FUTURE OF RETAIL & ECOMMERCE

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CUSTOMER EXPECTATIONS

Uncertain climate: retailers weigh sustainability demands

Retailers must adapt their convenience-centric approach to meet environmental demands among younger consumers. How can they strike the best balance?

Jonathan Evans

For many younger consumers, the environment is the defining issue of our time. That's hardly surprising, given the growing fears over global warming. It is also, though, influencing their shopping habits, posing a serious challenge for retailers.

Research by consultancy Alchemmy shows that 75% of Gen Z shoppers say their purchasing decisions are influenced by whether a brand or product aligns with their green values. Lucy Gibbs, Alchemmy's director of retail and consumer, believes the figure reflects a younger generation that wants to engage with brands which are authentic in their efforts to become more sustainable.

"To meet the sustainability expectations of Gen Z, it is not enough for retailers to appear as if sustainability is important to them," she says. "Instead, retailers need to work with consumers to make sustainability profitable in the long term and incentivise them to want and choose more sustainable options."

That may be easier said than done. Shoppers are used to the convenience of endless choice, speedy deliveries and seamless returns, all of which come at a high environmental cost.

The British Retail Consortium (BRC) recently acknowledged that the sector's annual greenhouse gas emissions are 80% higher than those of all road traffic in the UK. Significant carbon outputs are evident across the whole retail supply chain, from the energy required to run in-store operations to the fuel used by delivery vehicles.

In November, COP27 again highlighted the need for immediate action on climate change across both the public and private sectors to avert environmental catastrophe, with fears that we're unlikely to meet the goal of limiting global warming to a 1.5°C increase. With Gen Z's spending power on the rise, businesses that don't deliver on sustainability risk turning off value-orientated consumers. It puts the big-name retailers in something of a double bind.

Namrata Sandhu is CEO and co-founder of Vaayu, a software development company that allows retailers to calculate and cut their carbon emissions in real time. She believes retailers must first understand their total carbon outputs before they can identify how their climate strategy will impact the customer experience.

Teamjackson via iStock

For instance, scope three greenhouse gas emissions – which include all emissions generated up and down the supply chain – can account for as much as 80% of a retailer's total carbon footprint, according to McKinsey. This can rise to as much as 98% for home and fashion brands. Because many of these emissions aren't directly in the control of the retailer, they are difficult to accurately calculate or mitigate.

To overcome this, retailers must include emissions criteria and reporting into all procurement discussions with vendors, Sandhu suggests, so they can build a holistic view of their total carbon output.

"You can't cut what you can't measure," she says. "Retailers need granular and accurate data across their entire supply chain to identify issues and what they can do about them. They also need the ability to test different scenarios to drive business decisions that provide significant carbon reductions.

"It is only by optimising logistics and supply chains that retailers can offer the same level of customer service while making tangible steps towards sustainability goals."

But accurate data alone won't itself solve retailers' climate conundrum. If the UK is to truly move away from its throwaway culture, then retailers must create a new customer proposition which is centred on sustainability.

The good news is that consumers – particularly those from younger generations – have indicated a willingness to pay a premium for sustainability. What's more, they also proactively want to shop with brands that are dedicated to embedding sustainable practices into their operations.

One option is dedicating as much focus to post-sale as to pre-sale, according to Stephanie Crespin, CEO and founder of Reflaunt.

The status quo around customer returns, for example, prioritises convenience above all else, with consumers able to freely return products despite the heavy environmental toll of shipping and the eventual disposal of goods into landfill. But Crespin thinks retailers should instead seek to minimise the number of returns they need to handle in the first place. She argues that better sizing information, more detailed product descriptions and highly tailored personalisation to connect consumers with items they're less likely to return would improve rather than degrade the customer experience.

"We are still in a retail dynamic where all efforts and investments are funnelled into making that first sale," she explains. "Little investment and responsibility are taken for what happens after that."

A slight move up the value chain would also help. "It's a win for the planet and for consumers' wallets to invest in quality products that hold decent residual value if they are resold," Crespin explains.

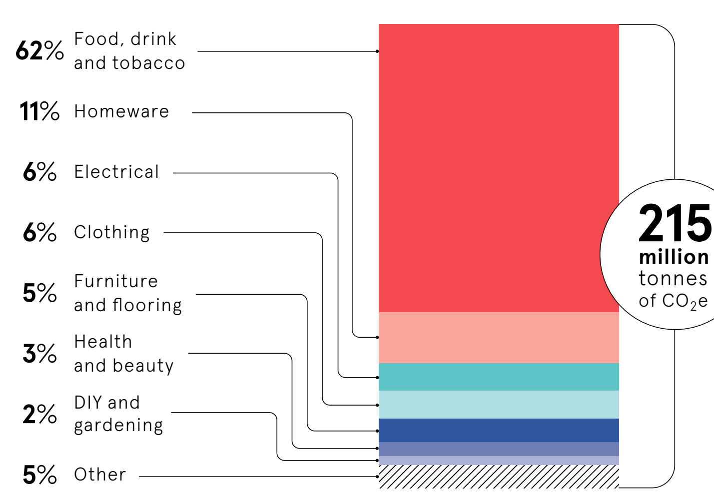
Thomas Walters, CEO and founder of advertising agency Billion Dollar Boy, agrees with this view. He believes, however, the success of this approach and any sustainability efforts driven by brands hinges on retailers being consistent and committed in their approach.

"Transparency is key," he says. "For example, if as a business you're offering free returns, then you need to demonstrate that those returns aren't simply going to landfill. And at times when you're potentially falling short of your climate responsibilities, you need to be honest and say, 'We're doing this well – but we know we can do better and this is how we're going to achieve change.'

"Sustainability has to be long-term, holistic and consistent across the business."

FOOD AND HOMEWARE ARE THE TWO BIGGEST POLLUTERS IN THE RETAIL WORLD

UK greenhouse gas emissions 1990 to 2019, by retail segment



Department for Environment, Food and Rural Affairs, 2022

Warren Eisenberg via iStock

BRAND STRATEGY

What retailers can learn from fandom flagships

To keep bricks and mortar alive, retail brands must build emotional connections with consumers. They need to foster fans, not just cater to shoppers

Nick Easen

Retailers face a major challenge in the post-pandemic world: consumer inertia. Why would anyone traipse to a wet, windy and busy high street when most products are just a click away?

This is a big problem for retailers with a physical presence on the high street or in shopping centres. In response, some megabrands are turning to theatrics and magical experiences in flagship stores to draw people in.

Instead of simply being palaces of products, flagships are now playgrounds for experiences and emotions. There's the new Harry Potter store in Midtown New York, Nike's concept outlet in London's Battersea Power Station, or the Google store in Williamsburg, Brooklyn.

Such brands are investing in new levels of engagement with fans in the flesh. But it does mean cultivating a new breed of consumers.

"These flagships are designed for followers," explains Michelle Du-Prât, chief strategy officer at Household, a brand agency which helped create the new Harry Potter store. "In these spaces, fans can connect over shared passions and celebrate their love for the brand. Hyper-engaged communities are consistently seeking out new experiences and heightened levels of immersion, as well as participation, which they do not find on other channels. It's a win-win for brands."

That's because emotionally connected customers are more than twice as valuable as highly satisfied customers, according to research published in *Harvard Business Review*. The 'fandom flagships' are possible because brands can now target customers with personalised messaging and curate communities across channels, fuelling interest and driving fresh engagement with bricks and mortar.

"The halo effect that is also created over the rest of the estate can be considerable," explains Nick Cooper, global executive director for insights and analytics at brand management company Landor & Fitch. "This has certainly been the case for brands such as Lego, where their investment in flagship stores has driven higher sales through other retail formats

The 'fandom flagship' Harry Potter store on Fifth Avenue in New York

> **"The halo effect that is also created over the rest of the estate can be considerable. This has certainly been the case for brands such as Lego**

and quite often through third-party stores as well."

So what can other retailers learn from the megabrands rolling out these fandom flagships? Is it possible to replicate their success?

There are four factors at work here, according to Cooper. First, brands must have an active, omnichannel channel strategy: too many retail stores are passive. Second, it's all about the experience in-store, which takes considerable investment. Third, brands must offer something new every time and excite people. And finally, human interaction is vital.

Thankfully, brands can use existing data to help with several of these challenges. "Companies thinking of going down this route should adjust their expectations, switching out typical metrics that are used heavily in retail, such as store revenue and sales density, in favour of brand perception and brand equity," says Naji El-Arifi, head of innovation at Wunderman Thompson Commerce. "However, these metrics are harder to measure and can take time to bear fruit," he warns.

Successful megabrands that develop fan and store formats invest hugely in understanding consumer needs at a granular, data-driven level. They use this data to foster fan bases. In this social media-fuelled age, fans then become content creators online in their own right.

Nike is a pioneer of this approach, encouraging customers to join its community, building loyalty with new product launches and invites to in-store events. Brands like Nike have easy access to consumer content, minimising the need to invest time and money in creating their own. In the end, retailers become fan facilitators, empowered by data.

"Smart brands are even leveraging content to authentically represent fans enjoying their flagship experiences and helping establish an even deeper sense of belonging in-store," explains Du-Prât. "Take Uniqlo's store in Harajuku, Japan. It uses more than 200 LED touchscreen panels to showcase curated fan content, spotlighting outfits and encouraging shoppers to browse styles most relevant to them."

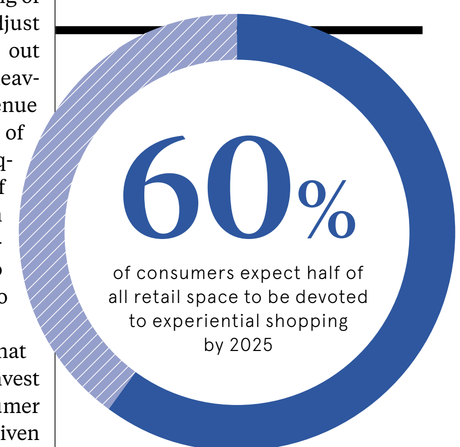
Such fandom flagships rise above the banal, predictable and mundane. They're the front-end of souped-up, consumer-led retail, akin to Formula One's relationship with the rest of the motor industry.

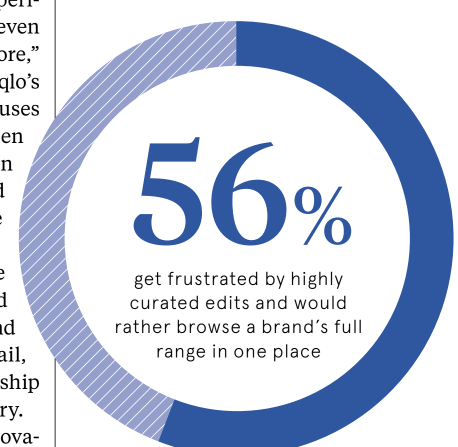
These flagships produce innovations that trickle down to regular bricks and mortar over time. For instance, Burberry offers personalised shopping via augmented reality in its flagship store in Shenzhen, China. Gucci presents a kind of virtual flagship in the metaverse with its Gucci Garden space and its team-up with Roblox, a well-known virtual reality gaming platform, where fans can spend time and money in a digital reality.

"Beyond experiential stores, we can also expect stores to become multi-purpose, allowing customers to have a wide array of experiences, engaging and connecting them with a brand's ethos," predicts El-Arifi. "For instance, Alibaba's Hema store in China brings a grocery store, distribution centre and direct sales platform into one place."

One of the biggest challenges for innovative flagships is privacy concerns among fans, especially since these experiences are increasingly data-driven. Fans want to interact with and buy from brands that they trust. As Du-Prât points out, brands need to be transparent about how they use fans' data, and it must benefit and add value to a consumer's shopping experience.

"The trust gap increases the younger consumers are," says Steve Lidbury, executive creative director





Westfield, 2020

for the UK and Europe at brand experience agency Imagination. "Brands therefore need to think of new and innovative ways to get their audiences to opt in to sharing their data. Cookies and data collection today are rarely in the consumer's interest, and mainly focus on the brand's interest. There needs to be a value exchange between brands and consumers."

That's probably the secret sauce for all fandoms and flagships: value exchange. Brands that nurture it will increase their chances of success.

INSIGHT

‘Sustainable retail is a question of demand’

Retailers and customers share a responsibility for getting sustainability initiatives off the ground, says **Andy Mulcahy**, strategy and insight director at IMRG

The move towards a more sustainable form of retail has been talked about for years, but we have to accept that very little tangible progress has actually been made. So, why is this, and whose fault is it?

One crucial thing to understand about retailers is that their activity is heavily dictated by demand. Retailers work hard to stay on top of what their target demographic want – their likes and dislikes, behavioural trends and their engagement with cultural issues – so they can offer the range of products that best fits their lifestyles.

The basics underpinning demand are as follows. If retailers present options for which there is limited demand, they won’t sell to the extent required. Where retailers get the selection right, the potential for strong sales is high. So, effectively, retailers take their lead from their customers.

Attitudes towards sustainability are no exception to this rule, although there does seem to be an expectation that the onus is on businesses to sort out the problem. An individual might feel they have very limited options to improve their footprint – by, for instance, eating less meat or driving less. Businesses, on the other hand, actually create the products and services that individuals access, and some have huge resources they could direct towards really making a difference.

One challenge is that improving sustainability usually entails cost; more expensive materials might be required, or more complex processes to underpin activity. Where businesses increase cost, they also need to see a return to cover it, so for sustainability to get the investment it needs, businesses need to feel that it will increase the appeal of their services and stimulate demand.

It’s not like some retailers haven’t tried to bring in services and updates to accommodate the move towards sustainability. Several retailers have taken a ‘circular’ approach by enabling their customers to trade in old items for credit. Others are willing to repair worn-down items, or offer second-hand ranges and clothing rental. However, what sounds good on the homepage doesn’t necessarily reflect the reality of demand. Indeed, if you speak to those retailers off the record, these offerings tend not to have proven as popular as they might have hoped.

And thus we find ourselves at a bit of an impasse. Services and approaches have been put in place, but retailers can’t currently justify the investment required to scale them up (which would help bring in efficiencies and reduce costs to the customer). Demand is the answer: we, as customers, have to show retailers that we’re ready to evolve too.

There are some simple things we can do to show that we’re serious: select slower deliveries and use click and collect over home delivery; return superfluous items such as carrier bags and hangers back to stores (in short, diverting things away from the bin); buy more circular products, such as second-hand or refurbished options; and use refill containers for foodstuffs to eliminate single-use packaging.

The more that we start to do things like this, the more businesses will pick up on it and make it easy and convenient for us to do so. The biggest celebrities need to lead the charge as well, driving sustainability actions and making it cool to do so. Something that has been so ponderous to get moving might actually happen at some speed once momentum reaches a certain point.

There are a lot of good people working in retail who genuinely want to make great strides in this area and there’s a lot of good will towards it as a concept. But we need to support retailers in becoming sustainable. They can’t do it by themselves. ●

Andy Mulcahy
Strategy and insight director
IMRG

Commercial feature

AR promises to reimagine customer experience

Augmented reality has the potential to create better conversion, tighter consumer-brand relationships, and a more inclusive ecommerce ecosystem. So, why are some retailers holding back?

Augmented reality (AR) is fast becoming a key component of consumer journeys.

Thanks in part to the Covid-19 pandemic, forward-thinking retailers have accelerated their efforts to replicate in-store experiences digitally. Ikea has built the capability to place furniture virtually in customers’ living rooms. Meanwhile, brands as diverse as Dior, Puma and Lego have all collaborated with Snap to augment their ecommerce offering.

While most brands have an online platform, only some take advantage of this format’s full potential. “[Augmented reality] is a far more engaging and personalised media format than static images or a video of an item,” says Fintan Gillespie, Snap’s head of UK Enterprise.

Gillespie sees AR as a solution to many of the problems brands face in the “broken” landscape of ecommerce where convenience is king and customer experience has taken a back seat. Shoppers are far more likely to leave a physical store having made a purchase; something augmented reality promises to change.

Shopify research has found that customers that interact with AR in online shopping ecosystems are 94% more likely to commit to a purchase. Additionally, 54% of consumers consider retail the ideal application of this technology.

“It’s personalised,” Gillespie explains. Customers have the opportunity to ‘try’ before they buy in a virtual setting, eliminating purchasing doubts to a large extent. “Engagement is so important. You get a feel of an item. The only other way you’re going to get that is by going into a physical store,” he says.

Retailers can now reach customers that have previously felt excluded. For example, the beauty industry has seen significant advances in inclusivity and safety as brands have integrated AR into online experiences. Users can accurately test the tone of makeup based on their skin colour or try out a new shade of lipstick without a physical sample. Tools like Snap’s ‘Inclusive Camera’ can make digital spaces more accessible.

