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RETAIL & ECOMMERCE

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TECHNOLOGY

Snap 'n' search: a new era in digital product discovery?

Artificial intelligence is powering a trend in how consumers search for products online. While this is a natural opportunity for some brands, others will need to work harder to ensure their products are optimised for visual search

Jon Axworthy

A picture paints a thousand words. And so does a screenshot, especially when shoppers are gazing at the latest pair of basketball shoes gracing the feet of their favourite influencer.

This is the simplified premise of visual search, regarded by some as the evolution of traditional keyword searching, as it renders the world instantly searchable and infinitely shoppable, from a piece of jewellery on a celebrity's finger to a sofa on the set of a TV chat show.

Words can be awkwardly phrased, misspelt and sometimes a user won't even know how to describe what they're looking for. But those limitations are lifted when searching visually – just take a picture, feed it into a visual search engine and you'll be directed to the online retailer that will get it to you in the shortest time and at the best price.

The technology works using a combination of computer vision, which enables mobiles, tablets and laptops to 'see' (as with Face ID or QR-code scanning); and image recognition, which allows the digital eye to 'understand' and categorise what it's seeing. As with all machine learning, the understanding comes from training.

To find that pair of basketball shoes from your camera roll, engineers will have trained an image search engine on hundreds of thousands of images of basketball shoes in varying styles, sizes and colours. The AI engine will then study and learn from every pixel in every image so it can refine and expand its understanding over time.

"Leveraging visual search effectively involves a combination of technology integration, user-experience design and strategic marketing," says Blake Morgan, author of The Customer of the Future.

"It is a threat to retailers that aren't considering how visual the modern customer is. If they don't build customer experiences with visual search, they stand to be left behind because research shows that 62% of millennials like the ability to search visually; they are visual learners and that's how they prefer to shop."

One of the greatest opportunities in visual search, according to Katarzyna Dorsey, founder and CEO of Yosh.AI, is that "it allows brands to respond to the way people want to shop in an inventive and impactful way and achieve significantly higher conversion rates."

Images By Tang Ming Tung via Getty

Take the type of shopper categorised as a 'spearfisher' because they are laser-focused on buying one specific item.

"Visual search could be so attractive to this group because it reduces friction; no typing, no scrolling, just one button pushes and they have their item," explains Dorsey.

Similarly, a visual search engine might direct users to a website for their product even if it's unavailable. That user might be tempted to purchase an alternative, especially if the website is sophisticated enough to immediately engage them in a recommendation carousel, showing similar or related items.

The technology can also inspire, for instance, an image of basketball shoes to return the image of an entire outfit. This might prompt the user to buy even more items than they originally intended.

Some products are already optimised to be visually searched, like basketball shoes, for example, which are already branded with a logo that will provide little room for error for a well-trained visual search engine.

But products with more generic, or fewer distinctive, features are more open for interpretation, which could lead to the product that features in the user's visual search being bypassed for a lookalike.

The visual search for a sofa might return several near-identical sofas, at different price points. These can draw the buyer's attention away from the original and towards one of the substitutes.

This can be a problem for retailers that rely on more traditional brand interactions, but there are some measures they can take to increase the chances of their specific products being recognised by AI.

Crystal Carter, head of SEO communications at WIX, says: "Retailers need to have a solid understanding of how visual searches are informed." To identify products, AR relies on the ability to recognise "billions of entities, like logos, brand colours, landmarks, text and named objects." These all need to be visible in a product's online display if it is to be picked out by AI in a visual search.

"For instance, if you're selling a teapot, make sure the online image shows the handle and spout, ideally in profile. If you have an in-store display, ensure logos are given high priority, any text is unobscured, and objects are well-lit and well-staged. Busy backgrounds are a no-go."

Where retailers might struggle is imagining use cases where visual search can be leveraged to bring people in-store. After all, how do you bring the technology to bear when you are already surrounded by shelves crammed with physical products? The answer could be to purposefully empty those shelves.

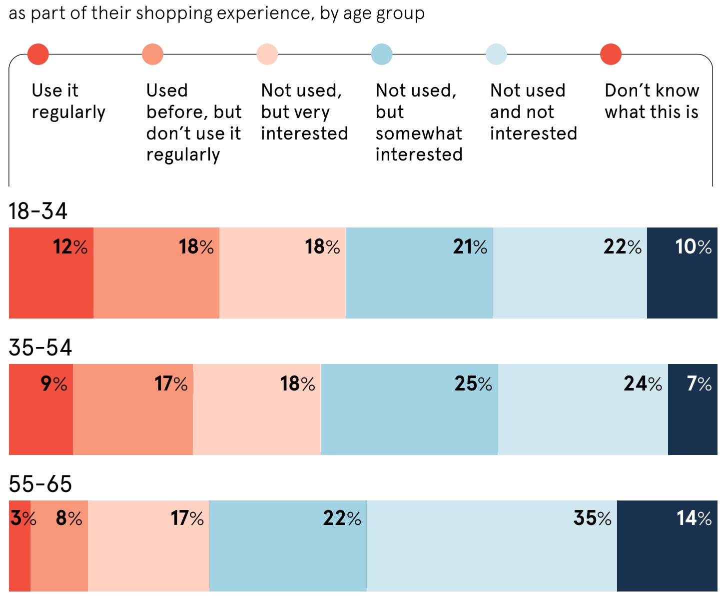
This is what footwear brand Eobuwie did when they wanted to create a unique in-store experience, hiding all their product in a stockroom, leaving a clean, future-fit retail space with just tables and tablets where customers can search for the shoes they want. Once chosen, their shoes are sent from the stockroom, via racking, appearing behind the cash desks in a kind of retail theatre.

Visual search can move this concept on to prompt customers to walk in from the street to find a match in-store. If the item isn't in stock then the customer will already be in the store, making an alternative purchase a possibility.

What is clear is that regardless of whether visual search is viewed as a threat or an opportunity, the reaction to the technology needs to be similarly proactive. It may be the next step in digital Darwinism that retailers must actively prepare and optimise for.

YOUNGER SHOPPERS ARE MOST INTERESTED IN VISUAL SEARCH

Share of adults interested in using visual search as part of their shopping experience, by age group

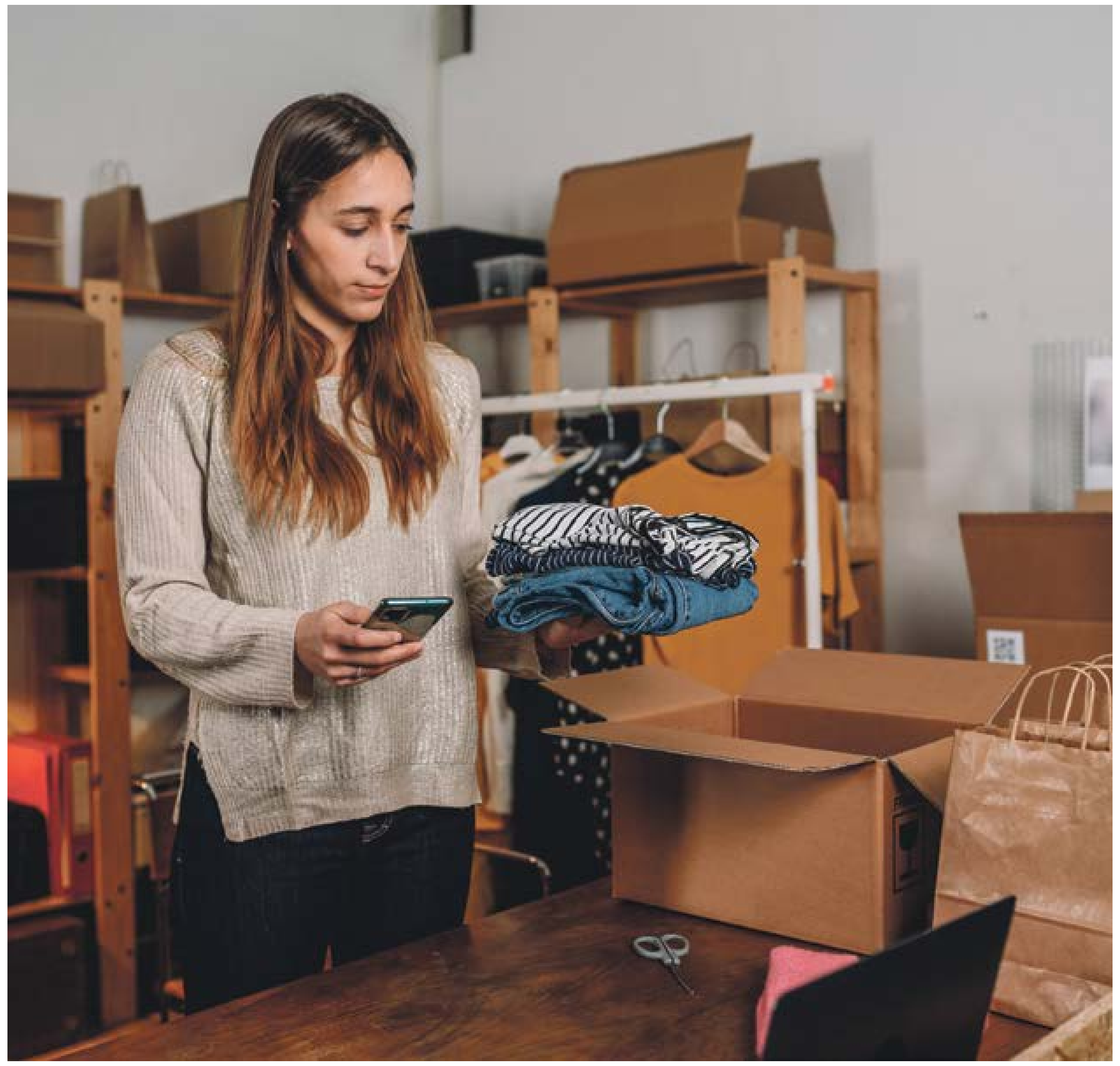


Insider Intelligence, 2022

Commercial feature

Retailers can solve their returns problem – and the answer lies in existing data

The growing number of returned items is having a disastrous impact on many retailers' profits. But tools and insights are becoming available to help solve this challenge



Returned items have become a painful problem for retailers, but many don't yet know how to tackle it. Return rates in fashion and clothing, for example, range from 40% to an eye-watering 70%, according to 2022 research from AlixPartners. This costs retailers billions and has destroyed profits for many.

Rocketing return rates are a symptom of the shift to online shopping, which moves the changing room from store to bedroom. Customers now routinely order multiple sizes, colours and fits online, keep one item and return the rest. Online shopping may allow shoppers to capitalise on recent trends, such as wardrobing – wearing an item once then returning it – and staging, whereby an individual posts a picture wearing an item on social media before returning it.

Retailers must foot the huge bills for servicing and reselling all these returned items. And, while acutely aware of it, many have yet to tackle the deeper systemic issues that cause high return levels. But more sophisticated data use can repair much of the damage. Retailers mostly have this data already, and it doesn't require massive investment in technology.

Why returns are so destructive

Brian Kalms, digital partner and managing director, Europe retail sector, at consultancy AlixPartners says: "The ability to return items gives customers confidence to buy online and change their mind when they receive the product. But retailers struggle to make that cost-effective. They assumed going online would save money. But profits have fallen due to shipping and returns costs complexity and range expansion."

Returns destroy profits because they involve extra inventory, warehousing, shipping, packaging, labour and refurbishing. Kalms says, in his experience, only around 75% of returned items make it to resale, and many of those are discounted because they are no longer in fashion or season. This level of waste can be disastrous for retailers' profit margins and carbon emission targets too.

What retailers can do

Removing return policies would make retailers uncompetitive. So, the challenge is to reduce and recondition return behaviours without annoying customers or depriving them of choice.

