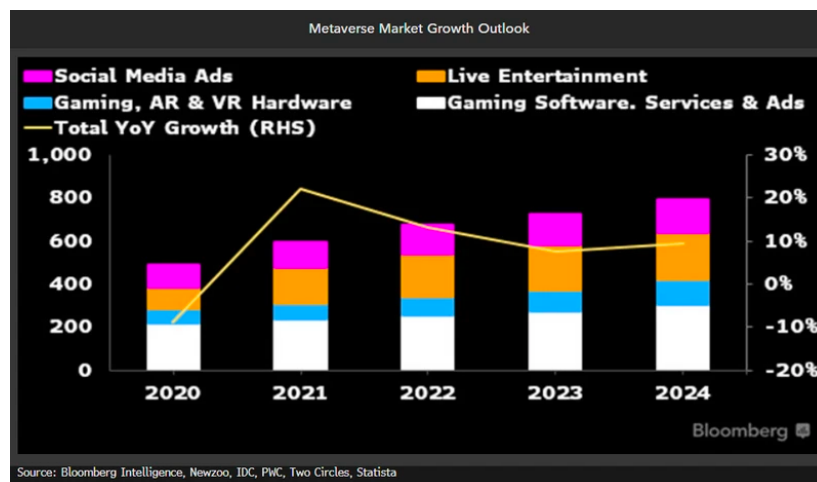
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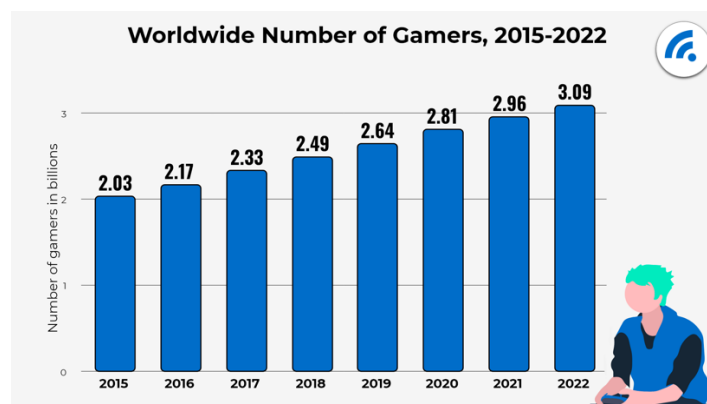
Problem/phenomenon of interest

The world of retail is changing, and the rise of NFTs and the metaverse in 2020 and 2021 has caused a stir among retailers everywhere. From virtual real estate to digital art, consumers are flocking to the metaverse, eager to experience new and exciting ways of engaging with brands. But with so many retailers anxious to ride the wave, the question on everyone's mind is this: could this be the next big revolution in the retail industry? As retailers grapple with this question, many have already taken action, diving headfirst into the metaverse to explore new opportunities and connect with consumers in innovative ways.

The global Metaverse revenue opportunity could approach \$800 billion in 2024 vs. about \$500 billion in 2020. Most market opportunities are within the gaming sector. It is uncertain whether Metaverse can meaningfully penetrate non-gamers' everyday life.



However, according to Braodband Search, there are still over 3 billion gamers worldwide. This presents a significant opportunity for retailers to tap into a vast and growing consumer base, many of whom are from the younger generations. By catering to the needs and preferences of this lucrative market, retailers can position themselves for success in a highly competitive landscape.



The NFT market, which is closely related to the metaverse, has also garnered significant attention in recent times. However, despite the spotlight, the overall market size of NFTs is still considerably smaller than that of the gaming industry. This suggests that while NFTs hold immense potential, they are not yet as widespread as gaming and may take more time to gain traction among the general public.



But how can retailers truly leverage this exciting new space for themselves? In this paper, we'll delve deep into the world of NFTs and the metaverse, exploring the strategies and best practices that retailers can use to thrive in this dynamic and ever-evolving market.

Thesis I – To acquire new customers and enhance overall customer experience

Retail companies can leverage the metaverse to capture the attention of a wider audience. Based on our interviews with Nike, the brand sees the potential of a massive new generation of younger gaming clientele who are not currently their customers. As a company whose core identity is sports, Nike intends to expand the definition of sports to include e-sports/gaming.