Despite a positive reception from shoppers, some brands have been slow to adopt. The application of AR in ecommerce is still perceived as a novelty. Gillespie believes that many brands view this use of technology as “just for fun”, overlooking the potential value add to customer journeys that this can have.

He hypothesises that most brands don’t yet have the infrastructure to measure success in this area. “Measuring it is the key. If you don’t have a way to measure it, then your CFO is never going to sign it off,” says Gillespie.

However, the headline figures around increased conversion in the market at large should quickly change perspectives. Gillespie explains that late adopters haven’t missed the boat, and getting started is relatively simple.

Companies can start by testing success with a small sample of items. Then, by scanning images of their products and sending the information to third-party apps, 3D designers can quickly recreate the items digitally.

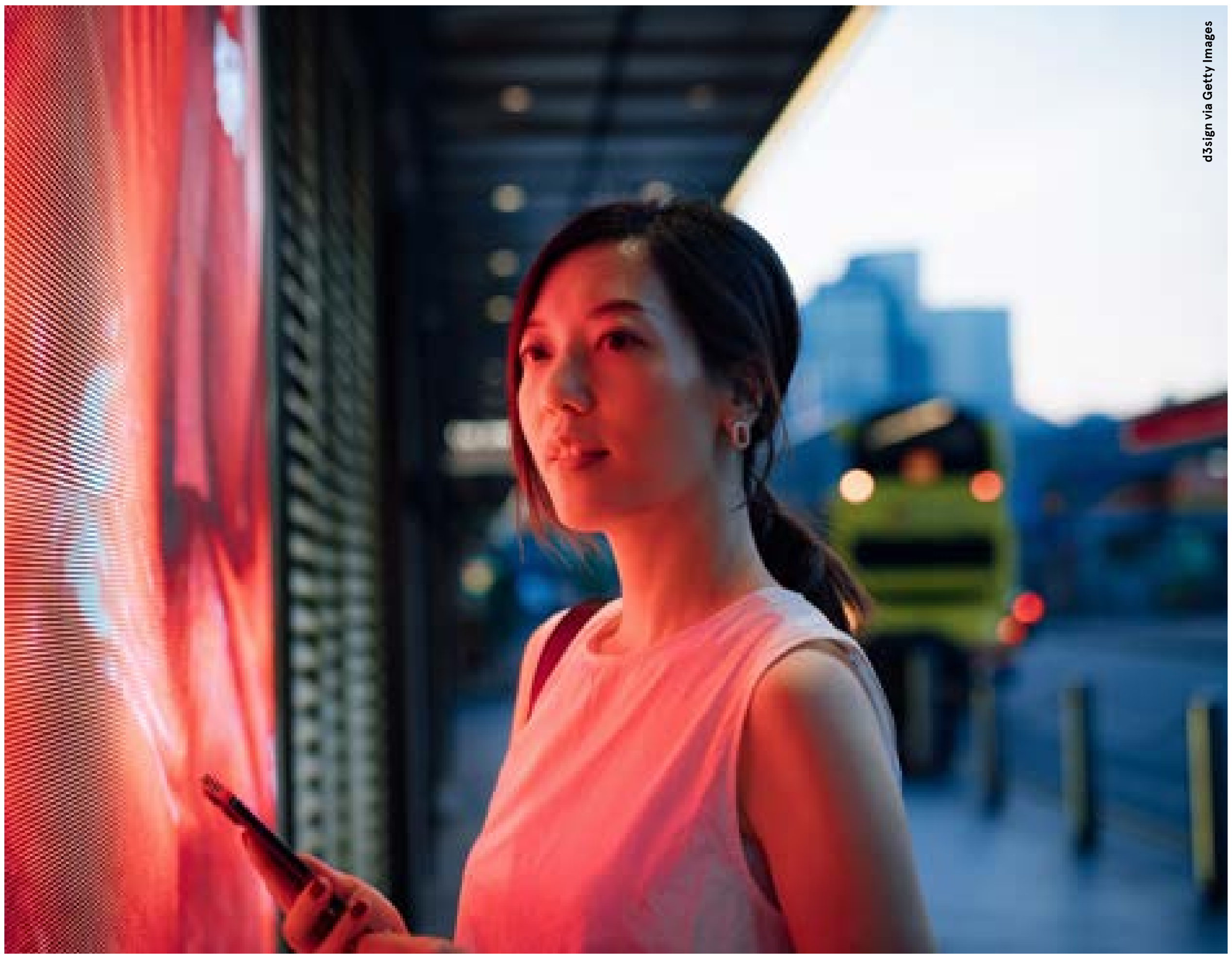
Snap achieves this for partners through an open-source platform called Lens Studio. Retailers send their product information through an API, at minimal cost and effort.

“It’s not difficult for a retailer to go and scan five items and get a proof of concept,” says Gillespie. “Put them on a landing page through the API’s that we provide, and then see whether users are buying at a higher rate. If that’s the case, your investment thesis is done.”

Crucially, retailers don’t have to build their own AR capability. Instead, consumers can interact with the solution outside the business’s existing ecommerce architecture. “It doesn’t matter where the touchpoint is as long as it happens,” says Gillespie. By leveraging the reach of third-party platforms, retailers can reach new consumers and gauge success using those platforms’ native analytics.

Brands that are using AR to create better shopping experiences are tapping into a golden opportunity to engage audiences and build tighter consumer relationships long-term. He concludes: “When you’re thinking about building customer relationships between a retailer and potential users, the engagement of the technology stands out. It’s just far superior to any other media type.”

“Measuring it is the key. If you don’t have a way to measure it, then your CFO is never going to sign it off



d3sign via Getty Images

TECHNOLOGY

Why AI is the smart route to customer retention

Personalisation is the key to customer loyalty, a major goal for any business. Companies are using AI to help provide bespoke experiences

Morag Cuddeford-Jones

Whichever way you slice it, there's one way to grow revenues that stands above the others: keep your customers coming back for more.

Retaining customers is cheaper than acquiring new ones, while keeping more of them over time can deliver a disproportionately large boost to profits. One study suggests that increasing customer retention by 5% can increase profits by as much as 25%.

Many factors feed into customer retention. Great customer service is a given. If things do go wrong, a timely and appropriate response from a customer care team can lead to higher retention and advocacy rates than if everything has been hunky-dory from start to finish.

But perhaps even more effective is personalisation. More than half of customers (56%) in one study said they stay loyal to brands that 'get them'.

Personalisation in retail is a paradox. To succeed, retailers must personalise their offerings in a huge range of ways – and for every customer. Without the help of technology, providing that individual service in a cost-effective and time-efficient manner just isn't possible for any but the smallest boutique brands.

That's where artificial intelligence (AI) and machine learning (ML) come in.

"As we've grown as a business, we now have enough data so that, rather than having a person do this manually, which is sub-optimal, time-consuming and lagging in many cases, we started to apply ML algorithms to give people personalised experiences," explains Joe Tinston, chief product officer at online florist Bloom & Wild.

As Bloom & Wild is primarily a gifting service, those personalised experiences can be incredibly complex, Tinston says. The company must cater to at least two different customer types simultaneously: the gifter and the giftee. "We can use a variety of user and transactional data to provide the most relevant recommendations," he explains.

This becomes more complicated as the company looks to expand its product range beyond flowers into other gift types. Tinston admits this is still in quite an exploratory phase, but he would challenge anyone to deny that AI personalisation is an evolving journey.

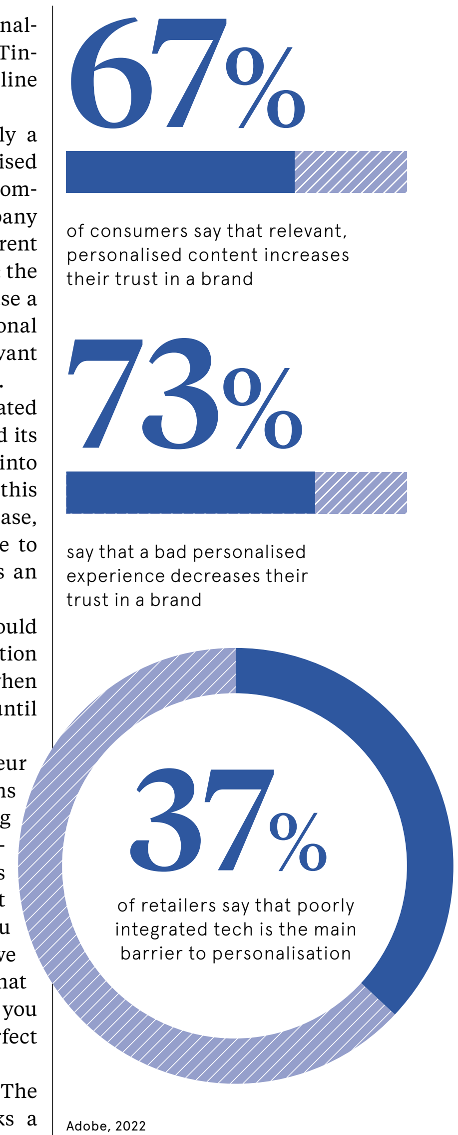
It's easy to see how you could tweak bouquets for personalisation at scale but it isn't as obvious when it comes to trousers. That is, until Spoke turned up.

The brainchild of entrepreneur and CEO Ben Farren, Spoke aims to tackle the problem of ill-fitting men's trousers by offering a bespoke experience to thousands of customers at once. "Fit is not rocket science," Farren says. "You need more sizes. At Spoke, we have 400 sizes to order – but that creates a new problem: how do you navigate a customer to his perfect size across a range that big?"

The answer? Data and AI. The company's 'fit finder' app asks a range of questions, from height and weight to how tight the customer likes to wear their watch strap. "The beauty of ecommerce is that you have this incredibly rich fire hydrant of data coming at you in terms of every single customer interaction," Farren says.

By bringing all the data sources together – website interactions and first-party data which has been input by the customer – the company can accurately predict a customer's best size by running an ML algorithm.

> **"AI helps us identify the information and services that will influence the customer's decision today and tomorrow"**



Farren says the figures speak for themselves, with 20% of new orders at Spoke repeating within 30 days, rising to more than 50% in the first year. Of the first customers recruited when the company started in 2016, many are still coming back. "When men find their fit, they are incredibly brand loyal," he says.

Of course, it must make financial sense to maintain a stock of semi-bespoke sizes. Farren says the company can keep customer options high and costs low, primarily through centralising inventory in a single warehouse – ideal from an ecommerce perspective – and personalising at the last mile.

"We finish the trousers off in our workshop in Yorkshire, so that little bit of agility and flexibility in the last mile helps us get to a bunch of additional sizes," he notes.

Many customers prefer to inspect a physical product before buying, which they can't do online. Personalisation could bridge that gap.

Online florist Bloom & Wild uses AI to personalise the customer experience

Spoke menswear has a 'fit finder' app to help customers order the right size; Spoke CEO Ben Farren (below)

> The beauty of ecommerce is that you have an incredibly rich fire hydrant of data coming at you in terms of every single customer interaction

"When someone shops in the digital world, in the absence of being able to touch and feel the product, they need added reassurance and confidence to complete the purchase," says Francesca Contardo, ecommerce director at jewellery maker Pandora. "AI helps us identify the information and services that will influence the customer's decision today and tomorrow, depending on their changing needs."

This experience extends beyond the product itself, with Contardo citing payment options or delivery services as 'added value' extras that personalisation can reach. The company is at the beginning of its AI personalisation journey, but it has already seen benefits.

"Decision-making in organisations can be lengthy and is not always backed up by data. That's where AI adds a layer of efficiency. It has helped us significantly in streamlining processes and, ultimately, maximising traffic to drive conversion," she comments.

Tinston hasn't solved the company's customer retention question completely just by implementing AI personalisation. "Our overall business objective is building longer-term loyalty, but that takes a long time to measure, particularly in a low-frequency business like flowers. We need a proxy metric, something we think is going to drive longer-term retention."

The range of information Tinston models is staggering, from purchase frequency to transactional data and detailed feedback on how ranges are performing for different customer segments. Encouraging customers to use a 'save the occasion' facility is also helping to improve the company's models.

Tinston favours third-party tools such as Chatter. This natural language processing-based feedback tool identifies themes within customer feedback to provide insights that inform what Bloom & Wild does as a business.

"There's the extent to which you want to automate things versus how much automation adds value to the customer," he says. "For example, lots of people email fairly common queries to our customer delight team, and we could start to use the historic responses our agents have sent to automate at the first point of contact, before becoming more personal later. It's an interesting area for us to explore in the future."

For Farren, such tweaks are vital in the dog-eat-dog world of direct-to-consumer retail. People once thought Facebook and Google had upended the economics of consumer brands, he says, when the truth is that "what we get back from skipping retail overheads, we pay to Facebook and Google in spades".

The only way to make direct-to-consumer work in the long term is to build real lifetime value, offsetting the cost of acquiring new customers through providers like Meta, he says, "and by building true customer loyalty, expressed in a continuous revenue stream from those guys who have been around for years. Personalisation is a great example of something which makes that happen." ●

PHYSICAL STORES

Tough times: five key challenges for bricks and mortar

With consumer spending declining, 2023 looks set to be a tough year for retail. Here are five key issues for brick-and-mortar businesses in the coming months

Jonathan Weinberg

For bricks-and-mortar retailers, the coming year could prove tricky to navigate.

A significant number are already upending their businesses. A recent survey of 500 UK retailers by Dutch payment company Adyen showed that 46% are re-evaluating their strategies for physical stores. Many reported that they're moving out of business parks and shopping centres to be closer to residential areas. And critically, asked whether physical stores would remain important to their business post-pandemic, 27% said they would not.

But there seems to be enduring appeal for the format. Adyen also spoke to 2,000 UK consumers and discovered that nearly half (49%) still prefer to shop at a physical store, particularly where technology is being used to improve the customer experience.

As bricks-and-mortar retailers try to maintain a lean and effective physical presence over the tricky 12 months ahead, here are five key challenges they must navigate if they want to survive.

Luc Ichard via iStock

Using stores as ecommerce hubs

As the largest sporting goods retailer in the world, with almost 1,670 stores in 60 countries and regions, Decathlon understands the significance of bricks-and-mortar retail. For Oksana Dambrauskaite, Decathlon UK's ecommerce operations leader, the key task ahead is finding new ways for the physical and online presence to coexist.

Click and collect and in-store returns offer the "perfect balance of encouraging customers to visit our stores while building on the convenience of online shopping", she says. But she warns that such integration can be disjointed if designed around manual processes for in-store staff. This increases queuing time, frustrates customers and prevents additional browsing.

To modernise the customer experience, Decathlon has focused on streamlining the click-and-collect and returns processes. It uses smart parcel lockers from Parcel Pending by Quadient as a safe and secure way for customers to pick up or return items, Dambrauskaite says.

"The lockers are automated, only open to customers with the right passcode and can record who left or took an item," she says. "So far, 98% of customers who used the lockers were satisfied, and our security and accessibility have improved significantly."

40%

of transactions are click-and-collect, among retailers that offer it

41%

of physical stores in the UK are used as ecommerce hubs

Barclays, 2022

Ceri Breeze via iStock

Soaring rents and leasehold changes

Commercial landlords have a huge role to play within bricks-and-mortar retail. Economic headwinds could see rents increase, prompt contract changes (with rent being paid monthly rather than quarterly, for instance), or force adaptations to meet incoming regulations.

Paul Davies is head of commercial property at solicitors Harper James. He thinks that in 2023, retailers that proactively manage their leasehold interests will "fare far better than those who are less savvy".

This could involve some difficult but necessary conversations. "Rents based on turnover are starting to creep in more often as landlords find that headline rents are becoming challenging for retailers," he says.

Davies also predicts that retail tenants will more often request the power to share spaces (sub-let) more easily, without needing complex and formal landlord consent. This would best fit their business models, without needing permission for elements such as alterations and signage. "Adapting to changing consumer demand means greater flexibility will be desirable and should be considered in advance," Davies advises.

What's more, new regulations are on the horizon as part of the government's target of net zero by 2050. "Those looking to renew or take on a new lease could find shrewd landlords including clauses which pass on the cost of compliance to tenants," Davies warns.

Gorodenkoff via iStock

Expansion pressures

As big-name retailers face issues with keeping their bricks-and-mortar stores open, some SMEs face the opposite struggle. Kirsty Gale, founder of prom dress company Red Carpet Ready, wants to expand by adding more showrooms to the five she currently operates. The company is bricks-and-mortar only, and Gale wants to add a wholesale arm.