"Some have responded by tightening the returns window, or even charging for returns," says Kalms. "But those options feel like they are punishing the customer and should be a last resort. Others have tried partial solutions, such as technologies that identify worn or washed items, accelerate refurbishment, speed the returns process, or identify high-returning or fraudulent customers."

Some have also built solutions that give them post-season information such as return rates by size, style or region.

"Post-season analysis is useful but better results come from those who take a more disruptive approach and undertake cross-functional initiatives to better understand what's happening and act while the product is live," says Kalms. "Few retailers have built systems with this in mind. Most have focused technology investment on forward logistics – moving goods from manufacturer to customer.

"But identifying the correlations between returns and product, geography, pricing, and customer and supplier behaviour – these are complex data problems retailers are yet to solve."

Such analysis can reveal many subtleties, such as:

- The difference between a stager posting to a few friends and one who is a popular influencer promoting the product.
- A certain size returned often in one region can be redirected automatically, via the return label, to another area, where it is selling quickly.
- One fabric returned often can be removed from sale automatically while you investigate the quality.
- A customer who regularly orders three sizes but always sends back smaller ones can be discouraged or make smaller ones unavailable to them.

Another approach is giving premier customers free returns, while non-premier customers pay for them. But not many companies scientifically test and compare effectiveness for those two options, or other variants.

The role of stores and omnichannel

For an omnichannel retailer, stores often become a place for people to see and try items before buying them online; and to click-and-collect or return items. Stores may also create a brand halo effect for passing customers.

"Evaluating stores' overall contribution to profits in the omnichannel environment requires a better understanding of how these factors integrate with other information, such as customer profiles in that region," says Kalms. "Answering all these questions often requires sophisticated information, which is a challenge. Typical reporting systems do not usually take all this into account.

"But, in our experience, some questions are not that complex—the data is mostly there, and retailers just struggle to pull it together. They need to access, blend and analyse the data in a way that answers these questions and provides a more complex understanding of store economic value, for example."

> **Returns have a massive impact on your profit and loss, and the C-suite needs to manage them**

The roles of customer segmentation and AI

Such an approach also drives a much clearer understanding of product performance and customer behaviour. It ideally generates a profitability score for each customer – accounting for all factors – buying a specific product, such as a shirt. You can then segment each customer by this score. Barring low-profit customers is usually not possible. So, the aim is to improve their profitability by tweaking individualised experiences.

This requires huge data pools, especially for retailers with thousands of products and thousands or even millions of customers. Such companies have battled to see the trends and react quickly enough.

Fortunately, artificial intelligence (AI) can come to the rescue by helping you understand the interrelations between relevant factors much more quickly, says Kalms. AI platforms such as Palantir Foundry are built to identify trends in huge datasets and automate responses, he says.

AlixPartners, in partnership with Palantir, is already helping some of the world's largest retailers optimise their returns operations in this way.

An available source of profit

Returns have a massive impact on your profit and loss, and the C-suite needs to manage them, says Kalms. "Greater understanding of these interrelationships should help improve your bottom line," he says. "It may not seem an easy source of profit, but it is available without having to grow your top line, find new products and markets, or redesign your supply chain. So if your profits are underwhelming, you should be going at this right now."

AlixPartners is working with senior executives at leading retailers around the world to solve these problems. "We are helping build the tools and insights that enable more informed decisions," says Kalms.

For more information please visit alixpartners.com

AlixPartners

FREE TRIALS

What makes a good free trial?

The chance to 'try before you buy' usually appeals to consumers. But how can firms turn the samplers into long-term subscribers?

Rohan Banerjee

Against the backdrop of the cost-of-living crisis, a free trial is a customer-acquisition model that more companies might want to consider.

With people increasingly mindful of how they spend their money, a free trial is an opportunity to provide proof of concept, says Roz Sedgwick, marketing director at FT Professional, the B2B news and analysis spinout from the Financial Times. "People are always more likely to buy something they know will work," she says. But firms should be wary of giving away too much of their product or service for nothing. A free trial that converts a 'sampler' into a repeat customer depends on hitting a few key marketing high notes and some important operational precautions.

For Chris Wade, chief marketing and product officer at telecoms software firm CircleLoop, the best free trials have a "simple onboarding process and a flexible approach".

CircleLoop does not require customers to provide payment details during its seven-day trial. "The focus," says Wade, "should be getting the customer's eyes on the product, not collecting personal information. That can come later."

Danielle Haig, a business psychologist and managing director of DH Consulting, agrees. The most effective free trials, she says, should be "framed as risk-free. This language emphasises safety and the lack of an obligation. It stresses that the consumer can get right away from the trial if they want."

People tend to be more inclined to make longer-term commitments, Haig explains, if they can do so on their own terms. "Being able to opt out offers a sense of control and openness which builds trust with a product or brand," she says.

Sedgwick says that free trials should last long enough for users to explore and appreciate the value of a product or service, but not so long that they take them for granted. The FT Professional trial was for a month but has moved to what she feels is the "sweet spot" of two weeks.

For Sedgwick, there's a balance to be struck. "You need to create a sense of urgency but don't keep spamming people about it."

Rather, she says, the focus should be on helping people to understand the product or service. "Show them what can be done and where to find it. Customers will be aware of the end date." Sedgwick also suggests that companies hold back features of their products or services during the trial so that users are curious about what more could be achieved if they upgraded to the full version.

There is the risk that businesses could be exploited by tech-savvy consumers. Oscar Wall, general manager, EMEA, at subscription software company Recurly, admits it is "not necessarily common, but people can create multiple email addresses and sign up for a trial more than once."

But firms can mitigate that risk by requiring a two-step authentication login, limiting free trials to one per IP or actual household address or restricting the functionality of a product or service during the trial.

"A media company might want to stop trialists from sharing content, or a software company would limit what could be downloaded. The key is to ensure the trial doesn't give people everything they want. This requires them to continue using the product for longer."

Are there circumstances when a company might want to offer a free trial more than once? Wall says it depends on the product or service and the timing. "You need to let enough time pass before you consider another trial. If it's a monthly subscription, you could allow a second trial a year later. That's a second attempt to get a customer."

But Wall warns that "exclusive content", potentially linked to an event, should never be included in a free trial. "If you were advertising a subscription to do with the World Cup or the Olympics, for example, you need to make sure people don't just sign up for that and cancel immediately after it's over," he explains. "It's better to secure customers before those events."

Haig says that testimonials or tangible results "can be persuasive, as it leverages the psychological principle that people often do what they see other people doing."

LinkedIn offers different premium versions for jobseekers and recruiters. Users can sign up for a free month's trial once every 12 months. And its premium versions are often marketed alongside key statistics; the site claims that LinkedIn premium members are more than twice as likely to get hired, on average.

Ultimately, says Jeremy Stern, chief executive of branding agency PromoVeritas, whether a company should use a free trial will probably come down to brand maturity.

Free trials, Stern notes, are good for companies "looking for the low-hanging fruit. But you need a focused cherry picker for those on the top of the tree. Phone calls, exhibitions and direct mail might be more appropriate for those people."

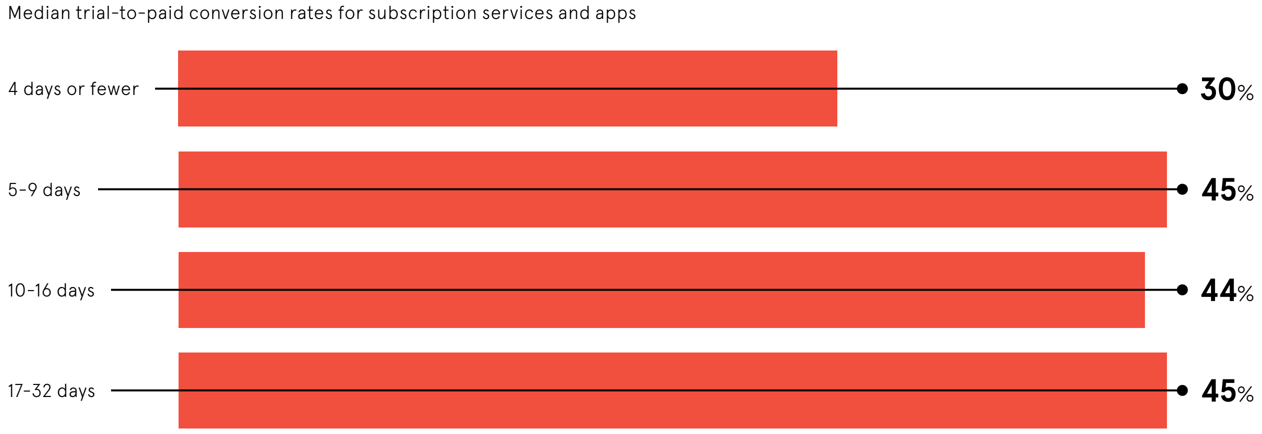
More established firms, Stern suggests, might want to offer more of their product or service for the same price because consumers have a preconceived notion of the value attached to it. "More for less, or 20% extra offers," Haig agrees, "will appeal to consumers seeking value for money. This is especially effective for products used regularly or consumed quickly."

Newer companies might use free trials to announce themselves to a market. "Giveaways," Haig says, "are more effective in attracting new customers or drawing attention to a new product. They can create a sense of excitement. From a business psychology perspective, the effectiveness of the strategies is influenced by factors such as the framing of the offer and the consumers' awareness of the brand." ●

> The focus should be getting the customer's eyes on the product, not collecting personal information. That can come later

SHORT TRIAL PERIODS ARE LESS LIKELY TO RESULT IN CONVERSIONS, BUT WATCH FOR THE PLATEAU

Median trial-to-paid conversion rates for subscription services and apps



RevenueCat, 2022

Commercial feature

How retailers can build loyalty through engaged communities

To thrive in a world where authentic brand experiences matter, brands should draw inspiration from emerging competitors who succeed by understanding communities and internet fandoms

For decades, most retail businesses have prioritised selling products, often in the shortest time frames possible. Even during pure brand-building exercises, it has been hard to resist the temptation of swiftly adding transactional elements.

Among younger buyers – particularly those aged in their teens or twenties – this fundamentally sales-geared approach is falling short. A growing distrust of large businesses, and of lofty marketing messages and hard selling, is pushing these generations away. In response, retailers are re-examining how to engage with them.

"Gen Z has come of age in an interconnected yet tumultuous world, inundated with branded content and advertising. They naturally exhibit scepticism towards cultural shifts machined by large corporations. And, instead, they gravitate towards smaller communities where they can connect with like-minded individuals," explains Matilda Kivelä, senior creative and brand strategist at the technology consultancy Reaktor. "This presents a fresh set of challenges. If brands focus on transactions and overlook the communities and connections that gen Z seek, they risk losing relevance."

Community evolution

These new realities are driving a significant evolution in retail. While many businesses have already augmented product offerings with services and experiences, they are now having to offer a deeper sense of belonging. Instead of being simple providers of products, brands must now learn to play the role of facilitators, connectors, peers or influencers. In practice, that means building, nurturing and engaging with communities.

Such communities are emerging in a range of online locations. These include social media platforms and digital campfires such as Discord and Reddit, which provide forums for in-depth discussions on niche topics. In a post-pandemic world, brands can also win by facilitating in-person events for communities: influencer-led run clubs or meet-and-greets with social media personalities harness the natural ability of creators and influencers to engage with their audiences on a deeper level.

Successful engagement with these groups demands a strategic understanding of the dynamics at play: passions, motivations, concerns, likes and dislikes of younger consumers. This often presents a steep learning curve.