Metaverse can also be used to enhance engagement with existing customers. By creating virtual showrooms, interactive events, and personalized shopping experiences, retailers can engage with customers for longer time. Retailers can create social shopping experiences in the metaverse, allowing customers to shop together with friends and family in a virtual environment.

Several companies are already utilizing the metaverse to offer unique and innovative experiences for their customers. For example, Sephora's Virtual Artist and L'Oreal's Virtual Makeup Artist both allow customers to try on makeup virtually, using augmented reality technology. This not only enhances the customer experience but also increases the likelihood of a sale by removing the need for customers to physically visit a store or try on products in person.

Studies have shown that customers who experience a product in VR or AR are more likely to buy it, with a Greenlight Insights study finding that VR experiences can increase the likelihood of purchase by 135%. Additionally, according to Accenture, 64% of consumers would be more likely to make a purchase from a brand that uses VR or AR to enhance the shopping experience. These immersive and personalized experiences can lead to increased engagement and satisfaction among customers, which can in turn drive customer loyalty and sales. Companies that invest in VR and AR technology are likely to see a 70% increase in customer satisfaction, according to Deloitte. The metaverse also provides brands with the opportunity to create a sense of community and shared experiences, which can further enhance customer engagement and loyalty. As David Baszucki, CEO of Roblox, notes, "the metaverse is the future of customer engagement." By leveraging the unique capabilities of the metaverse, brands can differentiate themselves from competitors and build stronger relationships with their customers.

Similarly, luxury goods companies such as Gucci are using the metaverse to offer immersive and interactive virtual showrooms where customers can see and interact with their products in a virtual space. These experiences allow customers to explore the brand's products in a unique and personalized way, enhancing the perceived value and exclusivity of their products.



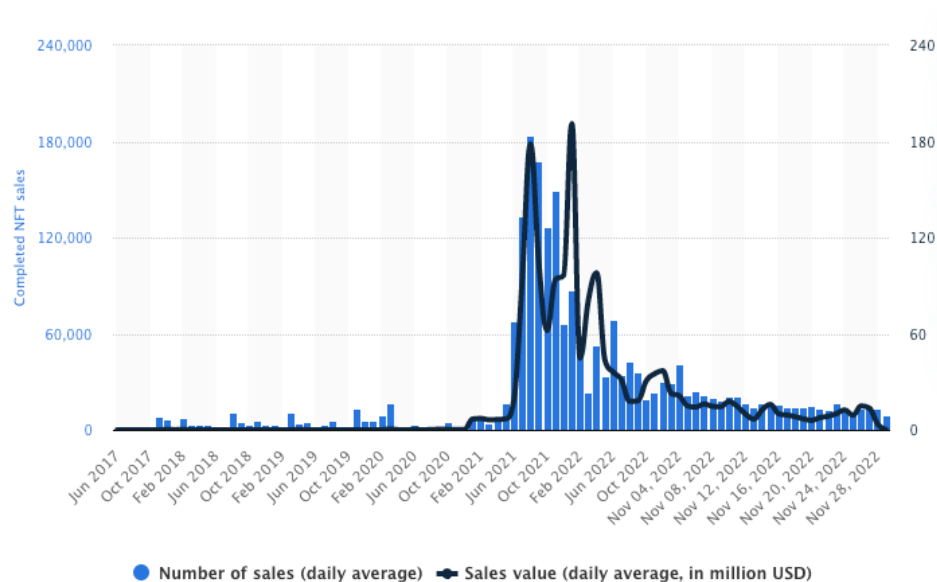
LVMH collaborated with UNICEF to launch its first NFT as part of a fundraising effort. The NFT was sold at a charity auction, and the winning bidder was also given a physical watch. The NFT served as proof of ownership for the watch and included an animation of the watch being assembled. This is an example of how NFTs can be used to add value to physical products and enhance the customer experience.

Thesis II – To diversify the revenue stream and provide revenue hedge against sustainable fashion revolution

The metaverse offers a unique opportunity for retail companies to generate additional revenue through the sale of virtual goods and services. Brands can create virtual merchandise, limited edition items, or even digital services that cater specifically to the metaverse environment. By offering these exclusive products or experiences, retailers can capitalize on the growing demand for virtual goods.

Nike's acquisition of RTFKT is a prime example of how a company can use the metaverse and NFT to generate revenue. RTFKT has generated about \$200mm in revenue so far. D&G, Tiffany, Gucci and Adidas also each generated over \$10mm from sales of NFTs.