But she cites a series of physical retail challenges holding back this expansion. Not being able to recruit enough people, energy prices, and supply chain and logistics issues.

Gale's success over the past nine years has been built on in-person shopping experiences for customers. "We are a shopping destination which is open seven days a week," she explains. She believes the value of bricks and mortar lies in bringing "customer service and a unique customer experience to the forefront… no online business can compete with that."

Providing that level of personalised service in difficult times will rely on some savvy business practices, particularly as prices increase everywhere. "As a proactive business owner, it's forcing me to analyse every aspect of my supply chain," Gale says. "Be sharp in identifying opportunities, look at better ways of buying your product, who to buy from and what country to buy from, to keep prices down."

Maximising inventory without overburdening cashflow

Bricks-and-mortar retailers must pay more attention to ensuring the right stock is in the right place at the right time, says Stuart Higgins, a former head of logistics at Halfords. This must be achieved without excess inventory, he says, which diminishes working capital.

Higgins is now a partner at independent management consultancy BearingPoint. He says retailers are "having to take a punt" on which stock will sell where and in what quantities, because of the need to bring large, seasonal buys into the business before a season launch. This can be countered by better forecasting, he says. There can be differing rates of sale across stores, he says, some in line with forecast but most outside it. This leads to significant issues with items going out of stock and lost sales in parts of the retail estate. Conversely, in other stores there are high levels of overstocking that require markdowns at discounts of 30% to 70%.

"The answer is turning the conventional seasonal replenishment model on its head. Initial allocations should cover display stock and only two or three weeks of forward sales," he says. "This allows stores to fulfil the initial sales demand but then it requires stock to be replenished rapidly to replace sold stock. This ensures stock is directed to stores that are actually selling, while avoiding overstocking in those that are not."

Kim Willems via iStock

Balancing sustainability and value-based purchase habits

According to a global study of nearly 13,000 consumers by Mood Media, people want more sustainable products and practices in their shopping journeys.

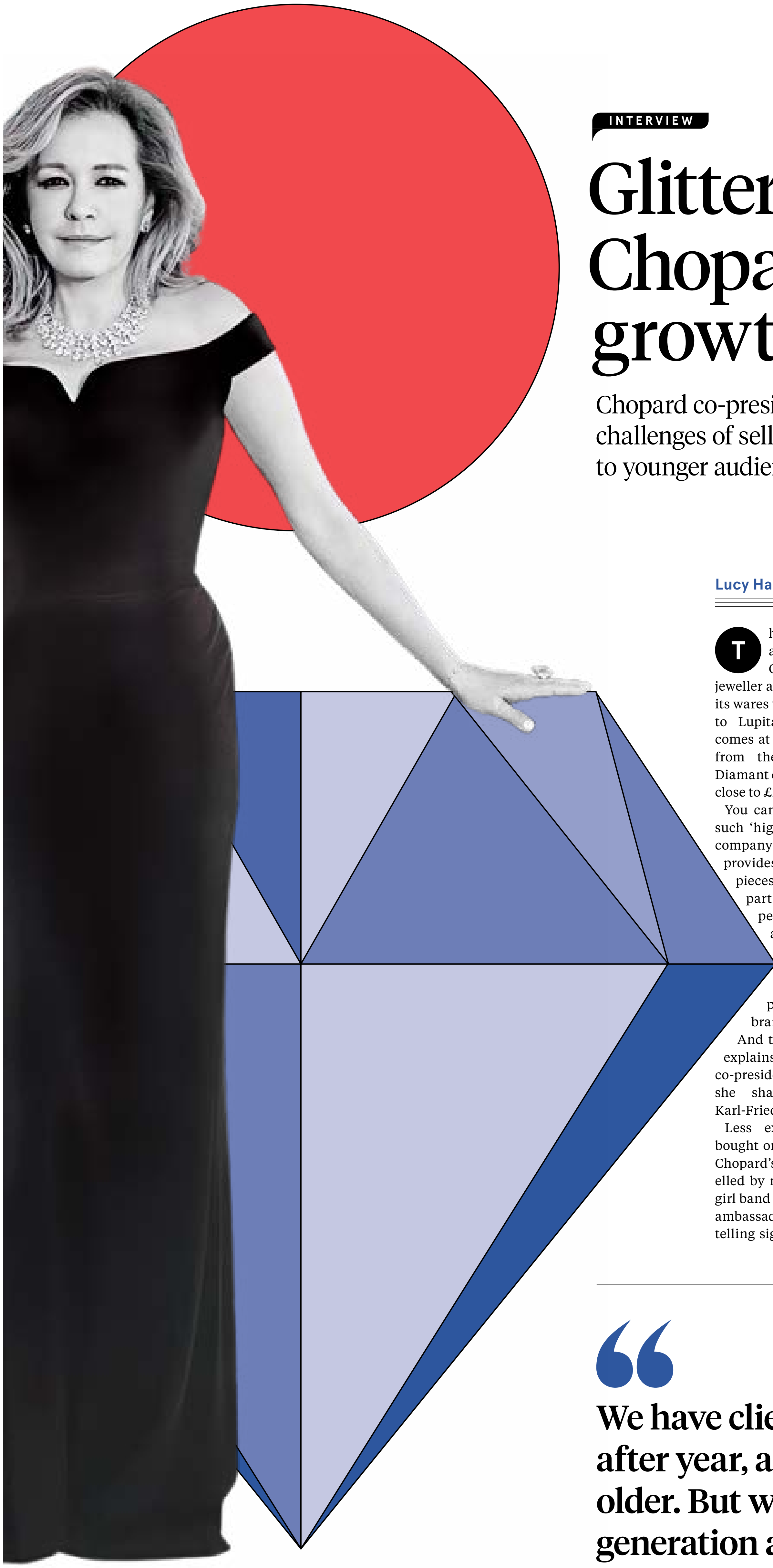
The offer of a repair service was the top choice that would positively influence any decision to visit a physical store, chosen by 63% of consumers. What's more, 55% of UK consumers said they would be more likely to visit a store which provided a recycling point for used packaging or clothing.

This chimes with Elissa Quinby, a former Amazon product manager who is now senior director of retail marketing at analytics company Quantum Metric. She comments that the ever-increasing focus on the environment, combined with the current economic climate, means that many consumers are moving away from unsustainable products and practices.

"Shoppers, especially those who are Gen Z, are voting with their money," she says. "Rather than buying on a whim, this influential group of consumers wants to support brands that align with their values."

This means retailers must not just provide high-quality goods at the best price, but also offer a knockout customer experience. "Mission-driven brands with commitments to social issues like sustainability will undoubtedly win." ●

Oksana Kalinina via iStock



INTERVIEW

Glittering opportunity: Chopard balances growth with quality

Chopard co-president **Caroline Scheufele** outlines the challenges of selling high-end jewellery online, appealing to younger audiences and navigating geopolitical turmoil

Lucy Handley

Think of giant diamonds and you might well think of Chopard, the Swiss luxury jeweller and watchmaker that lends its wares to stars from Julia Roberts to Lupita Nyong'o. That cachet comes at a price: a pair of earrings from the Chopard L'Heure Du Diamant collection will set you back close to £100,000.

You can browse – but not buy – such 'high' jewellery items on the company's website, where Chopard provides plenty of content on its pieces and their origins. It is all part of an effort to drive people towards its bricks-and-mortar stores.

"A lot of people go online to collect all the information and compare products from one brand versus another brand. And then they go to the shop," explains Caroline Scheufele, co-president of the company, a title she shares with her brother Karl-Friedrich.

Less expensive items can be bought online, such as pieces from Chopard's Happy collection, modelled by members of South Korean girl band Aespa, who became brand ambassadors in September. It's a telling sign of the quandary facing Chopard and many other luxury brands: how to maintain sales among an older clientele while attracting younger generations in the face of stiff competition.

Plenty of smaller jewellers such as Catbird have started leaning on TikTok and Instagram to reach younger audiences, while Gucci Vault, the luxury giant's "experimental" online shop, focuses on selling more unusual pieces from other designers such as Bleue Burnham, which recently created a collection made from recycled gold and silver.

In this vein, Scheufele says that Chopard's My Happy Hearts collection, which features smaller diamonds and simple gold bangles and pendants and starts at around £1,600 for a ring, is popular with younger women. In September, Chopard launched a Snapchat filter for the collection, allowing customers in Europe, the Middle East and the US to virtually try on items before buying them.

"We have clients who come back year after year, and they grow with us as they get older. But we also have to address the younger generation and see what they like and [Snapchat] is what they look at," Scheufele says. "They don't look at,

> **We have clients who always come back year after year, and they grow with us as they get older. But we also have to address the younger generation and see what they like**

unfortunately, magazines anymore. Maybe they watch TV series, so if you do product placement within a series, that is also very effective," she explains.

When Scheufele was approached by stylists working with Jennifer Aniston on Apple TV+'s *The Morning Show*, she "naturally" said yes to their request for Aniston's character to wear watches from Chopard's LUC collection, she told *The Hollywood Reporter* in 2019. Chopard also put Ana de Armas in diamond earrings, necklace and bracelet for 2021's *No Time to Die* and hired the actress to promote its Golden Hearts collection to coincide with the film's release.

It's all part of a canny marketing strategy that has helped carry the brand into the 21st century.

Chopard was founded by Swiss watchmaker Louis-Ulysse Chopard in 1860. Scheufele's parents Karl and Karin bought the company in 1963, with both still active in the firm. Scheufele herself has worked in the business for 35 years, designing and launching its first pieces of jewellery at a time when Chopard only made watches.

When she was 20 years old, her father sent her to Japan for a store opening. "He gave me a title: 'You're the vice-president,'" she said during a panel discussion on equality at the Global Citizen Forum, a conference held in the United Arab Emirates in November 2022.

The theme of the conference was human metamorphosis. Scheufele, it transpires, has long been an advocate of change at Chopard. She redesigned the Cannes Film Festival's Palme D'Or award in 1998, and Chopard became an official partner of the event, putting it on a global stage for more than two decades.

Appointed co-president in 2001, Scheufele is also artistic director today, overseeing design as well as international expansion. The brand is now sold in bricks-and-mortar stores and concessions in more than 100 countries.

She says she is relieved the business is "very well spread" around the world. "Sometimes one country has an economic crisis – or, for example, we cannot work in Russia [because of its invasion of Ukraine], which is a big market. But America is doing really well this year, Europe has picked up a lot and the Middle East is booming," she adds.

China is also a large market for Chopard, with around 60 outlets. It's a place where online sales are accelerating, especially since the Covid-19 shutdowns of the past two years. "A country like China is so big and the cities are like countries there. Plus the younger generation there shop more online than the older generation," Scheufele says.

Globally, online retailing accounts for about 4% to 5% of Chopard's sales. But in China, the US and UK, ecommerce sales have roughly doubled this year, Scheufele adds.

Chopard started selling online via an 'e-boutique' in the US in 2012, while the UK followed in 2015. It launched a range on luxury website Net-A-Porter in 2017 and entered the Chinese ecommerce market in the same year, with a small shop on China's giant JD.com site.

> **Growing the business is one thing but maintaining it is another. You must not lose control over the quality**

75,000

The number of watches Chopard produces each year, plus the same again in items of jewellery

2.1 million

people follow Chopard on Instagram

Chopard, 2022

In 2021, Scheufele joined JD.com's board. This gave her "another perspective" on ecommerce, she says, noting the speed of trends in China as well as delivery innovations such as the use of drones.

While growth is desirable, keeping control over customers' experience is important, Scheufele says. "Growing is one thing but maintaining it is another. In growing the business you must not lose control over the quality," she explains.

These days, an important part of quality is corporate responsibility. Chopard has a strict sourcing policy and is a member of the Responsible Jewellery Council, moves that Scheufele pushed for. "We managed to change the whole production so it's now all Fairmined gold or recycled gold. Either way, we have complete traceability," Scheufele says.

What does she see coming next for luxury brands? Along with more of a focus on sustainability and transparency, collaborations will continue to be important, she suggests. "You have the two visions of two different industries on one product, and that always gives you some sort of fresh wind," she says.

For instance, in November 2022 Chopard opened a New York City flagship store on Fifth Avenue selling a range of jewellery named Happy Butterfly, which Scheufele designed with Mariah Carey. A small, rose gold, heart-shaped pendant with three diamonds at the centre costs around $3,000 (£2,870), and the collection will only be available in the US at first because of production limitations, Scheufele says.

The singer approached Scheufele directly because she wanted to celebrate her song *All I Want For Christmas Is You* reaching diamond status. But the partnership was not designed as a corporate venture. "It wasn't planned, there were no marketing consultants in there." What a gem.

Why outsourcing needs to be backed up by experience

Lots of retailers are looking to outsource their contact centres right now. But one size won't fit all, and cross-industry knowledge can be particularly valuable

Paula Constant, CEO at Woven

As businesses look to undergo digital transformations, many will consider outsourcing their contact centre. But it's not just a way to lower costs or improve efficiencies. In fact, it could actually be a chance to get ahead of the competition.

The global contact centre outsourcing market is set to grow by $21.7bn in the four years to 2026, at a compound annual growth rate of 3%, according to a study by market research agency ReportLinker. And the retail sector is one of the fastest-growing buyers of contact centre services, as consumers move more of their spending online.

But as the market shifts, the challenge for outsourcers is being able to offer bespoke solutions to key business challenges, while still ensuring a seamless customer experience (CX) along every step of the customer journey.

To do this, outsourcing specialists are having to gather experienced teams to come up with innovative and imaginative solutions to everyday business challenges.

With a background in telecoms Paula Constant, CEO at UK outsourcing business Woven, is not your typical outsourcing boss. And she has picked her diverse executive team – formerly in the retail, telecoms, utilities and financial services sectors – for exactly the same reasons.

"We're not that classic, old-school outsourcing business, which doesn't always have a great reputation," says Constant. "Our leadership team have all had jobs in the industries we serve, working on the other side of the fence. As a result, I think we've got a much better understanding of what companies really need, the way they're measured, and the pressures they are facing," she says.

As demand from businesses grows, outsourcers need to ensure they are equipped with the teams, skill sets and experience to adapt to this changing landscape. Cutting-edge technology is no longer enough; it needs to be coupled with complex strategic thinking in order to come up with bespoke solutions to everyday business problems.

And this includes understanding when technology can be used to support key business challenges, without harming the customer experience in the process.

Constant says she faced this challenge with one of Woven's clients, the cinema chain Vue. "Checking the balance of a gift card was one of the most common reasons for contact," she explains. "But this simple query was taking up valuable human resource, which was preventing Vue from solving really emotive, complex problems."

She explains that her team explored ways in which they could reduce customer contact through automation, while still maintaining the high-quality experience customers were used to. "The process was incredibly collaborative," she says. "We went through an iterative design process, attending workshops and exchanging ideas with Vue's digital team and gift card provider to create a customer-first automated solution, driving down contact and improving CX."

And this strategic thinking was only possible due to the cross-sector experience of her team members, who were able to see the business challenge through the eyes of the client, Constant explains. And the results speak for themselves. Contact volumes for this specific Vue query decreased from 23% to 3% at the point of switch-on.

As David Cameron, Vue's head of marketing, puts it: "The partnership has proven to deliver great customer journeys, through understanding the key contact needs and developing easy solutions that delight the customer by delivering easy to use and speedy responses."

Of course, as well as harnessing that vital cross-sector experience, outsourcing also needs to nurture a pipeline of new talent to ensure it continues to meet the unique business challenges of the future.

A focus on retention and growth is key here, as 80% of contact centre employees want to eventually move into another position within the company, including contact centre leadership, according to McKinsey's report Customer Care: The future talent factory.

In response to this, Constant says she has launched an academy for young people aged 16-plus at Woven. The aim is to build a pipeline of talented new contact centre workers and to support them as they move into the world of employment. This is in addition to delivering a training programme through music, art and drama and sport, which she says "looks at imaginative ways to connect what is important to our staff to what is important to our customers".

As digital transformations continue apace, the nature of contact centre work and the challenges around finding solutions to increasingly complex business problems require strategic thinking. And as the UK endures some particularly turbulent times, outsourcing needs to be backed up by experience to ensure it can rise to whatever challenges the months ahead hold.