Learning from fandoms

The most successful retailers in this space examine online fandoms and other highly engaged communities to learn what works and why – and mimic it. "Retailers should look to existing fandoms and decode their inner workings," Kivelä explains. "Fandoms are rooted in goodwill, culture and community, rarely on transactions. As such, they offer valuable lessons in community-building. Think of Beyoncé's Beyhive or the friendship bracelets Taylor Swift fans craft for one another. How could brands build such cultures?"

Similarly, retailers can learn from businesses that have started from strong and dedicated communities. Glossier, originally a beauty and skincare blog, took a deep understanding of its audience and created products that answered the community's real needs. By building digital campfires around the brand – both on Slack and in the brand's blog's comment section – it built a cult-like culture well before any product launches.

Many retailers have, though, struggled to make headway in these settings, often partly because they have appeared far too transactional. When they attempt to clinch a sale in these spaces, pushing a product too hard or promoting superficial claims, it risks a backlash.

Meaningful engagement and integrity

Honest and meaningful engagement represents a far better approach. "Brands have to be willing to focus on close-knit and trustworthy community engagement, concentrating on quality interactions," Kivelä adds. "Younger consumers will increasingly look for brands to cultivate loyalty through actions that extend beyond mere transactions: goodwill, complimentary products and engaging experiences. Confidence must be earned, not bought."

Key focus areas include moving from an obsession with search engine optimisation and pushing as much product as possible – and towards storytelling and open discussion, characterised by thoughtfulness and transparency. Brands must be prepared to pose challenging questions to themselves publicly and ask for feedback at regular intervals. They must listen and learn from the communities they are looking to reach.

> Gen Z naturally exhibits scepticism towards cultural shifts machined by large corporations

"It's essentially a classic brand-building and marketing exercise but for a new demographic, with heightened demands for authenticity and self-development. Retailers should reflect on what they can offer beyond their core products, and if their brand ethos is robust and credible enough to resonate with communities," Kivelä explains. "Building an authentic connection with audiences goes beyond the product; it's about creating a compelling narrative that aligns with community values and aspirations."

Community development in practice

As well as taking the time to study the groups they want to reach, where they might find them, what they value and how they communicate, brands need to ask themselves the difficult questions about what kind of role they intend to play within those communities. Will they take on the role of a facilitator, connector, peer or influencer? They can then act methodically to build or grow tightly knit, socially engaged, passionate communities that correlate with their fundamental ethos. On an ongoing basis, they must be highly willing to adapt from the engagements and develop their own culture accordingly.

"Tightly knit communities are a highly valuable currency that brands can use to develop loyalty and subsequently bypass consumers' inherent distrust for commercialism. Ultimately, communities can tie consumers to brands in an emotional way," Kivelä notes.

Multiple retail brands globally – from Adidas to Tommy Hilfiger – are already collaborating with Reaktor to drive loyalty in new ways. Reaktor's work ranges from branding to digitisation and building next-generation customer-focused digital services and products. It helps retailers establish and manage communities with a variety of tailor-made tools – prioritising meaningful, authentic interactions that are backed with honest communication and memorable storytelling.

Looking ahead, Kivelä expects retailers will face ever greater demands from younger consumers. "To remain relevant in this shifting landscape, retailers must understand how these emerging consumers engage with the world. Brands must go beyond viewing consumers merely as customers and instead, recognise them as individuals with aspirations and emotional desires – and to be on the lookout for emerging fandoms, niche communities and developing undercurrents to understand what's next."

To find out about building loyalty through effective community engagement, visit reaktor.com

Reaktor

Justin Paget via Getty

GUMTREE BY THE NUMBERS

11.6m
unique visitors per month

76m
visits per month

1.7m
live listings across the site per month

23%
reach of online adult population

Comscore, Gumtree, 2020

CORPORATE COMEBACK

Learning again how to go it alone

Gumtree is rediscovering its roots and the joys of independence, after its long and complex split from eBay. But the journey hasn't been easy

Sam Forsdick

Earlier this year, Gumtree invited its entire workforce to its London HQ to commemorate independence day. But the event had nothing to do with the US and its founding fathers. It was held to mark 18 months since the classified ads business completed its complex and difficult secession from previous owners eBay and Adevinta ASA.

The celebration was well earned, according to Gumtree's CEO, Hugh Hurley. It signalled the end of a tumultuous period for the business, during which it went through two sales, overcame a regulatory challenge and set up new departments.

"We had 18 months to build all these functions while continuing to serve our customers and evolve the business," he recalls. "It was an incredibly challenging time, but it's something I'm so proud of."

Gumtree found itself facing this tricky situation after the breakdown of its acquisition by Norwegian classifieds ads group Adevinta ASA in 2020. Gumtree had been part of the eBay group since being acquired by the US ecommerce giant in 2005 when Adevinta submitted its $9.2bn (£7.3bn) bid for eBay's classifieds businesses, including Gumtree.

But the Competition and Markets Authority (CMA) vetoed the purchase, saying that the deal would limit consumer choice because Adevinta already owned Shpock, another online classifieds marketplace in the UK. With the structure of the transaction also giving eBay a 33% voting stake in Adevinta, the CMA determined that eBay's only main rival in the country would be Facebook Marketplace.

The regulator ordered that Shpock and eBay's UK Gumtree business be divested before the acquisition could be approved. Adevinta agreed to the terms but, while Shpock soon found a buyer, Gumtree did not. In effect, it was left in limbo for six months, uncertain who its new owner would be and subject to hold-separate orders – meaning that, while it was owned by Adevinta, it had to be run independently until it could be divested.

"It was a difficult time," remembers Hurley. "As a leadership team, we were going through a pretty aggressive sales process and continuing to deal with the impacts of Covid, so there were quite a few challenges to handle."

Despite all this, Hurley remained optimistic about Gumtree's future. "We weren't sure who our new owner would be, but we saw this as a positive," he explains. "The priority from the CMA was to find an owner that would invest and give us the scope to evolve as an independent business."

This regulatory diktat enabled Gumtree to redefine its purpose, mission and strategic goals free from any parental interference. "Being a small part of a big corporation meant that Gumtree had often felt that its true potential wasn't fully recognised," Hurley says. "The opportunity to be independent was liberating. It put us in control of our destiny and gave us the excitement and energy to work through that taxing transition period."

> **The opportunity to be independent was liberating. It put us in control of our destiny**

Separating from eBay was no easy task. Gumtree was subject to 60 transition service agreements (used to ensure a smooth divestment and meaning that the seller must provide continuing support) and, having been part of a large group for 15-plus years, much of its tech stack was centralised. Gumtree's data needs were handled by an eBay team in Shanghai; the firm relied on information supplied by eBay's central analytics department; and its finance, HR and building management work was all done by eBay teams.

"Having worked as part of larger corporations, you realise how heavily they rely on these central teams," Hurley says. "It's one thing to turn off your dependencies from a technical perspective, but to build a fully functioning business from a standing start is another matter entirely."

The first step, Hurley jokes, was to recruit the recruitment team. It relied heavily on contractors initially because time was of the essence, with 70 people brought in over the transition period. Gumtree's LinkedIn presence, intranet and employee branding also had to be recreated to give the firm its own identity back.

Hurley recalls that the workload during these months was "incredibly heavy". One of the most stressful moments came when the website had to be moved to the firm's own cloud environment.

"We're one of the highest-traffic websites in the UK and we had to lift our site and move it to Google Cloud," Hurley explains. "This involved taking the site down for the first time in two years as we switched it off, started the transfer and turned on the applications in the new environment."

The business stayed offline for two hours longer than planned, he says, adding that "the entire organisation was working through the night and during the weekends. That was a particularly tense period but an incredible way for us to come together as a business."

He acknowledges that the extra work required by the transition asked a lot of the firm's employees: "We were incredibly lucky; the passion they showed and their willingness to rise to the challenge."

At regular all-staff meetings it held to keep everyone updated on progress, the leadership team repeatedly assured employees that this level of stress would not be the norm under its new way of doing business.

"We leaned into the idea of the light at the end of the tunnel and focused on the opportunities that would come," says Hurley, who had to adapt his leadership style to meet the CMA's tight deadlines.

"When you face extremely technical projects that need to be delivered, you must be far more direct and task-focused," he explains.

Now that Gumtree has been spun out successfully, having been bought by a consortium comprising Novum Capital and O3 Industries at the end of 2021, Hurley has been able to refocus the business.

"One thing we lost under eBay was our connection to communities," he says. "I want Gumtree to support local trading by making the process simple, safe and enjoyable. This next phase is the exciting part."

INSIGHT

'A priority for brands will be developing a better understanding of their customers'

As we wrap up the year, it's a good time to look back on the market. The UK's biggest ecommerce event, eCommerce Expo, took place in September and had over 300 content sessions which provided a comprehensive overview of this year's trends and what retailers and B2B ecommerce businesses have on their radar for 2024.

A priority for brands will be developing a better understanding of their customers with the goal of customer retention. A recent report from the UK ecommerce association IMRG shows that, on average, a customer's lifetime value is nearly five times more than what they spend on a single order. The same data also shows that most retailers named customer acquisition to be the biggest challenge of the year. This will likely lead businesses to prioritise retaining the customers they already have.

And as online sales have been declining for 29 months straight, brands and retailers are being forced to get creative with their retention strategies. Innovative case studies at this year's event came from companies including Nestlé, Domino's and Vitamin Shoppe, and will be available to eCommerce Expo newsletter subscribers throughout the year.

Nestlé is improving its products based not only on customer feedback, but employee feedback as well.

Domino's is focusing on analysing customer pain points through 'tension mapping' and then offering pinpoint pizza delivery as a solution to relieve these tensions.

Vitamin Shoppe changed up its loyalty programme to reward customer behaviours rather than transactions alone. This simple switch led to purchases 49% more often.

Like every industry, retail and ecommerce is also being impacted by AI. Multiple sessions and panel discussions at eCommerce Expo highlighted practical applications of AI in retail and ecommerce, and outlined its risks and benefits.

Experts agree that while AI can handle routine tasks like writing product descriptions, employees are still the ones in charge. AI's handling of repetitive tasks will allow employees to do more important and strategic work.

Our speakers predict that within three to five years AI will create more personalised experiences, significantly improving performance marketing and web optimisation. This will be key for retailers aiming to stand out in an increasingly competitive online market.

However, there are challenges ahead. Experts are concerned about the potential costs of choosing the wrong AI, ensuring that the technology is used responsibly, and dealing with its impacts on employees.

As a marketer, I believe one significant challenge with AI-generated content is the disconnect between ecommerce and marketing professionals who want more AI-generated content, and their audiences, who actually prefer to minimise the AI content they consume. It will be interesting to see how this relationship will develop further.

Finally, B2B sellers will aim to improve their ecommerce offering, and elevate customer experience to the same level as B2C online retail. This past year, the global B2B ecommerce market hit a whopping $7.8tn. It's a relatively new market, and it's eager for technology and innovation.

One piece of advice shared at this year's eCommerce Expo is that instead of following a linear funnel model, B2B sellers should match content and channels to what buyers need as they go from learning about a product to actually buying it. Buyers are now finding all the information they need online and technology is making online interactions more personal. Marketers, then, have the ability to create a great brand experience that will help sales.

More bespoke B2B online buying experiences will be key, but this will be augmented by small, focused sales teams that provide a personal touch and help build customer relationships with outbound calls. Their goal will be to guide customers online where they can make purchases independently.

Lily Tokmantseva
Head of marketing and content
eCommerce Expo

Commercial feature

Can community commerce unlock growth for SMEs?

Community is everything. And with 1.5 million UK businesses already using TikTok to spread brand awareness, drive sales and engage directly with their customers, the benefits of community commerce are hard to miss

If you thought community commerce was a niche activity, think again. Millions of businesses across the UK have been using entertainment platforms like TikTok for years to connect with customers, driving awareness – and sales – through authentic and engaging content.