However, it is important to recognize that these revenues are mostly generated under the hype of NFTs in 2020 and 2021. For retailers looking to generate sustainable revenue streams from the metaverse economy, the utility of virtual goods is a key consideration. While collectable NFTs have gained significant attention, their long-term value is debatable, as seen in Statista's NFT trading price index, which has almost dropped to pre-bull market levels. By creating virtual goods that have practical uses within the metaverse or can be traded to physical goods, retailers can have an advantage of building a loyal customer base and establishing themselves as a key player in this rapidly evolving market.



Metaverse also offers potential revenue hedge against the sustainable fashion revolution. According to TechCrunch, an estimated 30% of all manufactured goods end up as waste within months of rolling off the production line every year. With the ongoing sustainable fashion revolution, metaverse/NFT/ARVR technology offer solutions to combat waste from “one-time” garments. Digital fashion offer clothes without production, pollution, waste and travel. When influencers and celebrities only wear the piece once for photoshoots and video production, they can opt in to wear digital fashion garments with AR and VR technology and still be able to

produce stunning pictures and videos. XTENDED iDENTiTY is an emerging digital fashion brand built on this thesis.



XTENDED iDENTiTY's digital garment (above) can be used for photoshoots and video production to reduce waste

Thesis III – To predict consumer trends and optimize inventory planning

The metaverse provides a wealth of data on user behavior, preferences, and interactions that can be invaluable to retail companies. These data are a low cost and low risk way for retailers to understand consumer preferences and trends. For example, retailers can easily run AB testing in the digital space to precisely understand each demographic group's behavior and preference.

According to a study by GfK, consumers are more likely to behave authentically when playing metaverse games, as they feel less pressure to conform to societal norms. This authenticity may result in more accurate data on consumer behavior and preferences, which can be used to predict trends and optimize inventory.

The decentralized nature of the metaverse may make consumers more willing to share data. In the metaverse, data is not owned by a single entity, but rather is distributed across a network of users. This decentralization may lead consumers to view data sharing as less risky, as there is no single entity with control over their data. Additionally, consumers may be more

willing to share data in exchange for access to exclusive content or experiences within the metaverse.

One example of a pilot brand utilizing metaverse to better manage data is Nike with its collaboration with Roblox to launch a virtual retail experience, "Nike Land," in 2021. The immersive 3D environment allowed users to shop for Nike products and provided Nike with an opportunity to collect customer data more effectively than traditional channels. As users interacted with products and moved around the virtual store, Nike was able to collect information on customer preferences, engagement patterns, and purchasing behavior.

The metaverse also helps companies improve their inventory planning process. Nike, for example, has launched its Web3 platform .SWOOSH, which enables customers to co-design and co-produce products within the metaverse. This approach provides valuable insights into consumer preferences and allows Nike to better understand which products are likely to sell well in the physical world. By leveraging these insights, Nike can more accurately target consumer tastes and reduce the inventory burden on the company. By using the metaverse to inform their physical product development, companies like Nike can stay ahead of the curve and build stronger relationships with customers in both the virtual and physical worlds.

Risks and other considerations

Despite the exciting potential of leveraging metaverse in retail, there are several concerns and risks that businesses must be aware of.

First, the true web-3 metaverse experience requires high entry barriers for ordinary consumers. They need to own crypto wallets and understand how to conduct crypto transactions. In response, Nike has developed the dot swoosh brand that allows consumers to use debit card to purchase virtual items and engage in metaverse. By contrast, RTFKT is for advanced crypto users to conduct true web-3 transactions and interactions.

Second, retailers must consider the utility of virtual items for consumers. For most people, NFT and virtual items do not carry value. Nike recognizes this challenge by providing supplemental physical items for consumers along with NFTs. Dot Swoosh members who received airdrop NFTs can go to physical stores to collect AirForce posters.

Last, related to the utility of virtual items, interoperability is another challenge retailers need to watch. Consumers with virtual items desire to use them in multiple platforms across various technology infrastructure frictionlessly. To address this challenge, retailers may need to collaborate with platform developers, game creators, and other stakeholders in the virtual goods ecosystem to create standards and solutions that enable seamless interoperability. This could involve adopting open standards, developing application programming interfaces (APIs) for easy

integration, or creating cross-platform partnerships that allow virtual items to be used across different environments.