For more information please visit www.wearewoven.com

WOVEN

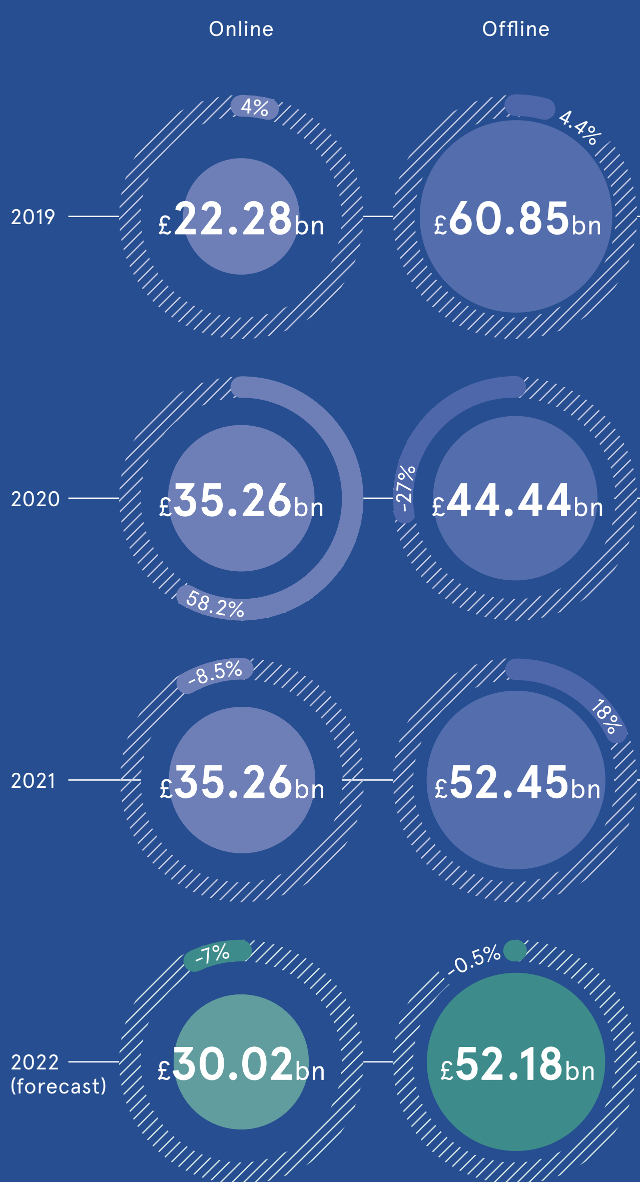
THE CHRISTMAS RETAIL CRAZE

The festive season is here and retailers
ready for the holiday rush. But while ju
over half (52%) of UK consumers expe
celebrate the season as usual, about 4
will be feeling the pressure of rising co
this season. How will the cost-of-living
impact consumers' Christmas festiviti
holiday shopping habits?

ONLINE OR IN-STORE?

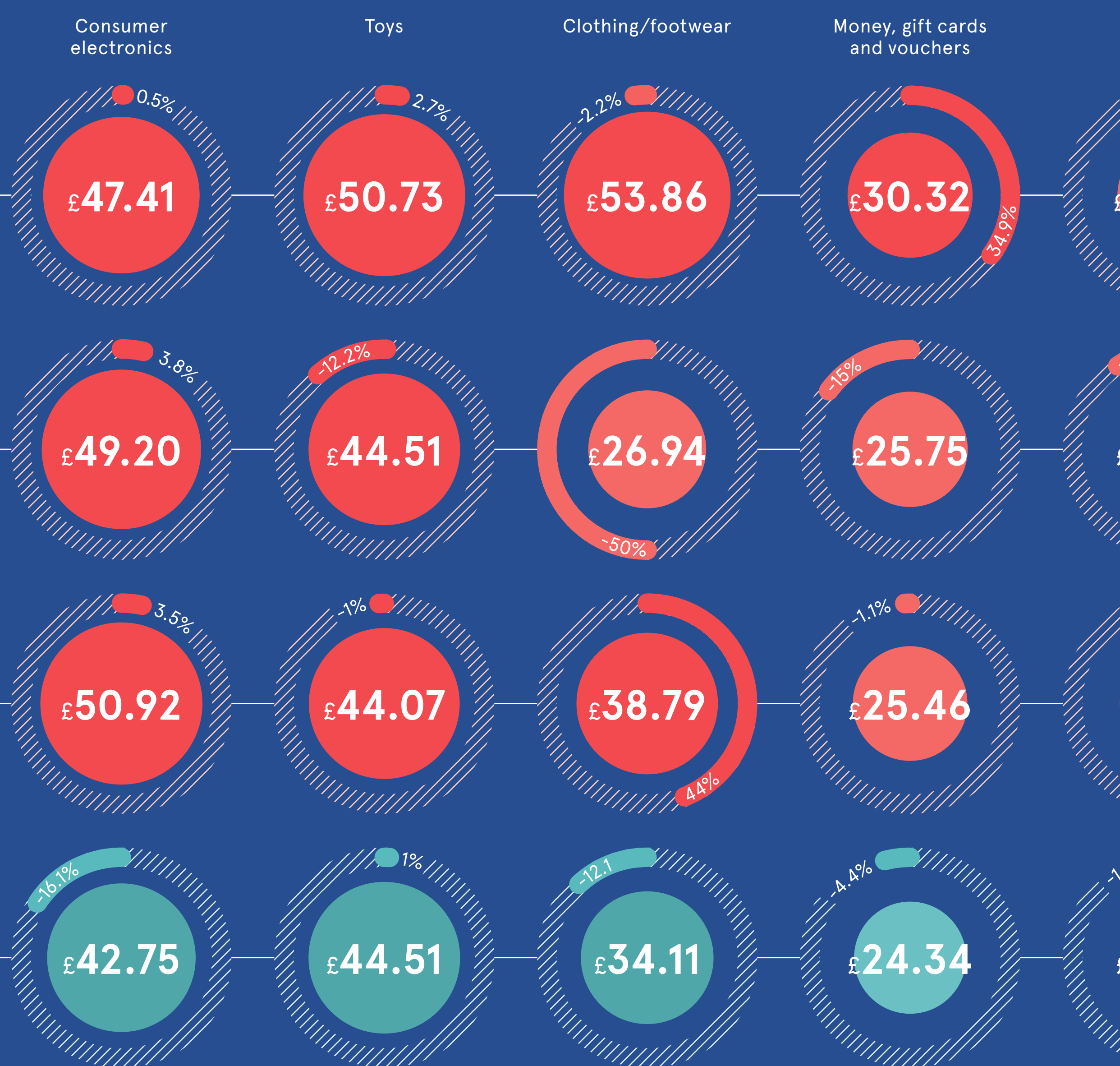
VoucherCodes.co.uk, 2022

Online and offline sales during Christmas in the UK, with year-on-year growth



CHRISTMAS SPENDING PER HEAD

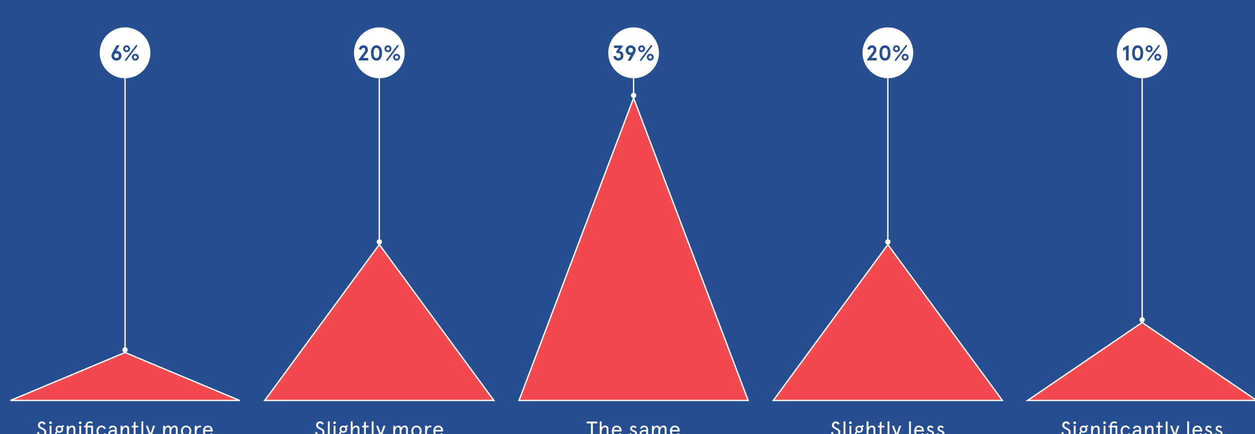
Average Christmas spending per head on gifts in the UK, by category



A SEASON OF EXCESS?

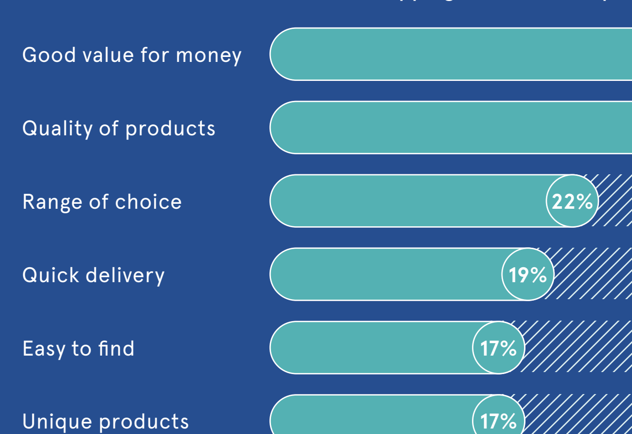
eBay, 2022

Compared to last year, how much are UK consumers planning to spend on Christmas gifts and celebrations in 2022?



CHRISTMAS SHOPPING PRIORITIES

Priorities for UK consumers when shopping for Christmas pres



s are
ust
ct to
49%
osts
g crisis
es and

52%

of UK consumers are optimistic that they'll be able to celebrate Christmas as usual this year, despite rising costs of living

eBay, 2022

49%

of UK consumers say they feel worse off financially this year than last year

VoucherCodes.co.uk, 2022

30%

plan to be more organised and start their shopping earlier to find better deals due to the impact of the rising cost of living

eBay, 2022

27%

are prepared to spend more for items that have better sustainability credentials

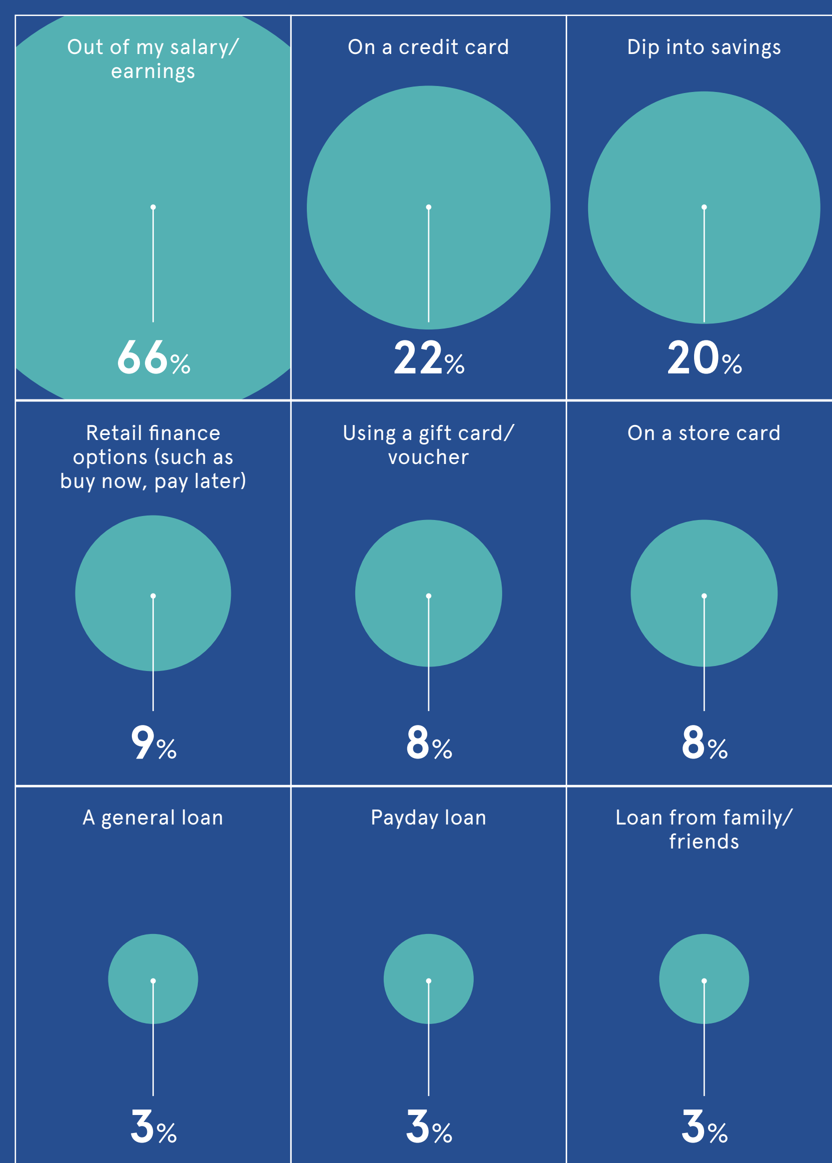
eBay, 2022

VoucherCodes.co.uk, 2022

PAYING FOR CHRISTMAS GIFTS

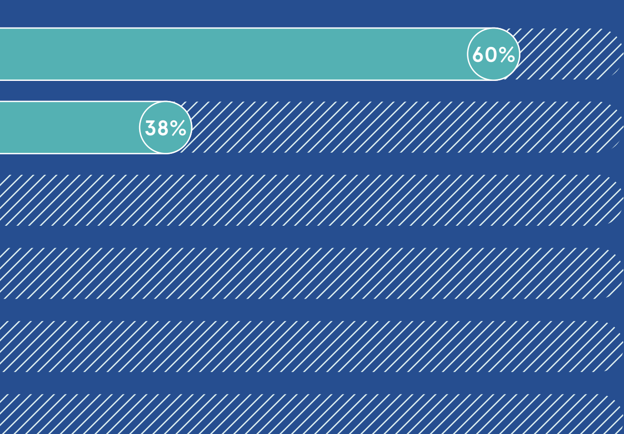
VoucherCodes.co.uk, 2022

How UK consumers will fund their Christmas shopping



eBay, 2022

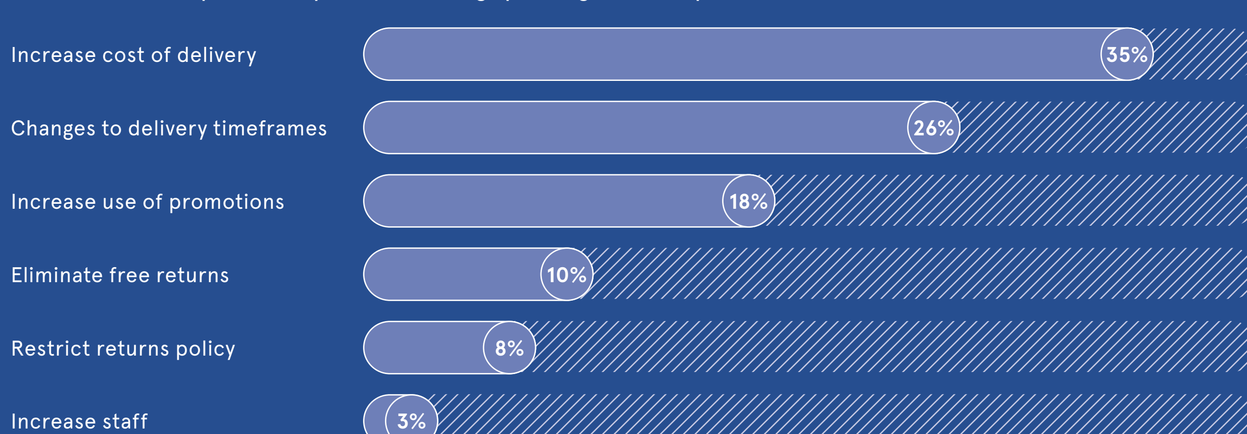
ents in 2022



RETAILERS' RESPONSE TO RISING COSTS

Metapack, 2022

Measures retailers plan to adopt to offset rising operating costs this peak season



REWARDS

Brands retool loyalty schemes for tougher times

Amid economic turmoil, companies are revamping their rewards programmes, seeking new ways to keep their best customers and lure new ones

Mark Walsh

The Starbucks loyalty programme boasts an impressive 28 million people. But while customers may have signed up to earn free coffee, the rewards now go well beyond a cup of Java.

In October, the coffee chain announced Reward Together, a new initiative which links its loyalty programme in the US with that of Delta Airlines. This allows members of both to earn reciprocal points when they spend at Starbucks or book with Delta: loyal customers of both brands can earn one mile with Delta per $1 spent at Starbucks.

That offer came hot on the heels of Odyssey, which is a Web3-powered expansion of the Starbucks loyalty programme that allows customers to earn and trade non-fungible tokens (NFTs). This, in turn, can lead to other benefits, including a trip to the company's coffee farm in Costa Rica.