Take the hashtag #TikTokMadeMeBuyIt as an example. It has more than 80 million views and made TikTok a destination for people to discover trending products across beauty, fashion, food, tech and more. With 47% of the app's users having purchased a product or service recommended on the platform and the user base growing, it is clear community commerce is booming.

TikTok is home to 1.5 million businesses across the UK – from emerging side hustles and promising scale-ups, to mature companies – looking to make some noise and showcase what they're offering to new audiences both locally and beyond. Whether that's posting original content about their business, using paid advertising, working with content creators or offering direct sales via shopping features such as TikTok Shop, there are a variety of ways for businesses to get their name out there.

One business taking advantage of the direct selling route is Ridiculously Rich. A bakery based in Aberystwyth in Wales founded by Alana Spencer, it was close to going out of business after Covid-19 forced a number of locations to close in 2020. In a last-ditch attempt to save the business, Spencer started posting behind-the-scenes videos of the bakery on TikTok and, after gaining some traction, began showcasing products on TikTok Live. Things quickly took off.

"After the pandemic forced us to close our beachside cafes, using TikTok was a final roll of the dice," says Spencer. "Selling directly to customers on the platform saved our business. Now we're growing rapidly again."

> **Selling directly to customers on the platform saved our business**

With more than 128,000 followers and videos boasting in excess of 2.4 million likes, the majority of Ridiculously Rich's revenue is now made through TikTok Shop. It is now a six-figure sales channel for the business, which has enabled the team to expand to 20 local employees.

More than 60% of weekly TikTok users engage in some sort of ecommerce behaviour on the app, according to research by TikTok and Material, and so lucrative benefits can arise from being visible on the platform. In fact, activity by SMEs paying for advertising and marketing on TikTok contributed £1.6bn to UK GDP in 2022, supporting 32,000 jobs, according to research from Oxford Economics.

But the benefits for businesses go beyond simply growing their top line. Some 75% of UK SMEs that regularly use TikTok reported they were able to reach new audiences in the UK and 69% said they use content to differentiate their offering more clearly from competitors. A further 72%, meanwhile, were able to interact more with customers and receive feedback from their community, which is particularly useful for new companies that look to potential customers for product improvements and development.

But community commerce isn't just for new businesses. Bear Burners is an artisan candles and wax melts company based in Jarrow, South Tyneside in the North East of England. With the business on the verge of liquidation, joining TikTok enabled owner Rachel Spence to showcase products on the platform's live feature and sell directly to customers on TikTok Shop. By showcasing her products, processes and personality, Spence has built a supportive and dedicated Bear Burners community online, re-opened her physical shop, grown her team and returned to sustainable growth.

Even with large audiences, community commerce can help businesses access both existing and new customers. Shoppable videos and in-app store fronts can create a seamless ecommerce experience, while TikTok Live shopping streaming empowers firms to engage with audiences in real time, opening up a direct dialogue and taking the shopping experience to the next level.

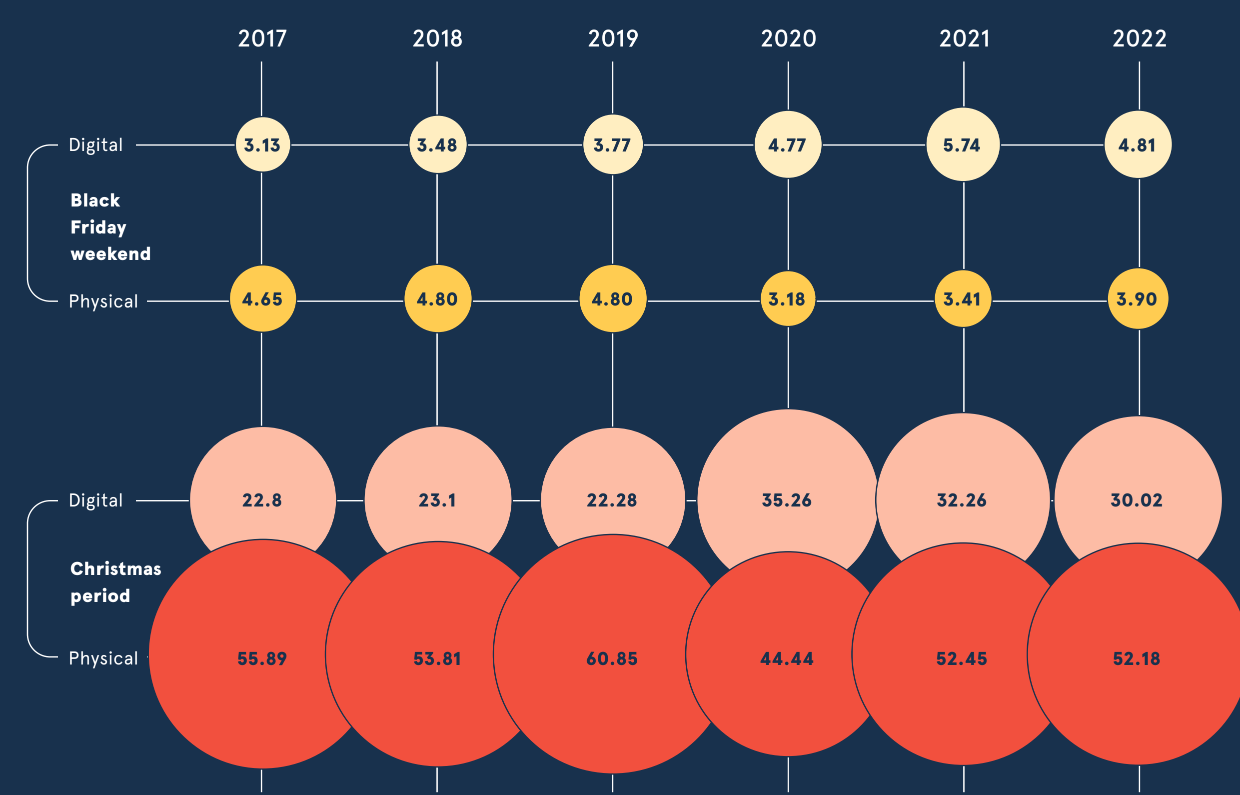
Using TikTok Shop doesn't even require followers to get started. Businesses of any size can simply download the app and get going, with no set-up or product listing costs – TikTok only charges commissions on sold products. With community commerce set to revolutionise how we both consume content and engage with brands, the only question for businesses now is: what are you waiting for?

CHRISTMAS SHOPPING AROUND THE WORLD

The festive period is an annual high point for retailers, and this year is looking set to be no different. Consumers are once again expected to reject the drudgery of the cost-of-living crisis by splurging on gifts and food, as carefully timed promotions such as Black Friday and Cyber Monday whip them into a spending frenzy. So, how do Brits' Christmas shopping habits compare with the rest of the world, and what are retailers doing to both shape and take advantage of these patterns?

BLACK FRIDAY MAY BE A WELL-ESTABLISHED IMPORT TO THE UK, BUT IT'S STILL JUST A SMALL PART OF BRITS' CHRISTMAS SHOPPING PLANS

Value of retail spending in the UK, 2017-2022, by channel, in £bn



Loqate, 2022

£472

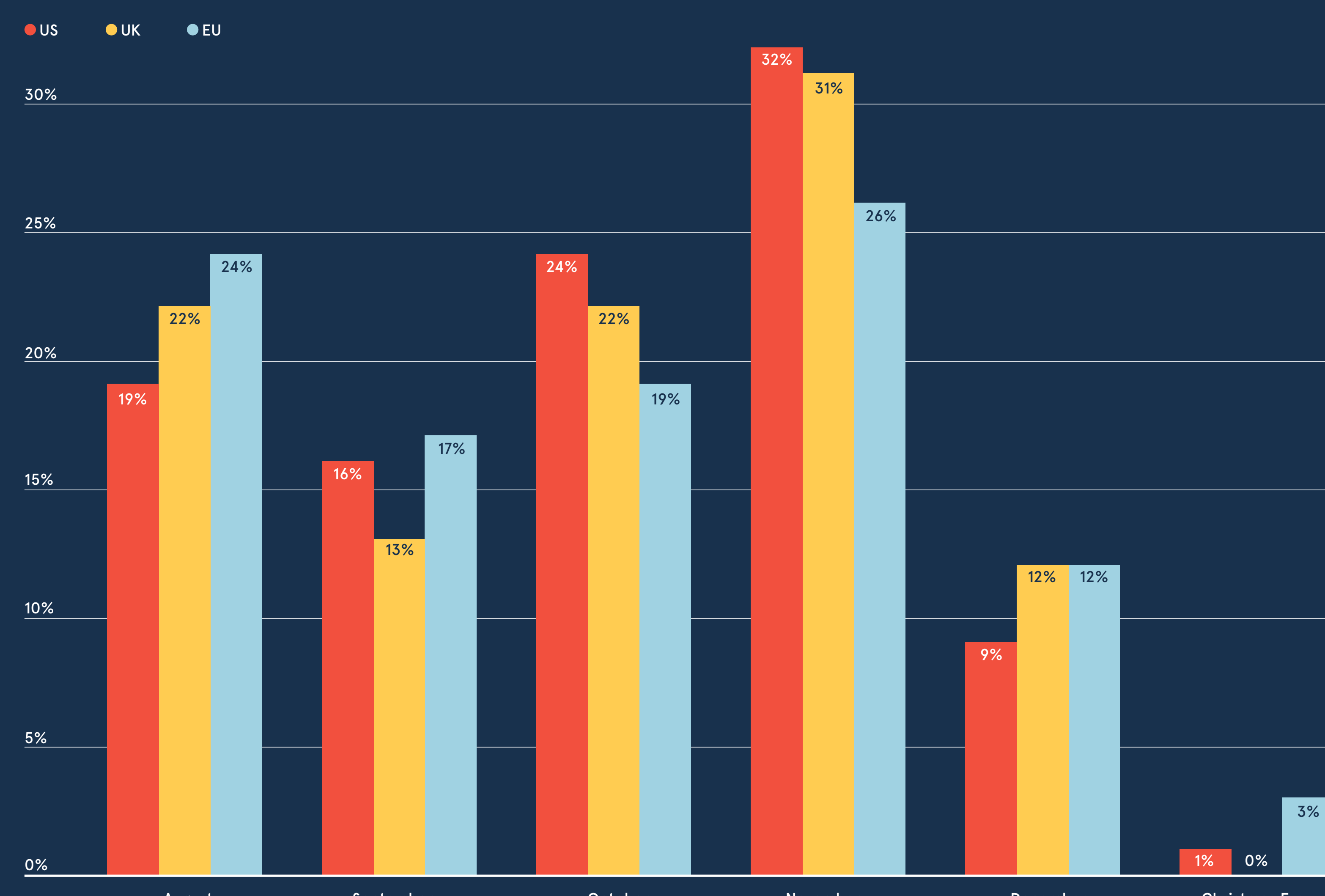
The average UK household's expected spend on Christmas gifts this year