As it updates its loyalty operation to retain and attract new customers, Starbucks isn't alone. Punishing inflation and broader economic uncertainty are leading restaurant chains and retailers from Chipotle to Marks & Spencer and Amazon to roll out novel loyalty schemes as a hedge against slowing business.

"There are a lot of issues happening that are causing brands to really look to identify who their loyal customers are – and to figure out how to keep them," says Mary Pilecki, a principal analyst focusing on customer loyalty at Forrester Research.

But there's a fine balance to be struck to avoid going too far or moving too fast.

With inflation soaring past 11% in the UK and the EU and above 8% in the US, cost savings are top of mind for consumers. That's where the financial benefits of loyalty programmes – things like discounts, loyalty points and reward certificates – can help people to stretch their budgets.

Pilecki advises retailers to ensure customers know their options for redeeming financial rewards linked to essential products that may have become more expensive. Such offers should be reserved for a company's best customers. "You should do it for your truly loyal customers, not just anybody who walks in the door," Pilecki comments.

Mexican food chain Chipotle is grappling to maintain customer loyalty – even as it raises prices amid growing costs. CEO Brian Niccol has signalled that the company is trying to better tailor its loyalty rewards towards different customer segments.

"Some of it is obviously the low-income consumer. Some of it is also what they're interested in, whether it's having more access digitally or having a different experience when coming into our restaurants," he said during a quarterly earnings call in October.

Using its database of customer information, the chain can communicate with customers "so that we're giving them relevant messaging that keeps them engaged with Chipotle", he added.

Indeed, analysing customer data on a more granular level may be a smart strategy for retailers. That's according to a recent study that analysed 15 months of data for 24,000 members of a subscription-based loyalty programme at a major retailer in Asia. The study, published in the *Journal of Marketing*, found that while customers on average spent twice as much after joining the programme, some contributed much more than others to that increase.

Such an understanding could help marketers better target prospects. So says Raghuram Iyengar, a professor at the University of Pennsylvania's Wharton School and a co-author of the study.

Of course, retailers should also be aware that in leaner times people are more likely to consider dropping costly subscription programmes, such as Amazon Prime, or switching brands for a cheaper option.

> **There are a lot of issues happening that are making brands work hard to identify who their loyal customers are – and figure out how they can keep them**

As such, experts emphasise that loyalty programmes should be more than purely transactional to make customers feel appreciated.

"It has to be about more than just points and discounts at the point of purchase," comments Jason Rzutkiewicz, founder of consultancy Get Transformative Advisory Services. That might mean offering perks such as exclusive product offers, early access to promotions or features such as added convenience.

Marks & Spencer seemed to heed that message when it relaunched its Sparks loyalty scheme in 2020. This brought a focus on personalised offers and the opportunity to receive surprise small gifts or a random free shopping trip, among other benefits.

In October, the retailer said Sparks had since doubled in size to 16 million members, while it also announced the programme's rollout internationally. That came as part of a £200m push from Marks & Spencer to upgrade its digital offering, including the M&S app and new backend tech.

Other companies are following suit. A survey of CMOs conducted by Forrester earlier this year showed that 35% of brands had recently revamped their loyalty schemes and 29% planned to do so in the next 12 months.

Even retailers with well-established programmes are refreshing their offerings. Amazon, for instance, unveiled Buy with Prime in April, which allows Amazon Prime members to get the same features, including free shipping and returns, when they shop at third-party merchants using Amazon's fulfilment network.

Similarly, the Starbucks Reward Together programme is set to expand through alliances with other brands.

These initiatives highlight retailers' efforts to offer a wider range of rewards. Still, Pilecki cautions against making underlying changes too quickly or without alerting customers in advance.

She points to Dunkin' Donuts' loyalty programme revamp this autumn, which gave customers new ways to use their rewards points, including on food besides drinks. But a social media backlash erupted over a structural change in the programme which requires more points to redeem rewards.

To avoid that scenario, Pilecki advises that brands first survey customers for their views on the loyalty programme. Transparency around any changes – especially if they involve raising the 'price' of rewards – and being flexible regarding customer feedback are also key.

In their eagerness to earn loyalty, brands may understandably be inclined to grasp at pop culture trends. The Starbucks Odyssey programme, for instance, is centred on NFT technology; it has attracted criticism for venturing too far from its core proposition of giving customers the virtual equivalent of a punch card.

Mohanbir Sawhney, a professor of marketing at the Kellogg School of Management, wrote of Odyssey: "Starbucks should remind itself why its rewards programme was so successful. The job it did for customers was clear and compelling: 'Give me free stuff when I buy more from you.'"

Starbucks describes Odyssey as its "next big innovation in loyalty" and a digital extension of its founding concept as a third place for people to meet outside work and home. The company said in November that it has seen unprecedented interest in the new initiative but declined to say how many customers have joined its online waitlist.

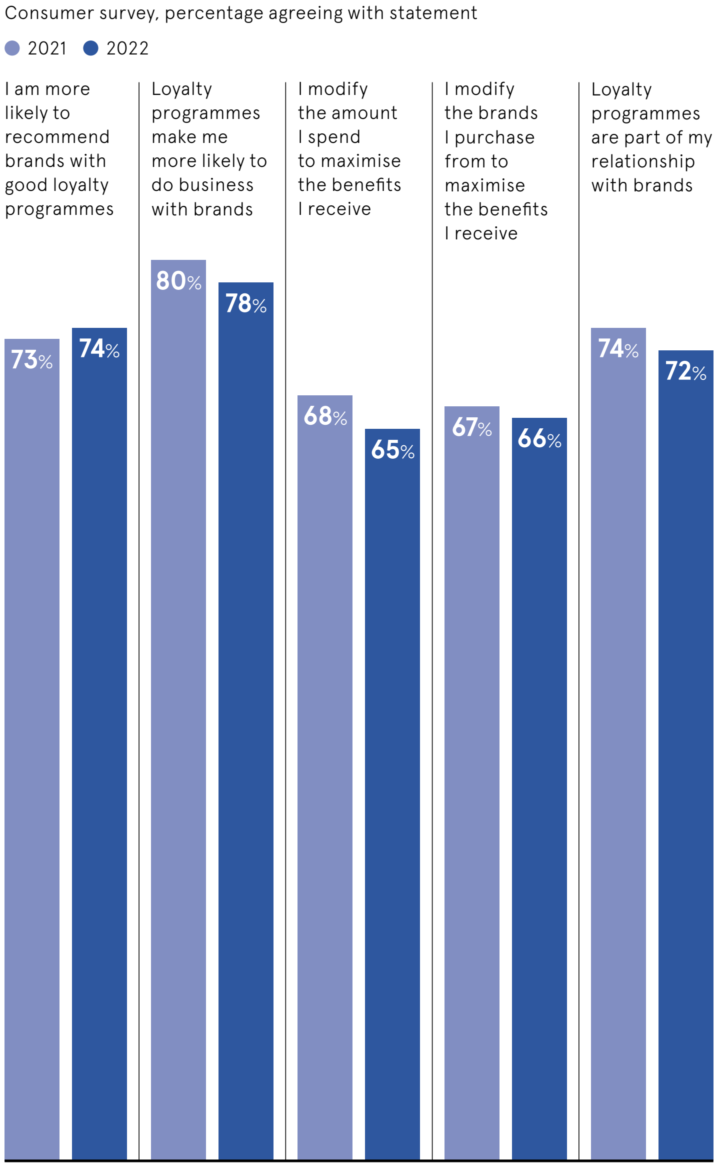
> **Transparency around any changes – especially if they involve raising the 'price' of rewards – is key**

A similar critique might apply to Chipotle's embrace of cryptocurrency, both as an accepted form of payment and in relation to crypto-focused promotions that require enrolment in the chain's loyalty programme. Chipotle says it views crypto as a way to appeal to millennial and Gen-Z consumers.

But as times get tougher, brands may well find that a back-to-basics approach to customer loyalty is of more use to them than forays into the metaverse.

TO RETAIN COST-SENSITIVE CUSTOMERS, LOYALTY PROGRAMMES WILL NEED TO WORK HARDER THAN EVER

Consumer survey, percentage agreeing with statement



Bond Brand Loyalty, 2022

Commercial feature

Q&A

How relationships informed by data are changing the digital retail shelf

The growth of ecommerce has created huge opportunities, but it also presents unique challenges in the buying process. **Peter Laughton**, founder and CEO of retailer relationship management specialist eebz, says AI analytics combined with traditional sales skills can help optimise those valuable interactions

Q What challenges have emerged with the growth of ecommerce?

A We've experienced a retail revolution, accelerated by COVID-19, thanks to the proliferation of online-only retailers and micro-retailers, and bricks-and-mortar stores going online. It has all resulted in a massive profusion of product choice for consumers.

It's tremendously exciting, but huge operational complexities have been introduced. Retailers need to create and manage new or improved websites that are required to carry more and more stock. In addition, product lifecycles are much shorter as both retailers and brands strive to keep up with consumer trends.

In order to cope, retailers are investing huge sums of money at a time when margins are under extreme pressure. Economies must be found elsewhere. One way they can do this is by improving the productivity and efficiency of their buying process.

Q Are current product selling and buying processes fit for online?

A Amazon UK has just several hundred buyers, with thousands of salespeople at brands or distributors trying to sell to them.

Conversely, 10 years ago, a brand's key account manager may have had 10 retailer clients and 100 products to sell in. Now they have 30 retailer clients and 500 products to deal with.

The increase in the workload has led the sales process to become emotionally-led rather than data-led. Important decisions worth millions of pounds are being made on gut instinct.

> **Online stores actually have less space than physical stores**

The art of merchandising through retail relationship building – so crucial in the brick-and-mortar world – has been lost. We need to re-learn and re-purpose these selling and relationship soft skills for the online world.

Q How is eebz's technology helping brands and retailers automate and adapt?

A Our key customers are brand sales teams and their distributors selling to retailers. We track more than 1,300 retailer websites and 100 marketplaces worldwide every day, gathering data across a wide range of digital shelf KPIs, surfacing the critical product and store information they need to make informed decisions about ecommerce strategies – and the account management tools to implement them.

We call the platform Retailer Relationship Management (RRM) and, broadly speaking, we focus on discoverability and conversion KPIs. In the real world, that means we can use AI to track whether a brand's product is actually available to buy on a given retailer's website. If it's out of stock, RRM's dashboard will tell the sales team to get stock moving so they can sell some more.

RRM can also help brands get their products ranked at the top of retailer search engine results and product landing pages. This is hugely important because online stores actually have less space than physical stores. If a product isn't listed on the first or second page, it likely won't be seen or bought.

Combine all of that with real-time product price tracking and listing content optimisation, and suddenly both brand and retailer have the actionable information they need to deepen their relationship and sell more.

Q What are the benefits to the consumer?

A Brands and retailers want consumers to find the products they are looking for as fast as possible. Digital shelf analytics can make that easier by ensuring partners are in lockstep when it comes to discoverability and conversion goals. There's also a wider consideration here, in that a more efficient selling and buying process, and less product waste as a result, could lead to lower prices. Both of which we as consumers are more sensitive to now than ever before.

Q How do you see the ecommerce buying process developing in the future?

A Given that it's in a brand's interest to get their products listed as high as possible on online store pages, then it's not inconceivable they could in future buy that space from the retailer. That commercial real estate will become more useful than TV and display advertising.

SOCIAL MEDIA

From hashtags to price tags

Social commerce is proving a hugely effective way for businesses to engage directly with consumers online and get them buying, but the basics of retail marketing still apply here

Simon Brooke

If you want to know why social commerce is grabbing the attention of brands and retailers worldwide, consider the following: in 12 hours on 20 October 2021, one of China's most successful live streamers, Li Jiaqi – known as the Lipstick King – sold products worth ¥10.7bn (£1.2bn) on online shopping site Taobao.

Social commerce is all about selling products directly via social networks such as Instagram, TikTok and Twitter. Consumers get to see product demonstrations, have their queries answered 'on air' by the presenters and make purchases, all without having to leave their site of choice. This fast-emerging sales channel was worth $585bn (£483bn) last year, according to Grand View Research, which forecasts that the market will expand at a compound annual growth rate of 30.8% from 2022 to 2030.

Increasing numbers of British brands are grasping its potential to reach a wider audience. For instance, after Barbour adopted the in-app shopping features that Instagram started offering in the UK in 2018, its sales via the channel increased by 42%, with traffic to the luxury label's website from Instagram nearly doubling.

> It's not enough to simply open shop windows on different social networks. You have to make an effort

According to TikTok, this is "a new kind of shopping culture we call community commerce – that intersection of shopping, entertainment and community, where a single piece of content can quickly go viral and create demand globally. From hashtags like #AsSeenOnTikTok to #TikTokMadeMeBuyIt, there are over 29 billion views that speak to how real this behaviour is and how it's clearing the shelves for brands."

Indeed, the company points to research published last year indicating that 37% of TikTok users had bought an item that they'd discovered through the platform.

It's a powerful combination. On the TikTok Shop live channel, for instance, a make-up influencer called Nisrin has sold £10,000 of goods in one session to her 500,000 followers.

The platform says that its recent "summer sale event delivered over 267 million live views, illustrating how much appetite there is for this format – not just in general, but specifically in terms of commerce".

Over on YouTube, The United Stand, an unofficial channel for Manchester United fans, has sold a substantial number of t-shirts and hoodies to its 1.53 million subscribers. Mark Goldbridge, The United Stand's founder and presenter, believes that the social commerce model is the best way to achieve sales at a time when the high-street retail channel is already struggling badly and a recession is nigh.

"We've used YouTube to create the kind of content that matters most to the fans," he says. "Then, to take that passion a step further, we're looking for gaps in the market to engage and monetise the community we've built."

Another key to success with social commerce, particularly live streaming, is having an interesting tale to tell. That's the view of Simon Waterfall, MD and chief soda maker at soft drinks company Soda Folk.

"This is essential on TikTok," he says. "The platform tends to suit brands with stories to tell. We have compelling ones to tell about our origin, ingredients, flavour inspirations, charity work and even the people we feature on our packaging."

When brands include their founders as part of the narrative, it builds relationships with the online community and delivers measurable results, according to TikTok. It believes that consumers tend to see the founders as authentic experts in their fields.

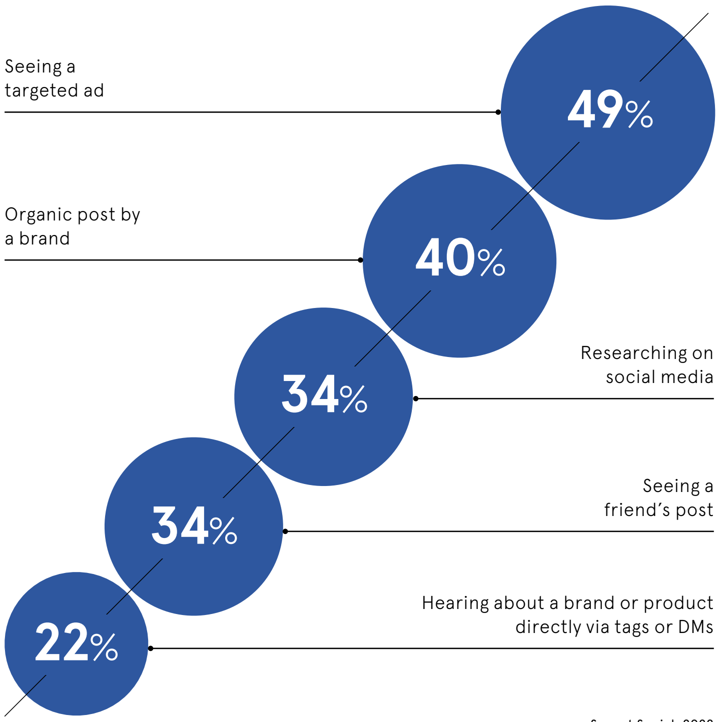
Showcasing a broad range of content and activities is also an important part of getting the audience truly engaged with your brand, says Xavier Klein, UK head of performance at ecommerce consultancy Making Science.

"This needs to incorporate creativity – such as audiovisual material that's attractive and coherent with the brand – to generate interest with

Phiromya Intawongpan via iStock

ALL HAIL THE TARGETED AD

Survey of social media users' common routes to purchases



Sprout Social, 2022

the target audience," he advises. "It's not enough to simply open shop windows on different social networks. You have to make an effort."

Pet food and accessories retailer Petco, for instance, has run a range of live shopping events on Facebook, mixing fashion, charity and, of course, cute animals.

The first such event, in April 2021, was called the Perfect Fit. Hosted by actress, influencer and pet owner Arielle Vandenberg, it featured a range of fashions, plus an appeal to audiences to adopt rescued dogs. Perfect Fit reached more than 986,000 people, exceeding Petco's target by 44%, and the total revenue from the sales it generated was more than twice the cost of holding the event.

Naturally, image counts for a lot on platforms such as Instagram and TikTok. Homeware brand Piglet in Bed has found that the effect of well-chosen visual content is an important factor in social commerce.

"What's really cool about this channel is the way that one organic Instagram post, say, can affect every part of the marketing funnel," says Piglet in Bed's head of brand, Rhiannon Johns. "Consider an image of a bedroom featuring our bedding, for instance. If the photograph is well shot and features a beautiful, interesting, on-trend room where our products are front and centre, the algorithm will recognise that and place that image in front of a lot of people on the platform."

Xu Zhang, assistant professor of marketing at the London Business School, points out a key caveat that brands should consider before incorporating social commerce into their marketing strategies.

"If consumers engage with social media mainly to interact with other users, stay up to date with news and be entertained, it can be challenging for a brand to switch their mindset into purchasing mode," she says. "This mindset is expected to change gradually as the social platforms improve their shopping tools to create a seamless experience between content consumption and commerce."

> **As social commerce grows, we're likely to see more platforms integrating checkout capabilities within their apps**

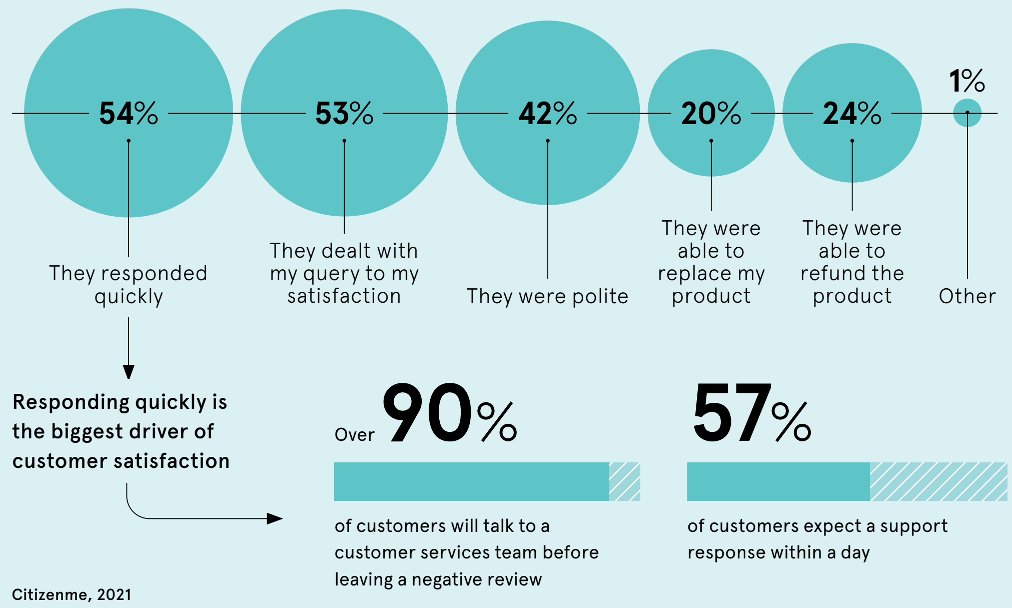
Olivier Buffon, head of international at Faire, a wholesale e-marketplace for independent retailers, agrees. "As social commerce grows, we're likely to see more platforms integrating checkout capabilities within their apps," he predicts.

That should create more opportunities for smaller retailers, according to Buffon, who adds: "Independent ones in particular are talented at bringing a sense of humanity to the shopping experience, which is hard to do in digital formats. Social commerce helps them to deliver this more personal touch online. It will be cool to see how these retailers figure out how to use all these tools at their disposal and innovate with them."

So, even though the potential of social commerce methods such as live streaming is breathtaking, it's clear that the channel still relies on the fundamentals of retail marketing: applying creativity to a solid underlying strategy. Brands and retailers simply need to put the right products in front of the right audiences, keep their promises and offer the best possible customer service. Easy, right?

Commercial feature

KEY DRIVERS OF POSITIVE CUSTOMER SATISFACTION FROM ONLINE SUPPORT



Citizenme, 2021

Customers are for life, not just for Christmas

Don't let all your hard work acquiring customers go to waste this festive season

There's a reason this is called the 'Golden Quarter'. The last three months of the calendar year represent nothing short of a shopping frenzy, as major festivals and shopping events collide and retailers battle for a share of the customer's wallet. And this year, while experts reckon there is more than \$200bn (£169bn) on the table, that wallet looks like it might be an even tighter squeeze, with UK shoppers set to spend £4.7bn less in Q4 2022 than they did the year before.

It's too late to do anything about that now. Black Friday 2022 has already been and gone and there are only a scant couple of weeks until Christmas. Before you know it, 2023 will be upon us. What matters now is what happens next.

"If it's all going to plan, you're going to get lots of new customers at Christmas. If you can hold onto them and carry them forward into 2023 with repeat revenue, that's going to be critical to next year's success. It's vital you don't mess that up," warns Ray Nolan, CEO of ecommerce helpdesk provider eDesk.

> **You need to have all the metrics, be able to see all the problem products in one place, wherever you're selling**

It's safe to say that while a cost-of-living squeeze means it looks as though less will be spent overall, there will be high expectations of the purchases that are made. With every penny counting, consumers will want to be sure that not a single one is wasted.

And so, come Christmas morning, when wrapping paper is torn off, gifts unboxed and gadgets just refuse to turn on – forget the elves, it's businesses' turn to be there with bells on.

It's all very well saying 'Be there when the customer needs you', but few companies have the capacity to scale up to meet a deluge of service enquiries at a moment's notice. So, how do you keep thousands of new customers happy (or make them less sad) when your customer care team is typically five or maybe 10 strong, at most?

"You need to have all the metrics, be able to see all the problem products in one place, wherever you're selling – whether that's Amazon, Shopify or Magento. Your team needs to be able to deal with it all from one place, consistently," says Nolan.

"Automation is also key," he adds, explaining that today's global marketplace means customer service agents don't just have to respond to large volumes of queries, they may well have to do it in multiple languages. "One London client of eDesk has three agents managing the whole of their European and US business, and they can manage Europe because of our auto-translation engine."

But still, investing in customer care can be something of an afterthought – which is a mistake. "It all starts on 25 December, whether they want to return something that doesn't fit or suit, or they can't get it to work or it has arrived broken. This is where those relationships are really won or lost," Nolan insists. "You've worked too hard to acquire those customers in those mad months in Q4, to go and lose them again right after."

How companies perceive the role of customer service in their business is critical to post-December success. Viewing it as a cost of doing business is missing the point. Not providing five-star aftercare in the current climate is an opportunity cost that's too big to bear. "The inevitable surge in support tickets is a golden opportunity to build brand loyalty really easily. It's all in the psychology," explains Nolan. "Sentiment analysis studies find that customer satisfaction towards a business where there has been a problem which was swiftly resolved is regularly higher than towards one where everything was plain sailing and there was nothing to write home about."

And 'writing home' is exactly what you want your customers to do. Reviews are the final piece of the puzzle, according to eDesk. "If you typically get 100 sales a day and suddenly you're getting 5,000 just in December, that's 5,000 potentially really good reviews. Putting that back onto your profile or your website fuels the social proof that you're a great, trusted seller," Nolan explains.

Delivering a fantastic aftercare service, then, isn't just the first step towards a potentially long-lasting and loyal customer relationship. It also brings that all-important advocacy – the icing on the Christmas cake.

PERFORMANCE

Too bullish in the china shop

In November, Made.com became one of 2022's biggest business failures, but several other firms that assumed their lockdown-era outperformance would continue are regretting their overconfidence

Clara Murray

Last month, the curtains finally came down on Made.com. The online furniture and homeware emporium entered administration on 9 November, axing more than 500 jobs and leaving thousands of customer orders in limbo.

The collapse of a big retailer would be notable at any time, but Made.com was one of the UK's biggest digital success stories of recent years. For much of the 2010s, no stylish millennial home was complete without one of its velvet sofas, rattan lamps or mid-century cabinets. Buoyed by bumper sales during the Covid lockdowns, the company went public in 2021, valued at £775m.

So how was Next able to snap up its website and intellectual property for £3.4m barely a year later? As Made.com's CEO, Nicola Thompson, explained in a statement, the company had been built for "a world of low inflation, stable consumer demand, reliable and cost-efficient global supply chains and limited geopolitical volatility. That world vanished. We could not pivot fast enough."

But Made.com has been far from alone in finding the new reality tough. Many of the lockdown era's other fast-growing digital darlings are also struggling. Profits at online fast fashion giant Asos shot up 253% in the six months to February 2021 but it has reported a pre-tax loss of almost £32m this year. Another youth-focused clothing brand, Missguided, collapsed in August with more than £80m in debts.

Meanwhile, the share price of wine subscription service Naked Wines has tumbled by 90%; mattress company Eve Sleep has been plucked from administration by a more traditional rival, Bensons for Beds; and online grocer Ocado has issued two profit warnings this year. None of the new wave of ultra-fast delivery startups, including Getir, Gorillas, Gopuff and Zapp, have yet turned a profit.

Experts point to three key trends behind the carnage: a steep decline in online shopping, inflation-driven logistics problems and investors' increasing preference for profitability over growth.


Joerg Dirmeitis/EyeEm via Getty Images

Online sales of furniture, DIY and home-delivery groceries boomed during the lockdowns, along with practically all other ecommerce categories. Huge sums flowed into the sector as companies expanded in keen anticipation of ongoing high demand. They built warehouses, bought up stock and went on hiring sprees.

> **Old-world companies such as Next have been waiting for these new internet startups to build a brand and go bust, so that they can buy them cheaply**

Many apparently thought that the momentum would never end. In the first phase of the Covid crisis, "there was a lot of money sloshing around. It looked like the future would be entirely online," says Adrian Palmer, professor of marketing at Henley Business School.

The value of online purchases as a proportion of all retail sales in the UK peaked in January 2021 at 37.8%. It has since fallen to 25.3%, only a few percentage points above pre-pandemic levels, with "a lot of customers realising that it's more efficient to go to traditional shops", Palmer notes.

Moreover, as the UK faces the prospect of a lengthy recession, buying big-ticket items such as furniture online is becoming less appealing to consumers.

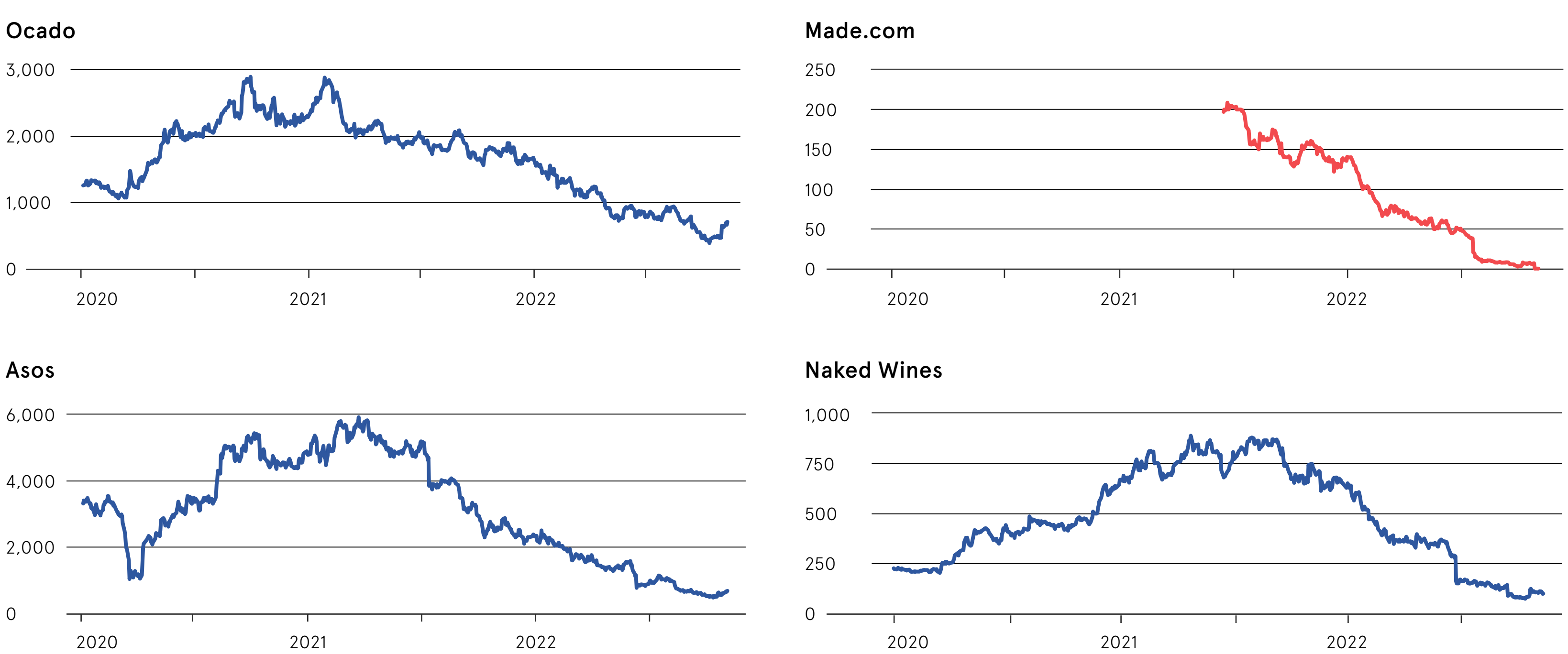
"The smart retailers realised that this was a blip and the world would go back to normal," says Michael Ross, chief retail scientist at Edited and author of *The Customer-Base Audit*. "The ones that completely reset and thought this was the new reality got a very nasty return to Earth."

Such overconfidence has left many firms vulnerable at a time of crisis for both the sector and the wider economy. Recent research published by EY-Parthenon reveals that 40% of all FTSE-listed retailers have issued a profit warning over the past 12 months. More than 70% of those that did so in Q3 2022 cited weakening customer sentiment as a key factor.

MANY OF LOCKDOWN'S DIGITAL WINNERS HAVE SINCE SEEN THEIR SHARE PRICES SLIDE

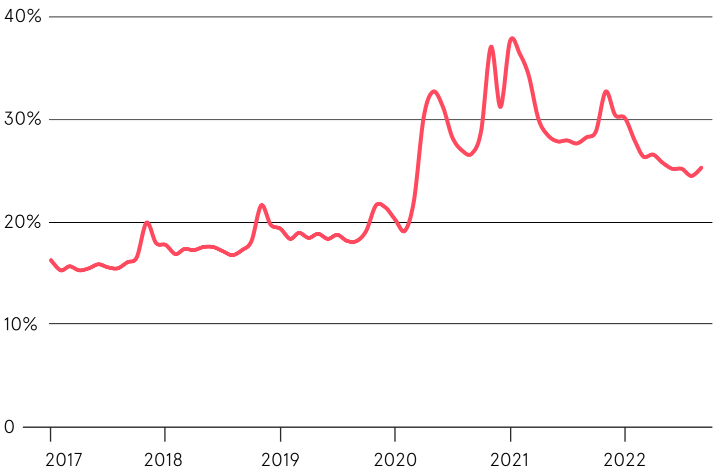
London Stock Exchange, 2022

Share price over the previous two years, pence



ONLINE RETAIL SALES HAVE FALLEN BACK TO THEIR LONG-TERM TREND RATE

Internet sales as a percentage of total retail sales, UK



ONS, 2022

Even Meta, which laid off 11,000 employees in November, was not immune to the hype. Mark Zuckerberg admitted that the social media giant had read too much into the "surge of ecommerce" in 2020-21.

Adding to the perfect storm, the logistics of online shopping have quickly become more expensive. Soaring inflation and a tight labour market are pushing up the costs of shipping, warehousing, delivery and returns – all cornerstones of the internet model.

As a result, many digital-first retailers are short on liquidity at the worst possible moment. Amid supply-chain snarl-ups, Made.com struggled to fulfil orders with its just-in-time model. When it tried to adopt a more stock-heavy strategy this summer, it bought more inventory than it could afford to hold just as consumer confidence was starting to wane, plunging it into a cash crisis.

Naked Wines has also been grappling with logistical problems. Analysts have blamed cost inflation affecting almost every element of its supply chain, from glass and packaging to shipping. At Asos, meanwhile, a new executive team is trying to mitigate such pressures with changes such as "nearshoring" production, introducing shorter buying cycles and slashing promotional offers.