That's **22%** higher than the European average

Sensormatic Solutions, 2023

BRITS START THEIR CHRISTMAS SHOPPING LATER THAN EUROPEANS, BUT EARLIER THAN AMERICANS

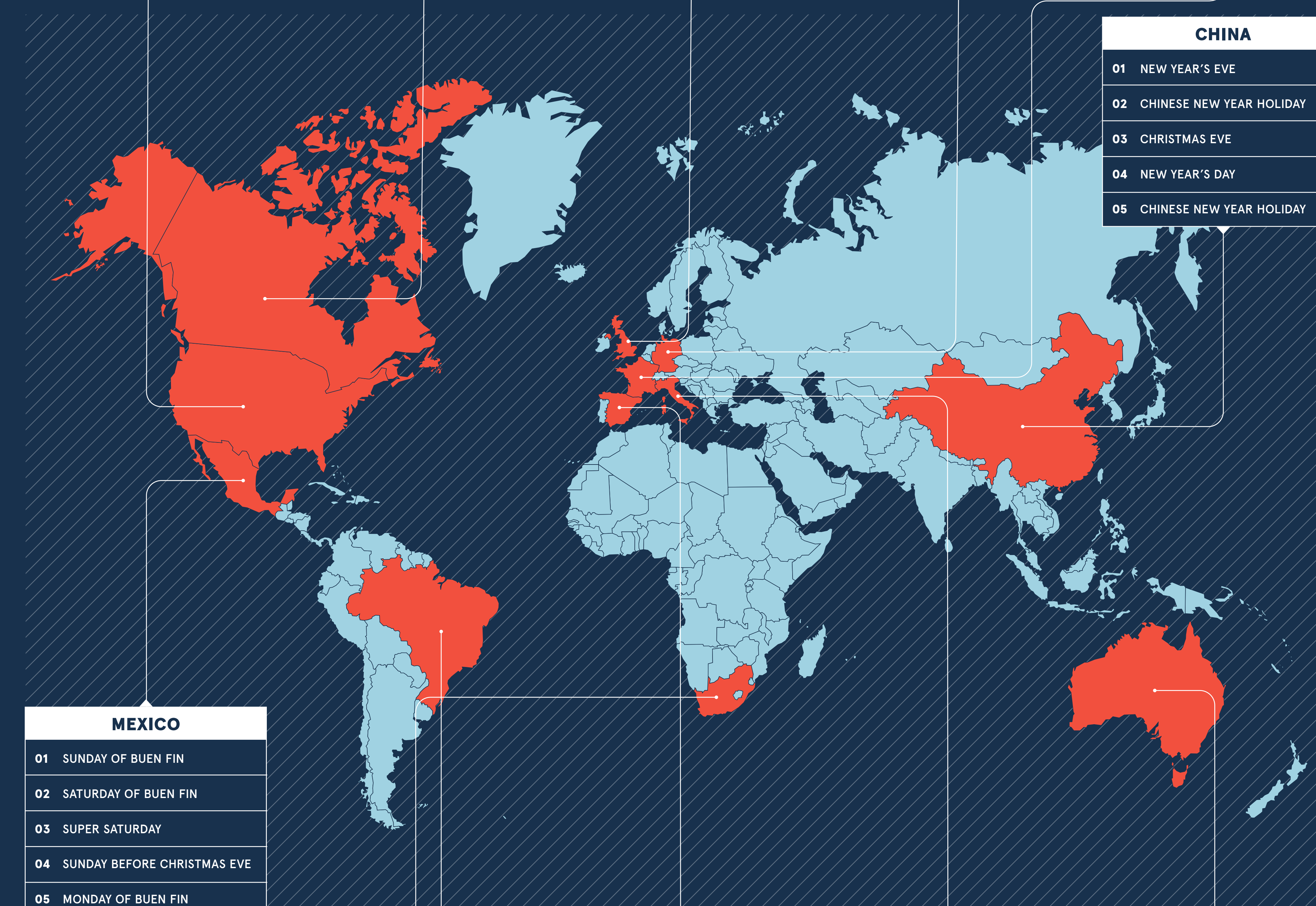
Typical month for consumers to start their Christmas shopping, by territory



Loqate, 2022

CHRISTMAS SHOPPING PATTERNS LOOK VERY DIFFERENT AROUND THE WORLD

Top five expected busiest shopping days of the 2023 Christmas period, by country



US	
01	BLACK FRIDAY
02	SUPER SATURDAY
03	THIRD SATURDAY IN DECEMBER
04	FRIDAY BEFORE CHRISTMAS
05	SATURDAY AFTER BLACK FRIDAY

CANADA	
01	BOXING DAY
02	BLACK FRIDAY
03	SUPER SATURDAY
04	SATURDAY AFTER BLACK FRIDAY
05	THIRD SATURDAY IN DECEMBER

UK	
01	SUPER SATURDAY
02	THIRD SATURDAY IN DECEMBER
03	SATURDAY AFTER BLACK FRIDAY
04	SECOND SATURDAY IN DECEMBER
05	FIRST SATURDAY IN DECEMBER

GERMANY	
01	SUPER SATURDAY
02	THIRD SATURDAY IN DECEMBER
03	SECOND SATURDAY IN DECEMBER
04	FIRST SATURDAY IN DECEMBER
05	SATURDAY AFTER BLACK FRIDAY

FRANCE	
01	FIRST SATURDAY OF WINTER SALES
02	SECOND SATURDAY OF WINTER SALES
03	SUPER SATURDAY
04	SATURDAY AFTER BLACK FRIDAY
05	THIRD SATURDAY IN DECEMBER

CHINA	
01	NEW YEAR'S EVE
02	CHINESE NEW YEAR HOLIDAY
03	CHRISTMAS EVE
04	NEW YEAR'S DAY
05	CHINESE NEW YEAR HOLIDAY

MEXICO	
01	SUNDAY OF BUEN FIN
02	SATURDAY OF BUEN FIN
03	SUPER SATURDAY
04	SUNDAY BEFORE CHRISTMAS EVE
05	MONDAY OF BUEN FIN

BRAZIL	
01	BLACK FRIDAY
02	SUPER SATURDAY
03	SATURDAY AFTER BLACK FRIDAY
04	FRIDAY BEFORE CHRISTMAS
05	THIRD SATURDAY IN DECEMBER

SOUTH AFRICA	
01	BLACK FRIDAY
02	SATURDAY AFTER BLACK FRIDAY
03	SUPER SATURDAY
04	FRIDAY BEFORE CHRISTMAS
05	THIRD SATURDAY IN DECEMBER

SPAIN	
01	PRE-EPIPHANY WEDNESDAY
02	PRE-EPIPHANY THURSDAY
03	PRE-EPIPHANY TUESDAY
04	SATURDAY AFTER BLACK FRIDAY
05	DAY AFTER EPIPHANY

ITALY	
01	EPIPHANY
02	DAY AFTER EPIPHANY
03	SUNDAY AFTER BLACK FRIDAY
04	SUNDAY BEFORE CHRISTMAS EVE
05	SECOND SUNDAY AFTER EPIPHANY

AUSTRALIA	
01	BOXING DAY
02	SUPER SATURDAY
03	FRIDAY BEFORE CHRISTMAS
04	THURSDAY AFTER CHRISTMAS
05	THURSDAY BEFORE CHRISTMAS

Sensormatic Solutions, 2023

MARKET TRENDS

4 trends that will define retail in 2024

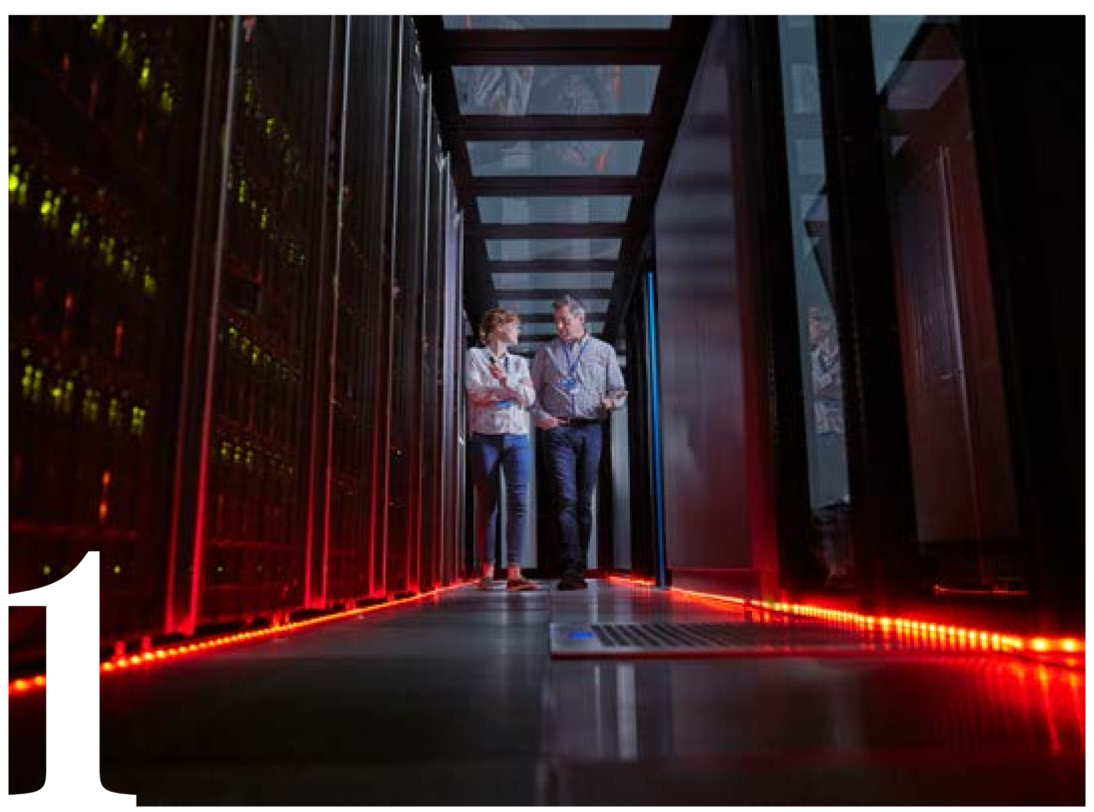
Retailers must remain agile and ambitious to keep pace with quickly evolving technology and meet consumer expectations in 2024

Emily Seares

Retailers are bracing themselves for more uncertainty in 2024.

A recent poll by Boston Consulting Group (BCG) shows that more than 75% of UK consumers remain concerned about high inflation and a potential recession, with 84% worried about current price increases, reveals Jessica Frame, BCG's managing partner for the UK. She believes that shoppers will restrict spending next year as a result, particularly for non-essential items.

But 2024 is also set to bring opportunities as retailers look to harness new technologies, embrace innovation with in-store experiences and grow revenue streams in areas such as recommerce and retail media networks (RMNs).



Years of AI investment will start to pay off

AI in retail – which includes machine learning (ML), chatbots, swarm intelligence, natural-language processing and image and video analytics – is expected to reach $24.1bn by 2028. Experts predict its impact will grow significantly in 2024, increasing personalisation and more seamless customer journeys to boost the brand experience.

"Even as a back-office tool, AI will benefit the customer experience and raise the bar for what shoppers [can] expect," says Vicky Bullen, CEO of global brand and design agency Coley Porter Bell.

Advancements in AI and ML will offer shoppers access to new experiences built on deep customer understanding, says Alex Tanner, senior consultant at brand consultancy Interbrand. By this time next year, he says, we can expect human-like chatbot shopping assistants that will tell you if something suits you, and then offer hyper-personalised recommendations to target you with the most tempting deal.

The AI revolution hasn't happened overnight – more than 75% of fashion retailers have invested in the technology since 2021. But Tanner predicts the results of this R&D are about to hit the mainstream.

Julian Skelly, managing partner for retail at Publicis Sapient, says that shopping assistants will also provide grocers with a unique opportunity. AI bots will direct customers to new brands, products and ingredients based on their dietary preferences, budget and lifestyle. These channels will also boost the power of their retail media networks with more data.

But the results of AI are only as good as the data it has. To collect more data about customers, as well as digital interactions, retailers will be able to watch customers in physical stores, too, looking at their facial expressions when something is tried on, explains Tanner. Technology may even, he says, allow retailers to identify what customers are wearing, where they likely bought it and what they paid for it.

But he warns: "The promise to shoppers is better deals. A more engaging experience, perhaps? But will we be willing to pay the price with our data? Will we have a choice? All this will play out in 2024."