In the short term, online shoppers can expect etail perks such as free shipping and returns to "quietly disappear", says Alexander Graf, co-founder and CEO of ecommerce platform Spryker Systems. "These were a result of there being so much competition. If you had started to charge for shipment, people would have stopped their purchases, but now retailers can't afford not to charge."

In some ways, the situation can be seen as a wider market correction that serves as a salutary warning of the risks of funding gung-ho growth with ever more investment capital rather than profits.

"There will be numerous nervous companies and investors that piled into online startups thinking that these were going to be the next Amazon," Palmer says. "Lots of investors are losing a lot of money."

> In the long run, those that make it through this will in fact have a stronger business, with really tight cost controls and better margins

Many of the temporary beneficiaries of the UK's lockdown era "had valuations predicated on exponential growth rates that were mathematically impossible", Ross says. But he adds that investors have been taking a more realistic, pragmatic approach in recent months. "Businesses that have been historically rewarded for top-line growth are now being asked much harder questions about profitability."

Palmer believes that firms using large amounts of debt capital to fund growth may be among the next wave of failures because of the extra squeeze being imposed by rising interest rates. But, in general, the usual pattern seen in past downturns is likely to be repeated.

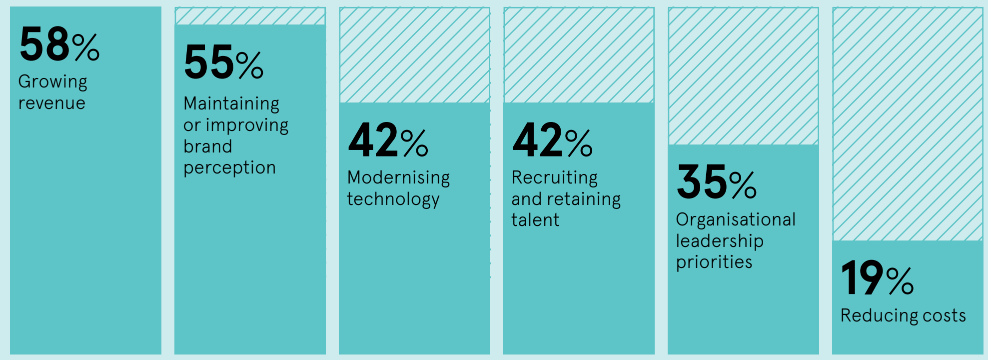
"Those on the edge will be shaken out and taken over by the stronger players," he predicts. "Old-world companies such as Next have been waiting for these internet startups to build a brand and go bust, so that they can buy them cheaply."

Graf adds a note of optimism amid the gloom for those etailers that didn't gamble excessively on the lockdown boom: "In the long run, those that make it through this will in fact have a stronger business. They will have really tight cost controls and better margins – and they'll have a market with fewer competitors."

What's certain is that Made.com will not be the last of its kind to fail in the post-lockdown era. The writing is already on the wall for those struggling to adapt to the new reality.

Commercial feature

TOP CONSIDERATIONS THAT INFLUENCE RETAILER INVESTMENTS IN CUSTOMER SERVICE



Talkdesk, 2022

Foster loyalty with interactive engagement across channels

Brands are transitioning from helping customers in an efficient yet seemingly transactional way, to understanding and engaging with each customer as an individual

Despite the difficult economic environment, retailers remain committed to customer service. In fact, a new report finds that retailers are confident that they can retain and grow their customer relationships through investments in customer service that foster deeper engagement.

However, the report, which draws on insights from an online survey of 303 customer experience professionals across 11 international markets, suggests that retailers are having mixed success when it comes to achieving their current goals for customer service. The recruitment and retention of customer-facing staff and the integration of new technologies are the top barriers that must be addressed before businesses can fully benefit from interactive engagement with customers.

The report, called The Future of Retail Customer Service, is published by Talkdesk, a global cloud contact centre leader for customer-obsessed companies. "Consumers today are looking for more value for their money as inflation cuts into their disposable income," says Antonio Gonzalez, Talkdesk's head of industry research and insights.

"Spending habits are under evaluation as consumers reconsider which purchases are important to them. The bar is getting higher for brands to demonstrate why they should remain a part of their customers' lives. Thankfully, brands recognise the stakes, and they're rising to them."

> The bar is getting higher for brands to demonstrate why they should remain a part of their customers' lives

It follows, then, that customer retention is becoming a bigger focus than winning new customers. As many as 58% of retail CX professionals said that growing revenue is the most significant factor influencing their company's investments in customer service, aligning with the findings of a survey of cross-industry CX professionals that found that 54% of organisations rate customer retention as the primary desired outcome from investments in customer service software.

What's more, retailers are going beyond just understanding and addressing the context behind customer interactions to being able to deliver ongoing, interactive engagement, the Talkdesk report reveals. Growth in channels such as voice-based AI, live-streaming (video) and the metaverse point toward a growing emphasis on interacting with customers in new and engaging ways.

But interactive engagement is unlikely to meaningfully deepen customer relationships if each interaction does not feel part of a cohesive, ongoing experience. To accomplish this, retailers must address gaps in customer data collection and use. Unfortunately, the survey reveals that 50% of brands are not yet tracking their customers' product inquiries or issues, and 57% are not using customer data to personalise future service interactions.

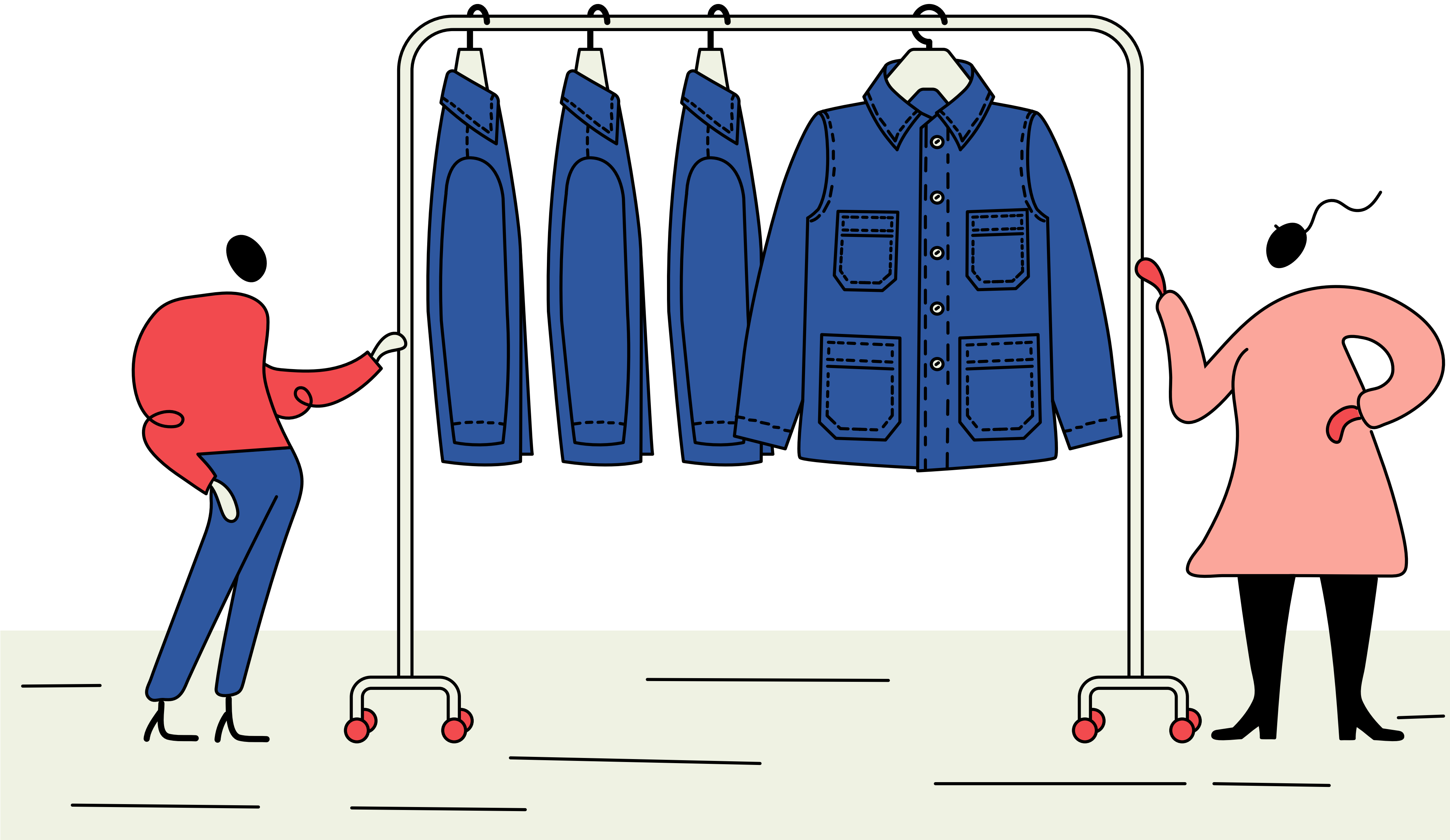
The Talkdesk report indicates that integrating channels and workflows is a critical part of embedding interactive engagement. Historically, many organisations have taken a piecemeal approach to investing in "best in breed" solutions to address specific needs. Consequently, many capabilities and systems are poorly compatible. Cloud capabilities, with their additional flexibility, are increasingly preferred for ease of integration with existing systems. These capabilities can be deployed as an all-in-one platform or standalone, with pre-built integrations designed to fit in with existing solutions.

The report also highlights the importance of tracking customer interactions across journeys. Gaps in customer data collection can be addressed through the implementation of interaction analysis, customer feedback and real-time experience sensors. Text and speech analytics applied across channels can deepen understanding of customer issues.

Connecting insight to output is key, the report concludes. Insights from customer interactions should be used to inform future interactions, ensuring that customers feel each touchpoint is part of a broader ongoing experience.

"Challenges relating to staffing and technology integration are likely near-universal today," says Gonzalez. "In working to address these issues today, retailers will position themselves to keep and build upon loyal relationships with consumers – whatever their customer service approach."

For more information visit talkdesk.com/retail



SUSTAINABILITY

Green or dead: The jacket brand backing slow fashion

Apparel brand Paynter is a true exponent of slow fashion. The one thing it's doing apace is earning eco-conscious customers who share its distaste for the industry's wasteful ways

Sam Forsdick

Despite securing a job with Nike, widely rated as the world's most valuable apparel brand, Becky Okell was growing disenchanted with the industry and in particular with its environmental excesses.

The fashion industry produces more than 92 million tonnes of textile waste a year, with UN estimates placing its contribution to global carbon dioxide emissions at between 2% and 8%. Such figures suggested to her that there must be a better way.

"More often than not, companies are knowingly overproducing in favour of low prices that don't fairly pay the makers of their garments," Okell says. "Meanwhile, the pace of trends and shopping keeps accelerating. This cocktail of cheap disposable products means we can't handle the level of waste being churned out every day."

Through her involvement with an entrepreneurship accelerator, Okell met Huw Thomas, who shared many of her concerns about the industry's wastefulness. Together, they identified two key areas for improvement: overproduction and poor product quality. In 2018, they established Paynter Jacket Co: a brand that deliberately limits the number of lines it makes each year.

"We didn't want to follow in the footsteps of others in our industry, with their broken business models," Okell says.

Their solution was to manufacture in small batches, making only the number of items ordered and ensuring that each is designed to last "for decades, not seasons".

Paynter has produced 12 batches in three years, each one a different design. The number of pieces in a batch has varied from 30 to 750, depending on the style and the demand for it.

Limiting production to such an extent might not seem the way to build a profitable business. Okell admits that 12 lines in three years "sounds like nothing compared with most brands, which produce collections with hundreds of styles each season". But the co-founders have found that their singular approach to business has several benefits.

"Being so clear on the problem we're working to solve is a great motivator," Okell says. "Our quality improves with every batch as we learn more and grow ever closer to the fantastic factories we work with. Thankfully, that's a sentiment often shared by our customers."

Making any product in a "thoughtful and responsible way" takes time, she stresses. "It's really important for us to test everything we make through the design process and before we sell it, to ensure that we're confident about quality. Since our focus is on reducing waste in our industry, it's crucial that we grow slowly – and only once we're certain there is demand."

The demand does appear to be there. In May 2019, the company's first batch of 300 sold out in 14 minutes. There was a waiting list of more than 1,000 customers. But this business model is not for the faint-hearted.

"Making only four times a year is incredibly difficult on so many levels," Okell says. "First of all, it's a huge risk. You have to become comfortable with sales amounting to £0 on most days of the year. That forces you to be very careful with how you spend and what you prioritise."

It also means that much is riding on the success of each batch. "If one goes wrong, that's 25% of your annual product and 25% of your reputation at risk."

The pair were unaware of the significance of the risk this placed on their brand until supply chain problems struck in 2020 shortly after

> **We didn't want to follow in the footsteps of others in our industry, with their broken business models**

the first Covid lockdown. Several of their products went missing en route from the factory to their buyers. The jackets had to be remade, causing significant delays for the affected customers.

Although they were understanding, Okell says that she still "felt terrible. Most companies order their stock, receive it and then start selling. So, if something goes missing, only the company would know. For us, when we start to make something, it's already got someone's name on it, so there's a different level of risk there."

Gaining the confidence of customers is crucial for Paynter – and something that Okell and Thomas don't take for granted. As soon as the first orders were manufactured, they knew they "had to deliver a great-quality product to those people who had trusted us".

To this end, anyone who orders a garment is sent video updates from the factory every week, so they can see exactly how it's made. This is something that players in the fast fashion segment are often more concerned about hiding.

"We believe strongly that, if you connect with something, you're more likely to cherish and care for it," Okell says. "That's why we send these videos. We're lucky to have a close community of customers who feel a big part of our brand."

The business remains relatively small, with one part-time employee working with the two full-time co-founders and a handful of freelancers. Paynter has its own studio but no stock room – because it doesn't hold any. Products are sent directly to the customers from the factory and any returns go straight to the next person on the waiting list. Offcuts are also recycled into new thread.

> **We're lucky to have a close community of customers who feel a big part of our brand**

Okell and Thomas – who are partners in both life and work – have not sought external equity investment to grow the business. The lack of any other shareholder "means that we don't have to compromise based on someone else's values", she says. "As soon as you sell even part of your company, you're inviting in other decision-makers, who ultimately only want a return on their investment. We can understand why some companies and industries are better suited to that way of working, but it's not for us."

For others looking to use unconventional operating models to build their businesses, Okell has some advice: "It might sound obvious but, if you're looking to disrupt, it's good to start with the problem. What's not working well and in need of disruption? It might be the product, the way you do business, how your product is delivered or all of the above. But it's worth picking a lane and sticking to one problem at first. You can keep making improvements as you get up and running and gain momentum."

Paynter's lane remains proving that its industry doesn't have to be wasteful – one batch of clothing at a time.

60% The increase in the number of garments purchased per capita, since 2000

1/2 The length of time each item of clothing is kept for has dropped by

The equivalent of **a bin lorry** of textiles is incinerated or sent to landfill **every second**

UNEP, 2022

Commercial feature

What can UK grocery retailers learn from Scandinavia?

Technology lessons from a market that is more advanced

The Arctic Circle is a place of wonder over Christmas, but this year it should be grocery retailer leaders, not just wide-eyed children, looking to the snowy North for some much-needed inspiration.

According to Jacob Tveraabak, chief executive of Scandinavian grocery technology company StrongPoint, Scandinavia's adoption of technology by grocers can provide valuable lessons for UK supermarkets facing unprecedented cost hikes and labour shortages.

"Pre-pandemic, UK grocery retailers traditionally benefited from price stability and access to relatively low-cost labour," says Tveraabak. "But now, UK grocers are facing challenges which Scandinavian countries, with some of the highest labour costs in the world, have had to grapple with for decades. They have been forced to leverage technology much faster to reduce costs, boost efficiency and increase profitability, and have become the Silicon Valley of grocery retail technology. If you go into a Scandinavian supermarket, you'll find it is years ahead of most other countries."

Tveraabak acknowledges that UK grocers have made strides in grocery technology, particularly warehousing, but upgrades are available to drive further efficiencies, improve customer experience and retain customers who are looking for savings. "There are a lot of efficiency-saving opportunities for UK grocers under pressure, and they can learn from what the Scandinavians have done by leveraging technology," he says. "Everything has changed in the last 12 months. This makes finding these savings more important than ever."