2024 will see the rise of 'recommerce'

Although retailers will focus on using new technologies to enhance customer experience, they'll also be looking at new business models to grow revenue. Stratten predicts a "resale boom" in 2024 as retailers further expand into recommerce.

Selfridges wants half of its sales to be from resale, repair, rental or refills by 2030. H&M and Uniqlo have dedicated more floor space to rental and resale initiatives. And demand is growing for resale marketplace sites such as Vinted, Vestaire and Depop.

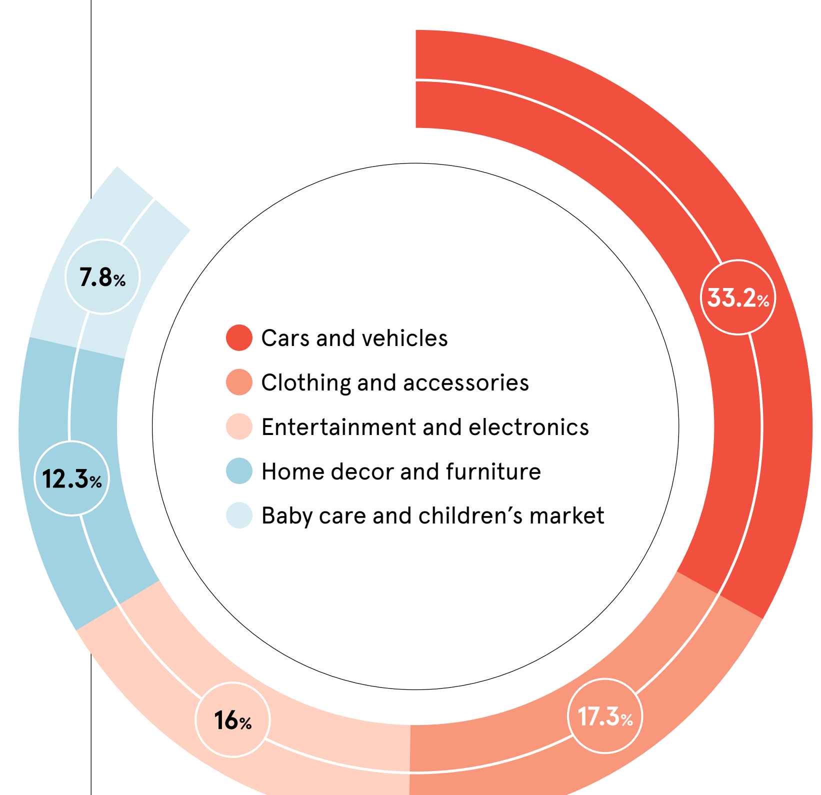
Recommerce will be a profit-driver not a supplementary sustainability initiative, says Leon Bailey-Green, founder of Upper Clash and Retsre. He expects to see more retailers starting to strategically incorporate recommerce into long-term plans.

"The retail industry generally operated on a 'make it, sell it' cycle. But we will witness a shift as all retailers and brands allocate a portion of their revenue to recommerce, spurred by factors such as legislation, competition and growing customer demand," he adds.

A study by Barclaycard Payments shows that recommerce contributes nearly £7bn to the UK economy. More than four in 10 (44%) consumers buy more second-hand items than they did a year ago. "There's a big market for resale. At the luxury end it's an entry point, especially for young customers who are interested in luxury but don't have the disposable income. Resale isn't a new trend, but it's about to explode," he adds.

LESS-FAMILIAR SECTORS ARE MAKING AN ENTRANCE INTO THE RECOMMERCE ECONOMY

Share of the UK recommerce market, by sector, over the past 12 months



Barclaycard Payments, 2023

Retailers will push the boundaries of in-store experiences

Customer loyalty is a rarity, so retailers need to maximise the impact of their brand experience through all channels in 2024, says Bullen.

"The in-store experience will be essential," she explains. "But with retailers reducing their estate portfolios, brands will need to do more with those precious few spaces. Even digital brands are exploring the value of a physical experience – we've seen Shein announcing pop-ups and more will follow," she adds.

And new in-store technology that enhances this customer experience – such as self-service checkouts – will be expanded further, predicts Jack Stratten, head of trends at retail consultancy Insider Trends.

He explains: "Uniqlo and Zara have self-checkout experiences that are proven to work from the customer and business point of view.

"With that technology becoming cheaper to implement, we'll see self-checkout grow massively next year. We'll also start to see it in sectors beyond grocery and fast fashion. Anywhere there are queues, this tech can make a difference," he adds.

Technology will also bring the physical-store experience into people's homes in ways we've not seen before, says Rosh Singh, managing director, EMEA, for digital experiences agency UNIT9.

While we might feel jaded by the metaverse hype that dominated 2022, Singh says the long-awaited 'spatial revolution' looks to be finally here. He points to Meta's release of the Quest 3 headset and Apple's announcement of its Vision Pro.

"Imagine transforming consumers' living rooms into fully shoppable flagship stores," Singh says. "Spatial computing creates scalable brand experiences with virtual try-ons, hyper-personalisation and a seamless purchase experience."

Retail media networks will provide new sources of ad revenue

Skelly also predicts that successful retail media networks (RMNs) will grow in popularity, become increasingly sophisticated and drive profitability in 2024.

Retailers with strong loyalty programmes and high-volume traffic are capitalising on their first-party data by offering advertising space to brands through RMNs. Skelly predicts that RMNs will become "increasingly standardised", with more retailers taking advantage of this high-margin channel.

"We'll see partnerships and consolidation into larger networks and a trend to break out of traditional CPG relationships to more customer-focused propositions. By following these strategies, retailers can add a new high-margin channel to their digital business, positioning for more sustainable, long-term success," he says. 2024 provides an opportunity to focus on a retail media profitability play that drives customer lifetime value, he says.

Maren Seitz, senior director at data analytics consultancy Analytic Partners, agrees. "Retail media networks are set to take centre stage in the retail and ecommerce landscape in 2024. Their enhanced offering with better and faster data, which is expected to continue their momentum from this year, will allow brands to integrate retail media more seamlessly within their broader marketing mix," he says.

Despite the challenging economic climate, retailers that embrace innovation and new technology in 2024, while exploring revenue-boosting areas, could be well placed to ride out short-term turbulence and come out of it stronger on the other side.

Commercial feature

Retailers risk missing an online returns opportunity

In a tighter market, product returns have become a battleground for online retailers. Their focus is on cost, but returns could become an advantage

A decade of rapid growth has buoyed UK ecommerce, as have Covid-induced lockdowns that were a shot in the arm for sales. As a result, retail strategies have focused on maximising growth and customer acquisition. Free returns were seen as a fair price to pay, so much so that up to 30% of purchases are sent back to merchants, according to estimates. It's a big issue.

But now, online retailers are having to pivot. Sales are flatlining as high food, energy and housing costs eat into discretionary spend. Customer acquisition is difficult as the market matures. Returns – and their costs – are coming into focus. With an eye on profits, many companies are even charging fees for returns. It means that a robust reverse logistics model is now table stakes.

"Historically returns have been drastically under-invested in. It is the least developed area in retailers' proposition to consumers and that is why they're now having to evolve their thinking. Ecommerce players realise that every day an unwanted item sits with a consumer, it's losing value," explains Mike Richmond, chief commercial officer at Doddle, a leading first- and last-mile technology business.

Yet most retailers have very low levels of maturity when it comes to the digitisation of their returns, which can cost as much as 60% of a product's original value to process. Tech applications for returns are often fragmented, basic and poorly funded, in contrast to the sophisticated millions spent by ecommerce players on digital marketing and website design to maximise conversion and online spend.

"This is a huge area of opportunity now that margins are the headline focus. With a tougher economic environment, etailers need to start powering their returns proposition with data and technology. The issue is that returns have always been a supply chain and logistics issue, not one for digital teams to solve. It means that many brands don't have visibility on the actual value of a return to them," says Richmond.

"Right now, no brand is going to solve this challenge alone. What they can do is get a platform in place that means their returns are connected to their order and inventory management. Then they start to see the connections, for example in planning and restocking more efficiently because they have a better view on what inventory is coming back to them."

Asos, Zara, H&M and Boohoo are just some of the brands trying to address this issue themselves. But responsibility for returns runs all the way up the supply chain. There are also increasing questions on the sustainability of returns. How do retailers ensure that returns are processed in a way that is carbon efficient, while also retaining value by being sent back quickly? No one wants unwanted products to end up in landfill either.

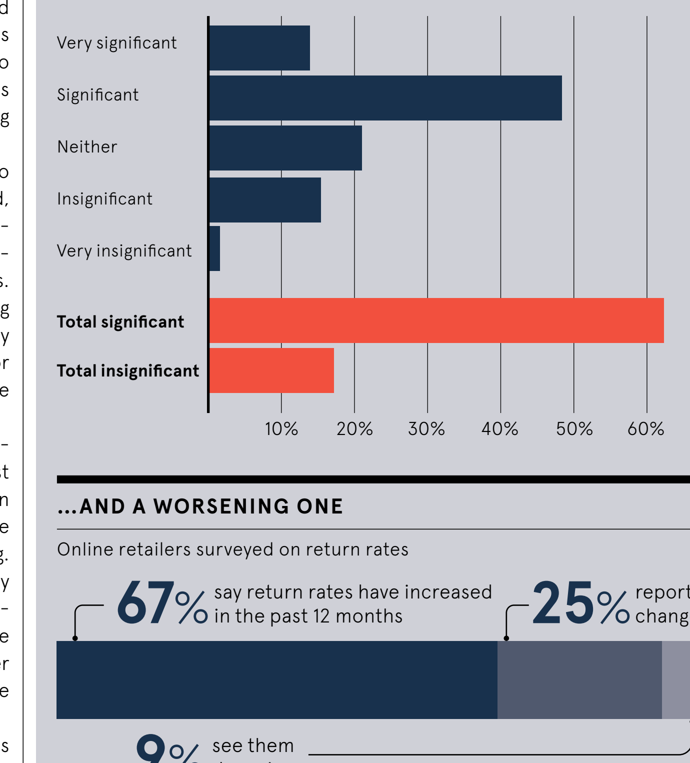
"Getting the right things back to the right place at the right time based on the underlying value of the item is vital. Right now, retailers have a percentage of their inventory that's sitting with consumers doing nothing and losing value over time. The sooner retailers can get it back, the more it's worth to them – and the more likely it is to be resold," says Richmond.

"Returns are seen as a cost centre but there needs to be a mindset change. With the right data and supply chain planning, returns can be a huge source of value, keeping customers happy and driving intelligent decisions for the business at every level. As AI evolves in the future, we will treat every return for every consumer differently. That's our vision for this space but the industry is only at the start of this journey."

> "The issue is that returns have always been a supply chain and logistics issue, not one for digital teams to solve

A SIGNIFICANT PROBLEM...

Online retailers asked to what extent ecommerce returns are a significant problem for their business



Doddle, 2023

INTERVIEW

‘Tech is good but it isn’t the answer for everything’

With almost a decade of experience at THG under his belt, **Schalk Van Der Merwe** talks about his unconventional approach to the CTO’s role and how he keeps tech stack costs down

Oliver Balch

In many ways, Schalk Van Der Merwe’s approach to the CTO role is rather unorthodox. He’s reluctant to splash out on the latest software, prefers a practical solution where possible and claims his most valuable lessons were learnt during his MBA in finance and accounting.

But despite this, he still enjoys getting involved in the nitty-gritty. “If it looks and smells like tech, I’ll get my mitts on it,” he says.

His daily tasks at the ecommerce group THG, which operates the websites Lookfantastic and Myprotein, can involve anything from automating warehouse operations to monitoring the business’s cybersecurity and developing AI-enabled search for its websites. “I’m doing something different every day, I never get bored,” he says.

Perhaps one of the most common misconceptions about the role of a CTO is that it means spending most of the time in front of a computer screen, says Van Der Merwe. “We need to be able to take what we know in the online world and apply it to the physical one,” he explains.

Recently, he has been spending a lot of time working with the warehouse packing teams, which has led to a new way of working dubbed the ‘pick-to-light’ system. The change means that where warehouse workers would previously have to identify items from codes made up of numbers and letters, they now use a coloured light system to tell people which item to put in which box. Van Der Merwe claims this single change has increased packing speed threefold. “It’s looking pretty incredible so far,” he says.

The change also speaks to one of his core tenets as a CTO. “Tech is good, but it isn’t the answer for everything,” Van Der Merwe explains. “You might use tech to solve a problem but the last thing I ever want my team to do is to find a problem so they can use a cool new piece of tech because that often just makes the problem worse.”

In his opinion, this is the issue that lies at the core of many digital transformation failures. “You need to have a clear understanding of the problem you’re trying to solve,” he adds. “This needs to be paramount, rather than using the latest piece of tech to get there.”

This philosophy underpins THG’s entire tech stack. Van Der Merwe’s preference is for his team to build their own solutions, rather than rely on third-party providers. “As a company, we try to make do with what we have. There’s nothing that we expect or take for granted,” he says.

Although THG does work with cloud providers, including Google and Cloudflare, he tries to limit the amount the company spends with them. In most instances, he opts to use THG’s own data centres.

This mindset has been particularly helpful given the current inflationary economic climate, which he claims has made cost “the key focus” of many technology chiefs. Software companies have been steadily increasing prices over the past 12 months, with research estimating that SaaS pricing inflation has risen for times faster than consumer price inflation in the UK. Google, for example, has announced price rises of up to 50% for some of its cloud computing products.

“A lot of CTOs are looking at their budgets and assessing what is superfluous and how they can get more out of what they already have,” Van Der Merwe adds. “Because we build a lot of our tech stack, it means that we’re not beholden to these price rises or subscription charges that other businesses are now facing.”

This is the opposite of what many businesses are pursuing. McKinsey reports that large organisations aim to have 60% of their environment hosted in the cloud by 2025. Van Der Merwe admits that going against the crowd is a challenge but adds: “If you’re prepared to put in the hard work, you can make your stack more cost-effective.”

The biggest hurdle he faces in developing THG’s proprietary tech stack is finding the people to create it. For Van Der Merwe, having the right attitude and fitting in with the company culture are the most important attributes. “I can teach skills,” he says. “But you need to find people who really want to be here and help us build.”

THG has worked to close this skills gap through the creation of an accelerator programme, which it’s been running since 2018. “It’s the thing I’m most proud of,” says Van Der Merwe. “It came from a realisation that many people leaving university didn’t have the skills to interview for a software engineering role but they were smart enough to pick these skills up fast.”

> “The last thing I ever want my team to do is to find a problem so they can use a cool new piece of tech

The six-month programme aims to give people the basic skills required to become a developer and there are still people from the initial 25-person cohort working in THG’s tech department today. The programme has been so successful that Van Der Merwe's engineering managers now compete to get as many graduates as possible onto their team.

Van Der Merwe is keen to develop his own skills, too. In 2011, he graduated with an MBA in accounting and finance. He describes it as “one of the most important things I ever did” and says that it taught him new ways to communicate with other teams within the business.

“I learnt new language skills, which allowed me to change the conversations I was having,” he adds. “I often wondered why finance would ask so many questions, when all I wanted was to solve a problem facing the company. Now I realise that if you can explain the problem in words they understand, they’re more likely to accept it.”

At the time, Van Der Merwe was working for mobile messaging company MBlox. “I still endeavour to one day be a CEO,” he says. “I knew, if I wanted to achieve that, I needed to know more and that’s why I did the MBA.”

With the exception of tech firms, it’s more common for chief executives to have previously held the position of CFO or chief operating officer. But Van Der Merwe thinks that more CTOs will make the move to CEO in the future. “The basis of what a CTO does is fixing problems,” he says. “If you’re good at fixing problems, you’re good at setting the vision and the strategy as well.”

Despite these ambitions, Van Der Merwe stresses that he’s not out to take the job of THG’s current CEO, Matt Moulding. He has more to achieve as its CTO first.

Schalk Van Der Merwe CV

THG
2015 - present
Group chief technology officer
April 2014 - December 2014
IT director

Betfair
2012 - 2014
Head of global infrastructure services
2011 - 2012
Head of product delivery

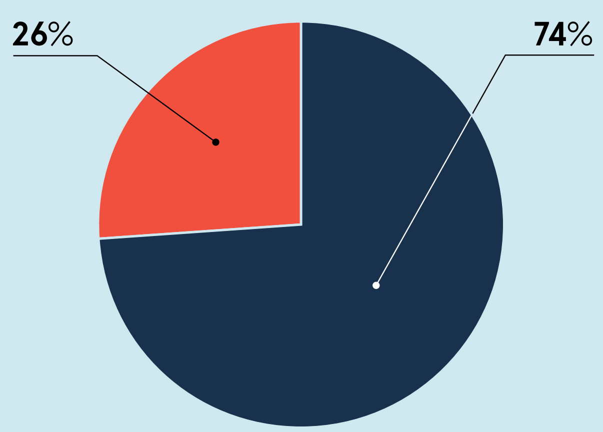
mBlox
2004 - 2011
Head of network management, EMEA

The Fuel Logistics Group
2001 - 2004
Senior Linux and network administrator

Commercial feature

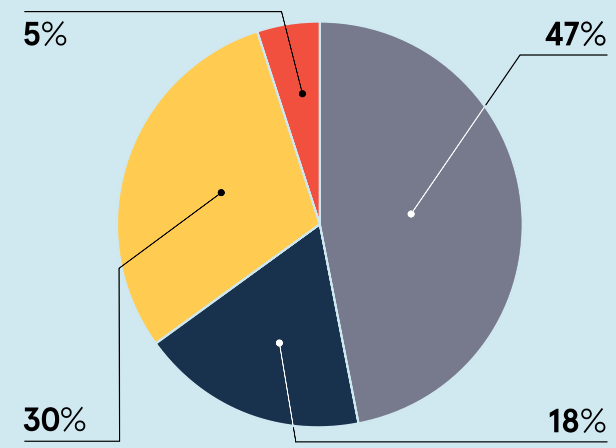
74% OF IT LEADERS ARE LOOKING TO IMPROVE THEIR TECH STACK TO OFFER BETTER PERSONALISATION

- We are looking to improve our tech stack
- We are not looking to improve our tech stack



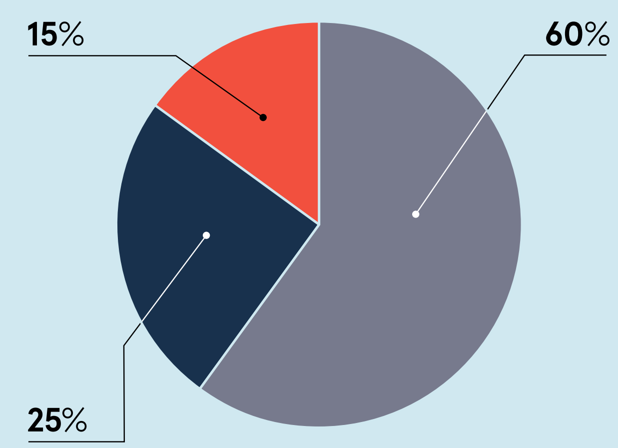
RETAILERS HAVE BEEN QUICK TO SEE THE POTENTIAL OF AI TO BOOST THEIR PERSONALISATION EFFORTS

- We use AI for specific personalisation tasks
- AI is a central component of our personalisation efforts
- We are exploring AI for future personalisation initiatives
- We do not currently utilise AI for personalisation



OPPORTUNITY FOR TECH & MARKETING TEAMS TO WORK MORE CLOSELY TOGETHER IN 2024

- Our marketing team is responsible for personalisation efforts but needs buy-in from the tech team for new vendors
- Our tech and marketing teams work together
- Our tech team is not involved in personalisation efforts



The research was conducted by Censuswide on behalf of Talon.One, Bloomreach and Orium in November 2023. Censuswide surveyed 400 senior IT & tech leaders in B2C retail companies with USD 50mil+ in annual revenue across the UK, USA, Canada, and Germany. The full research findings will be published in January 2024 by Talon.One

Source: Talon.One

Breaking brand addiction to discounted promotions

The traditional retail approach to reduced-price sales across the calendar year offers little towards loyalty and profit, argues Sam Panzer. As director of industry strategy at Talon.One, he believes weaning the C-suite off discounts in favour of increased consumer personalisation is the answer

It's that time of the year when retailers reach for the discount button to push them through the holiday season and into 2024.

Annual cut-price sales - such as Christmas, Back to School and Black Friday - have traditionally been viewed as the simplest way to sell old inventory and deliver footfall through the doors.

But according to Sam Panzer, director of industry strategy at Talon.One, the overall effect of this is actually negligible on customer loyalty, business growth and overall profitability.

"What gets neglected," Panzer says, "is often these discounted promotions are cannibalising revenue from somewhere else in the business. Either these sales were going to take place anyway or they would have taken place in the future."

He argues retailers and brands have become hooked on promotions built around discounts and believes this annual addictive cycle might well deliver positive reinforcement for boards, but it fails to make business sense.

"Consumers are conditioned to expect discounts," he adds. "This lowers margins and basket sizes. Demand is suppressed as consumers wait for promotions."

Panzer describes this as a "spiralling situation", suggesting it leaves retailers with weak attribution and no sense of whether their discounts are even working to drive demand and footfall.

He warns this negatively affects brand equity and explains: "Consumers begin to think it's silly to buy things at full price. But we know very few retailers dig themselves out of this hole once they are in it."

Poison and antidote

An analogy used by Panzer is how discounts as a promotional strategy can prove to be both the poison and the antidote to margins; for example, they offer opportunities for upselling and data capture but also leave companies open to promotion fraud or abuse as well as excessive clearance.

Marketing leaders must be encouraged to recalibrate their discount strategy, Panzer advises, explaining how many of them tend to neglect the strategic part of discounting because it is not seen as a "glamorous tactic".

A 'one-size-fits-all' mass discounting approach is often adopted as the simple answer, but this poses risks to the financial health of the business and the brand's strength, he adds.

"This arises due to a disconnect between the leadership, which is often focused on grander topics," Panzer explains, "and the operational teams who continuously push deals to spike short-term revenue.".

According to Talon.One, "rehabilitating" your promotions away from a mass discounting approach requires work across three key areas:

- **Technology** - running targeted incentives on any item, while capturing customer data to test and iterate a promo offer.
- **Organisation** - measuring marketing on profit rather than revenue with strict guide rails set on when discounting can be used.
- **Strategy** - staying strong and staying the course with manageable expectations set across the business from the C-suite down.

Panzer also warns companies they must be ready to exit fast from any segment or situation that becomes unprofitable. But he admits: "This is often really hard because you are leaving revenue on the table to pursue profit elsewhere."

A more efficient strategy for retailers and brands would come from asking 'Why do we run promotions?' he says - while dismissing answers such as 'because consumers like them' or 'they get consumers through the door' as inadequate.

"The answer is it should be the cheapest possible way to achieve your outcome of getting the customer to do what you want them to do."

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Limited by unusable technology

Talon.One's vision for successfully personalising promotions across retail is to improve customer experience and allay consumer fears around privacy. Recent research conducted by Censuswide on behalf of Talon.One, Bloomreach and Orium in November 2023 (of 400+ global retailers) showed 74% of IT leaders were looking to improve their tech stack to offer better personalisation.

However, the study also found personalisation was being held back by budget constraints alongside unusable or limiting technology.