The focus needs to be on three key areas – warehousing, ecommerce and shop floor technology. With warehousing and automated fulfilment, StrongPoint has worked closely with fellow Norwegian robot technology group AutoStore to provide an automated solution for grocery retailers that stores four times the inventory in the same space. Retailers can automatically store and retrieve items including frozen goods (which saves workers going in and out of frozen rooms collecting items).

> **If you go into a Scandinavian supermarket, you'll find it is years ahead of most other countries**

This links to ecommerce technology, where further savings can be made and productivity boosted by improving in-store pick rates – essentially how quickly staff can complete online orders for customers. Tveraabak says that store workers without technology assistance can, on average, pick 60 to 90 items an hour. Existing self-built UK grocery picking technology and repurposed warehouse management system technology have lifted this to around 150 to 220 items an hour. However, StrongPoint's solution can help workers almost immediately raise their rate to between 240 and 350 items per hour.

"This isn't robotic technology, which remains a very small part of the market, but augmenting the power of manual picking, which is still the most common way for British supermarkets to fulfil orders," explains Tveraabak. "Some store owners who didn't believe our numbers actually followed their staff counting items just to double-check!"

Championing click-and-collect over home delivery is another way grocers and customers can find savings. In Sweden, click-and-collect hovers at around 50% of all grocery ecommerce orders, unlike the UK's home delivery dominated market. Supermarkets can install temperature-controlled grocery lockers next to stores or along commuter routes, allowing customers to pick up their online orders on their way home from work or at their convenience. Any shift towards click-and-collect can substantially slash retailers' costs.

On the shop floor, electronic shelf labels – small screens next to goods showing real-time price changes and promotions – can also remove labour-intensive tasks such as producing and replacing paper labels. Additionally, the shelf edge labels can be set up with blinking lights to identify items to pick, saving precious seconds when locating products. In fact, Norway has one of the highest rates of electronic shelf label penetration in the world.

Other in-store innovations, which would make any UK shopper blink twice, include AI-powered self-checkouts which identify not just the type of fruit or vegetable but which variety, avoiding the need to search through menus.

These checkouts can also verify age when purchasing restricted items, avoiding the awkward and slow staff approval process. In Norway, another common sight is age-controlled or high-value items residing in automated pick-up cabinets that customers can access after selecting the item from a digital screen, retrieving a ticket and paying for them at checkout.

"None of this is expensive 'pie-in-the-sky' technology. It is proven and integrated into thousands of stores used today by millions in Scandinavia," says Tveraabak. "This is a win-win for UK grocers wanting to save costs and for shoppers, who will see a much more frictionless and potentially cheaper shopping experience in the years ahead."

To find out more, visit strongpoint.com

StrongPoint

RANGE MANAGEMENT

Curating the front page

Online retailers are using a mix of AI, data analytics and old-fashioned range management techniques to steer customers towards the right products at the right time

Sally Whittle

When shoppers land on Puma's homepage this Christmas, what they'll see is the result of almost a year's work by the sports retailer.

In common with many brands, Puma needs to order its products two seasons in advance, but the company also spends months perfecting its range management strategy for peak trading periods such as Christmas. It's part of an effort to show customers the right product at the right time to increase the chances of converting visitors into buyers.

It's also a question of avoiding a common pitfall to which many retailers succumb: simply showcasing their best-selling products or focusing on big discounts and promotions – a strategy which is likely to appeal to certain customers more than others. It can also leave retailers with a big pile of expensive inventory after Christmas as products that have had fewer recommendations than others are left unsold.

Modern range management is a delicate balancing act. "Successful range management is about how you maximise profit from the products you have in inventory, and what levers you can pull to get those products sold without overspending on digital marketing or having to discount inventory and basically give stuff away," says Michael Ross, senior vice-president at retail consultancy Edited.

To get it right, retailers must understand exactly what the customer wants. They also need to know what the customer might buy, even though they didn't necessarily know they wanted it, adds Ross. "Probably 80% of range management is helping the customer find the things they want. But the other 20% is about recommendation and cross-selling and that can be where retailers make the most profit," he says.

At Groupon, this idea is expressed as a balance between 'exploration' and 'exploitation'. "We can exploit what we already know about the customer, but that has to be balanced with exploring and showing the customer other categories and new products that we have," says Dan Arden, senior director, global CRM and marketing operations at Groupon. "If 80% of customer revenue is from one category, we want to use the other 20% to show things that might be higher-margin or a strong cross-selling opportunity."

One increasingly common way to go about this is personalisation.

> "We can exploit what we already know about the customer but that must be balanced with exploring and showing the customer other categories and new products

Puma is typical of a growing number of retailers that use AI models to capture and analyse large quantities of customer data so that they can suitably tailor recommendations on its homepage. But personalisation is not the be-all and end-all. "It's a combination of personalised recommendations to the customer based on the AI insights, plus some brand messaging and campaigns we want to promote," says Dylan Valade, head of technology in the global ecommerce team at Puma.

When someone visits the Puma website, the site personalises content based on AI-driven assumptions about the customer's past actions and likely interests. The system also tracks inventory levels, promoting products that are in stock across all sizes over and above those that are already selling out.

But given stringent data protection laws in the EU, Puma recognises that adapting the online range in this way is becoming more difficult. Instead, the company is increasingly focusing on segmenting customers into certain audience groups, based on common behaviours. "Getting enough data to create a personalised message for each shopper takes a lot of effort, so we're better off looking for audience groups with common interests and goals," says Valade. "From a data privacy point of view, it's better."

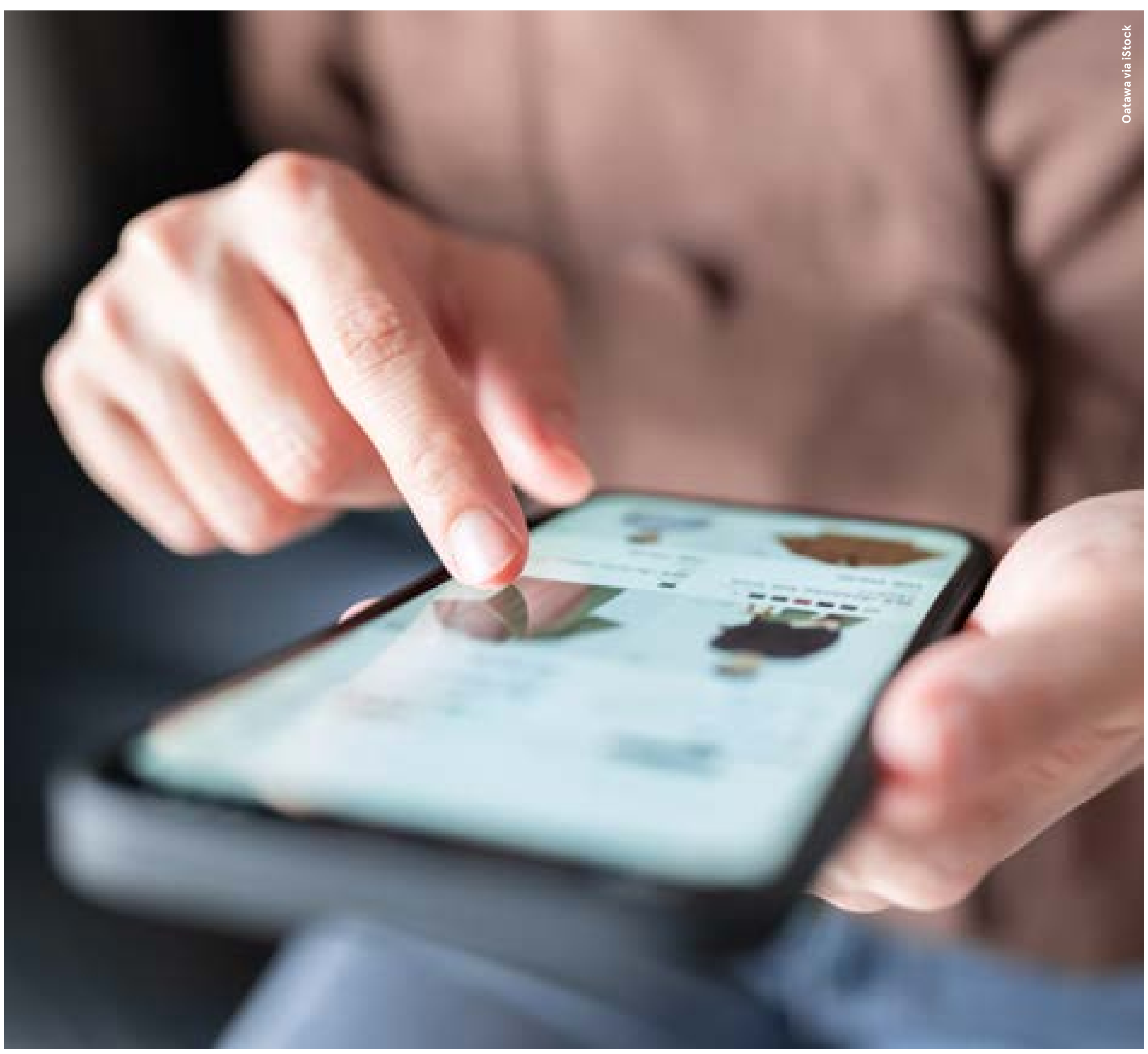
Groupon is taking a similar approach. This Christmas, visitors to its website will see a combination of the top 10 best-selling items and personalised recommendations based on their previous behaviour and buying habits. This works best, though, if the customer has provided lots of data and returns to the site regularly. "The problem with algorithms is they need feeding almost constantly and if there isn't constant data, they can struggle," says Arden.

This year, Groupon has invested heavily in the creation of segmented customer persona models, which its algorithm can use to identify the likely preferences of customers based on smaller amounts of data. "If there are limited signals from a customer, then we can look at what data we have – perhaps the last deal the customer looked at, and what email link they clicked – and then look at the models to see what we know about other customers who exhibit those behaviours. We can often say with a high degree of confidence that most customers who do X went on to do Y, even without knowing that individual," explains Arden. He adds that this partly comes from the use of social listening tools and Google Trends, which help Groupon identify what people are posting about and when.

But these kinds of technologies will only work if the underlying strategy is sound, cautions Ross. "Where many businesses go wrong is saying, 'Oh, we need to do some AI' – but that's a solution in search of a problem. What's more interesting is to ask what the business problem is, and how we can use data to make better, more intelligent decisions."

Ross cites the example of a retailer which was using AI to provide recommendations to website visitors. The recommendations were delivering a high conversion rate and appeared to be successful. "But when we looked at the data, only 11% of products were ever recommended and the business had $100m (£83m) in slow-moving inventory," he says. "The real question is how we can use recommendations to help customers but with a preference for those areas where we have more inventory."

Arden views technological options in the same way as the autopilot function on a plane. "You use autopilot but if you're flying into a storm or there's a risky situation, the pilot takes over," he says. "Data is great but retailers are looking at three years of data where nothing was normal, so this Christmas it's essential that we apply human common sense at the same time." ●



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CUSTOMERS LOVE THE RANGE AND PRICES AVAILABLE ONLINE, BUT IN-STORE SHOPPING IS BETTER FOR EXPLORATION

"What was the most important reason why you decided on the specific channel you used to make a purchase?" (Survey of consumers worldwide)

Deloitte, 2022

Why sensory ecommerce is the key to success for mid-sized retailers

Putting new technologies to work could help online retailers stand out from the crowd and deliver exactly what consumers are seeking

These days, ecommerce is continuing to grab a bigger share of the retail market, approaching more than 20% of total retail sales. But for this trend to progress further, brands will need to appeal to more of our basic needs, including our five senses – and even our sixth.

After all, we like to employ all of our senses when we explore products and make choices about what we buy. We even tap into our emotional side at times as well. Compared to online shopping, merchants and brands engaging consumers in the physical world have unmatched opportunities for sensory and story-like engagement, including store layout, merchandising, aromas, audio and conversation. Online retailers are increasingly conscious of this point of differentiation; just look at the large and growing number of pop-up shops that will appear this holiday season.

20%

The proportion of retail sales attributed to ecommerce

eMarketer, 2021

So, it should come as no surprise that online retailers are trying to replicate the experience of shopping in-person on their platforms, using innovations such as videos and 360-degree views of products, as well as VR, AR and the metaverse. Meanwhile, in-store experiences are being digitally enriched with innovations ranging from smart mirrors inside dressing rooms to handheld guidance and merchandising via apps.

For small, aspirational merchants, the challenge is simply to create a platform that delivers a smooth ecommerce experience. Meanwhile, larger retailers have the resources to invest in developing their own bespoke platforms that can recreate some of the excitement of using the five senses when consumers make a purchase.

"Retail shouldn't be aspirational, it should be inspirational – and filled with entertainment and emotion, tapping into all of our senses," says Ben Marks, director of global market development at Shopware, the leading global provider of B2C and B2B ecommerce solutions. For too long, he argues, mid-sized retailers have been underserved. They've graduated beyond simple ecommerce solutions but don't yet have the wherewithal to create their own more sophisticated, bespoke platforms that can deliver more of the "six senses" experience.

> Retail should be inspirational, filled with entertainment and emotion, tapping into our six senses

To that end, Shopware is designed with the senses in mind, helping retailers ensure that consumers can tap into each of their senses when deliberating a purchase. For example, the platform offers visual demonstration tools as well as guided selling and simplified return processes. When it comes to sight and sound, customers are able to zoom in, spin and even "try" something on, in addition to interacting with that product through the power of video.

As for the "sixth sense", predictive analytics, Shopware allows retailers to anticipate needs and wants using purchase history and third-party data to highlight products which have been curated to the consumer's size and preference, while also reflecting available inventory. Thanks to the extensive data produced by ecommerce, most retailers should be able to rely on artificial intelligence (AI) and machine learning (ML) to move beyond simple statistical analysis – for example, by identifying the most frequent customers or those with the highest average order value. They should be able to gain better insights into their customers and engage them more effectively with improved segmentation and trend analysis.

However, SME merchants tend to over-index on obvious data, leading to increased retargeting of top customers rather than identifying underperforming segments, believes Marks. "Once you've spotted under-engaged customers using on-hand data, AI/ML tools will help tailor various media to better engage those customers – via media like landing page content, product descriptions and recommendations – as well as setting prices dynamically based on past performance and external market factors."

"At midmarket scale, brands are flush with data, but the data are often siloed in various applications and systems which were added to the business over time in response to growth," says Marks. "Connecting systems and operationalising data are essential activities to streamline business operations, unlock consumer insights and creating capacity for further growth."

In order to meet these challenges, a growing number of mid-sized retailers are working with Shopware. They appreciate the fact that the company is more agile and responsive to their needs than other providers because it uses open-source coding, adapting an approach which has driven innovation and more effective solutions for customers in a wide range of sectors. Indeed, open-source coding fosters fresh perspectives and new approaches. Other benefits include its iterative nature and the power of the community that it unleashes.

> Connecting systems and operationalising data are essential activities to streamline business operations

Marks is increasingly hearing feedback from mid-sized retailers who appreciate that Shopware 6 is a turnkey, full-featured ecommerce solution which can be tailored to the needs of merchants and their customers. By having plenty of features and functions in place from day one, while also allowing retailers to quickly customise to deliver the exact integrations, operational workflows and customer experience that a retailer needs, Shopware enables rapid "time-to-revenue".

"This approach is especially relevant for mid-market merchants, who tend to want enterprise-level freedom of movement without the budget, resources or years-long timeline to build and maintain systems from scratch or based on a collection of commerce endpoints," says Marks. "It enables forward-looking, innovative mid-market brands to create the kind of engaging multi-sensory experience that was once the sole preserve of the big names, so that they can themselves become the big names of tomorrow."

"We wanted to create a visually stunning, immersive experience that allows our customers to completely immerse themselves in our brand"

"We're not a group of innate techies, so we needed a partner like Shopware to help us build a website and create a way to sell the bicycles we were building," says Sam Nicols, CEO of YT Industries, a premium performance mountain bike company which exclusively sells direct to consumer.

"We're a mid-sized company with big aspirations. We're too small to show up on the list of the big players platform-wise, which is why Shopware has been a great fit.

"YT was born as a D2C brand, but because the product is so expensive, we can't use the sort of traditional shopping experience you'd use to sell socks or sunglasses. We wanted to create a visually stunning, immersive experience with high-res video, amazing shots that allows our customers to completely immerse themselves in our brand – and excite them at the same time. A standard, traditional ecommerce shop would never have worked for us given the nature and price point of our product.

"We experienced strong double-digit growth globally year-over-year 2021 to 2022, and we're very pleased with that. If you're passionate about building your product and building your brand, but you don't have the expertise to build a site on your own and don't want to invest too heavily in IT resources, a provider like Shopware can help."

For more information visit shopware.com

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