Gaining better control over the cost and reach of promotions has been a game-changer for Eddie Bauer, the American apparel chain with over USD 1BN in revenue. It credits Talon.One with turning around its entire digital business to "bring personalisation to life" through offering the right promotion to the right customer at the right time. This not only incentivises purchases but also shores up margin.

However, another difficulty faced by retailers and brands thrown up by the research was how their technology and marketing teams don't always work closely enough; only a quarter of respondents said these departments were collaboratively delivering personalised cross-channel customer experiences.

Panzer suggests running more successful "granular, targeted and dynamic incentives" will ultimately lead to delivering more promotions overall. "Different permutations will resonate with different segments with different items and sub-permutations of different SKUs," he explains.

And while he acknowledges such a huge uplift in promotional configurations could be scary for some companies, he insists it can be managed with the right technology platform.

Talon.One's customer-base includes big names such as Adidas, Boohoo and River Island, each already creating stronger brand relationships with their consumers through personalisation.

Throughout 2023, it has continued to expand its product features and partner integrations to help retailers and brands go as granular as they need to with their personalised incentives.

This includes stacking many different granular campaigns together and having the ability to bring in a wealth of data to develop a wide range of promotional rules. For instance, this could include membership status, where the session originated, segmentation, price, likelihood of conversion and more.

David Edwards, head of technology at River Island, said: "The way we use promotion is a bit different from other businesses. We're not a race-to-the-bottom type of discounter, so we wanted a rich rule engine — a really flexible rule engine – that allows us to set up quite specific and targeted promotion campaigns."

Panzer believes personalised offers should be "much more" than discounts.

"There are a lot of artificial organisational silos preventing personalisation," he argues, "but this is a feature which should always be layered above pricing, promotions and loyalty.

"Working in this way, we've had really good results across everything from improving basket size and item margins to decreasing spend for acquiring customers. Our platform eliminates a lot of the headaches involved in personalised promotions to ensure more efficient spend for marketing budgets."

For more information visit: talon.one

METRICS

Our survey says: NPS no longer measures up

The net promoter score (NPS) has been a tried-and-tested metric for decades but there are doubts about its continued relevance as AI begins to take the lead in precision and flexibility

MaryLou Costa

Twenty years ago, Fred Reichheld, a partner at Bain & Company, developed the net promoter score (NPS). Since then, it has become part of the business bible and is a metric that can make or break a company and perceptions of its future direction.

The NPS has gained the status of near infallibility within customer-facing industries. "Understanding the propensity of your customers to engage with your organisation, remain engaged and stay loyal has occupied marketing teams and business leaders for decades," says Moira Clark, director of Henley Business School's Centre for Customer Management. "Net promoter scores have been the bedrock of how businesses have operated for years."

But not for much longer. The allure of the NPS, and its one-number categorisation of how your business is doing, is starting to lose its lustre.

A 2021 Gartner report found that around 75% of companies plan to abandon NPS as a measurement of customer service and support by 2025. A recent survey by customer experience company Odigo placed the NPS thirteenth in a ranking of the most important metrics for contact centres to consider.

"While NPS has been a go-to for many customer service teams, its popularity is fading as it struggles to remain fit-for-purpose," says Richard Gregory, an account director at Odigo. The issue is "mainly due to its insensitivity to cultural nuances, numerical insights that don't allow for extensive follow-up and its limited ability to capture shifting customer expectations," he explains.

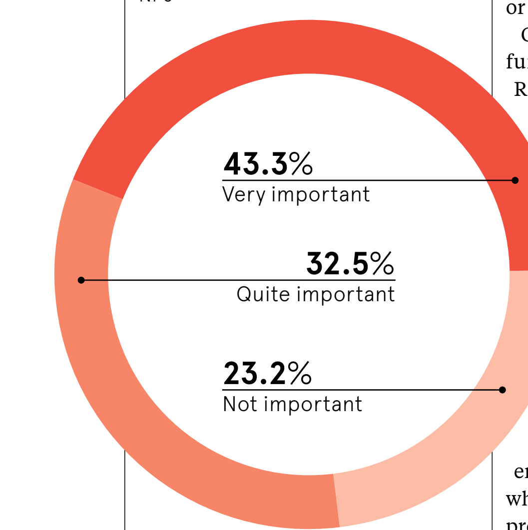
NPS seems too simplistic in our modern, data-rich world. Its detractors worry that the language used in the questions asked of customers is too simplistic and covers too broad an area to provide truly meaningful feedback.

Juliette Aiken, global marketing director at customer experience and data platform Dotdigital, explains that the simplicity was the feature that was initially so attractive to businesses. But simplicity is now the very feature that is hampering its continued usefulness.

And while simplicity has been highlighted as one of the main advantages of NPS, Clark thinks there is an underlying complexity that perhaps goes unnoticed. She points to the non-intuitive groupings of 'promoters', 'passives' and 'detractors' as an example. There is also a high degree of subjectivity and lack of clarity around benchmarks, which further complicate interpretations of NPS.

NET PROMOTER SCORES ARE FAR FROM A PRIORITY FOR CUSTOMER SERVICE TEAMS

Customer service teams' opinion of NPS



Call Centre Helper, 2023

Rather than relying on a survey with shaky foundations, Aiken believes there are opportunities to better identify what works and what doesn't for businesses rather than relying on yet more data on top of the mountains of data that already exist. "Businesses have more tools available than ever, allowing them to better understand customer sentiment towards products or services received," she says.

Review websites collate information that can help organisations better tailor their services without the need to go out to customers directly. And AI's ability to sift through volumes of text and pick out patterns and commonalities can be a boon, says Aiken. That can also be used to analyse data held internally at an organisation, such as customer service hotlines or chatbots.

"Generative AI can assess a customer's true feelings by analysing the messages exchanged over live chat or call transcripts – this can lead to more useful insights than NPS scores, which have increasingly become a box-ticking exercise," she says.

But for those businesses that want a more impartial way of measuring how their business is operating and what customers make of it, there are alternatives. Clark points out that the customer ease score (CES) has been growing in popularity in recent years. CES measures a customer's perception of the amount of time and energy that they have to exert when interacting with a brand or an organisation.

> Generative AI can assess a customer's true feelings by analysing messages exchanged over live chat or call transcripts

CES produces insights that are fundamentally different from NPS. Rather than asking whether a consumer would recommend your product or service as the NPS does, the CES focuses on the pain points, by asking about experiences such as time expended, the emotional and mental effort of an acquisition or installation process and the physical effort involved in each purchase and interaction.

While there is still a considerable degree of subjectivity inherent in CES, understanding if and where customers are experiencing problems is more constructive than understanding whether a customer would theoretically recommend a product or service.

"Simply put, CES evaluates how easy it is to do business with your organisation," Clark explains. "The higher the score, the easier it is, and this appears to translate directly into a reliable predictor of intent – and action." CES provides insights about customer engagement and loyalty to a brand that are more actionable than those provided by NPS.

It's also more about your business and what it does, rather than how your business compares to competitors. "Companies use NPS to provide a comparison of their company against others," says Clark, "but CES can be used as an approach to drive improvements in services to customers and overcome shortcomings." If the CES score in a particular area is low, there's no need to compare that score to your competitors. The low score, itself, indicates a need for improvement.

The CES is therefore becoming increasingly popular with some businesses that want to capture more accurately what's happening in their organisation. But for those companies that want to stick with the NPS – and there will be some – help is at hand.

AI could also be used to bring back relevance to the NPS, reckons Gregory. "NPS can be salvaged but rather than reinventing the wheel, the solution lies in embracing AI as part of NPS analysis," he says. "For example, today's customers are more vocal, and employing sentiment analysis before an AI-powered NPS survey provides a nuanced understanding of the impact of poor-quality interactions."

However, that information can't be used in a vacuum. "AI-powered NPS feedback is most powerful when integrated with other operational data and customer contextual details," says Gregory. "Without data silos, AI can deep-dive into an organisation's data, helping to identify root causes and derive more valuable insights to enhance customer experiences."

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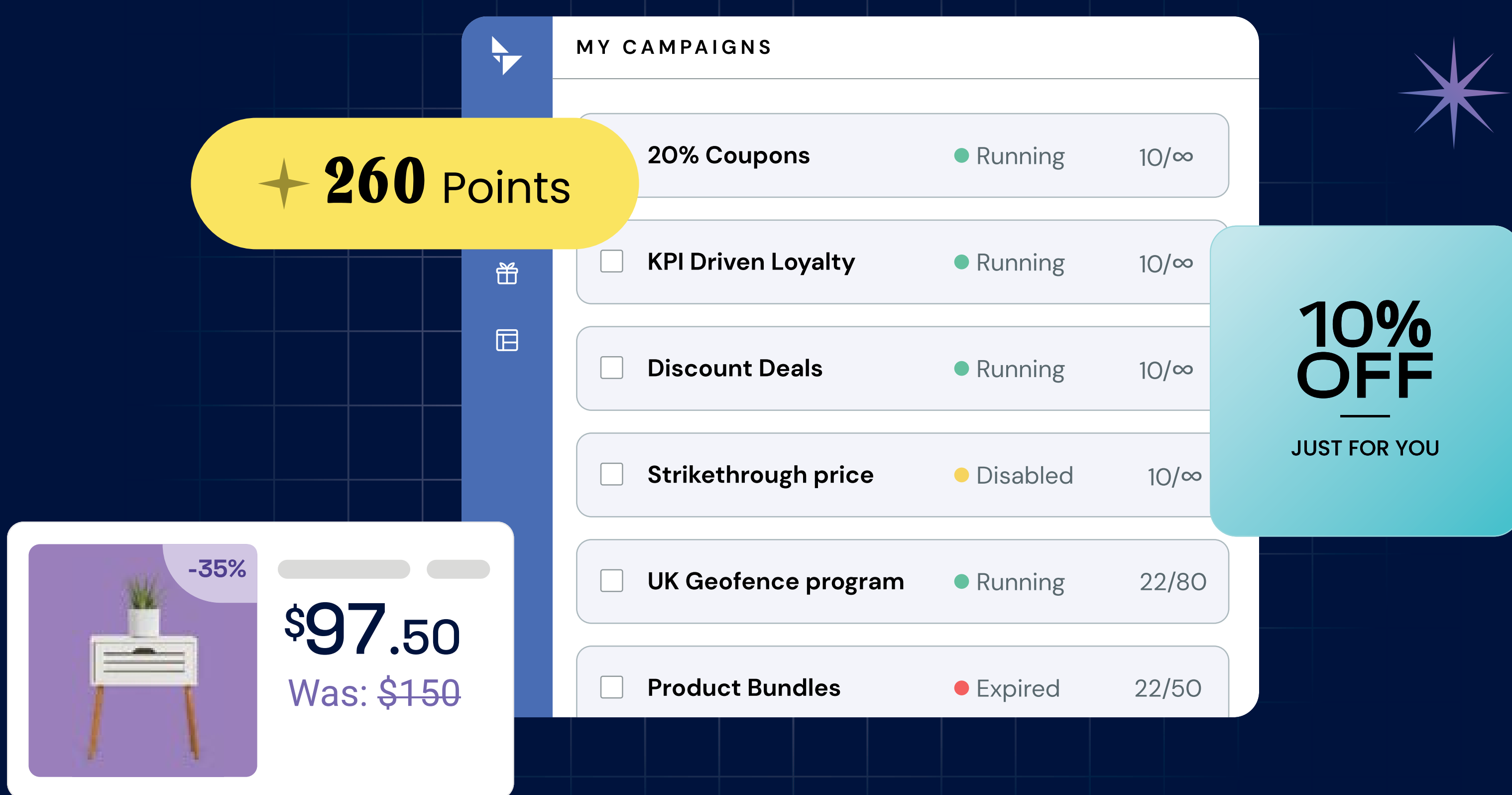

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