THE POST-ECONOMIC INSTITUTE

An End to ‘Thought It, Bought It’ – Evolving Retail for the 2020s

A paper arguing that the values currently underpinning business operations will prevent UK retailers from maintaining their global leader reputation

Andy Mulcahy

January 2020

http://posteconomic.org

The UK has long been regarded globally as a leader in retail. British products have a reputation for quality and style and the ecommerce market is one that many foreign retailers look to as an indication of how their market may evolve over the coming years.

And yet the UK retail market may seem like an odd object of envy at present. The downturn on the high street has been building toward a crisis for many years and over the past two years the pressure has intensified to the point where even the largest and most established retail brands seem to be struggling for growth and, crucially, a new identity.

As for ecommerce, which has for so long enjoyed consistently-strong growth even while traditional retail faltered, the trading climate has become fraught. Discounting is endemic, heavy and sustained; high return rates are hitting profits; shopper confidence appears low. These problems did not happen overnight, they have gathered force over time. What's more, it's difficult to see any genuine solutions – either short- or long-term – on the horizon.

A simple matter of confidence?

The times are also, arguably, unprecedented. There is the Brexit impasse that has stifled innovation and investment, a volatile currency, continuing austerity, environmental pressures (which are profound currently in retail), a perceived imbalance in business rates between online and offline, changes to customer behaviour bought about by rapidly-advancing technology…

Some of these pressures will, of course, pass and these current issues won't remain the same forever. If, unlikely as this may seem, Brexit was suddenly solved in a way that proved universally very advantageous to British business, austerity ended and shopper confidence restored, growth may return and, with it, a sense of 'back to business as usual'.

Even getting halfway toward that would probably bring about improvements in retailers' fortunes, but the trading environment is always prone to ups and downs. A sudden improvement in the economic and political situation would still probably only provide temporary respite for retailers, as it would not have addressed the core issue here head on – the fact that we have 20th century infrastructure and values serving 21st century technology. Continuing to take that approach prevents those elements from working together efficiently in tandem; hence the problems we see in retail today, particularly on the high street.

Obviously, that technology can be integrated over time and will probably lead to improvements in operational efficiency and customer experience. But; it will always be flawed because the way this technology is integrated is based so stringently around those 20th century values – which we might identify as being competition, consumer choice, privacy and opportunity – whereas the 21st century is defined by data, personalisation and AI. Those are not natural or logical matches; we could even suggest they are diametrically opposed. Any infrastructure that fails to acknowledge this shift and builds itself around those outdated principles will inevitably miss out on the key benefits digital technology can offer retailers and shoppers.

In short, we have tried to get digital to adapt to the way things have worked in the past. Common sense says we should be aiming for the reverse.

By failing to become a genuinely modern retail market, through resisting digital technology and the way it works, the UK will be at serious risk of losing its position as a leading retail nation over the coming decade.

Andy Mulcahy, Post-Economic Institute

The focus on choice and competition as business values has created what we might term a 'thought it, bought it' culture for retail, which has defined how customer behaviour and expectation has evolved over the past decade. The phrase featured as the strapline of a 2016 Amazon advertising campaign marketing their app. The adverts showed a series of situations where the character saw something that triggered a sudden moment of inspiration for something they realised they need; whatever that item may be, Amazon stocked it and, using the app, it could be purchased with a single click and delivered rapidly. The sheer scale of choice and convenience offered at every stage of the experience is what sets Amazon apart from the competition; or so the advert, and indeed the reality of their trading, tells us.

Amazon advertising campaign: Thought it, bought it[1]

It's easy to see why the retailer that has the largest and most varied product catalogue, supported by highly competitive – often market-leading – convenience in support of it, would be successful. In many ways, Amazon has reached a level with their 'thought it, bought it' model that is the envy of every other retailer; their proposition always seems to put them several steps ahead of the competition whether it be in terms of product range, pricing competitiveness, customer service, speed of delivery or technology (Echo, drones etc). There is a ring of truth to being able to buy almost anything as soon as you've thought of it from Amazon, which is less the case with most other retailers.

The problem with this model relates to the fact that it is so perfectly aligned with the 20th century retail business values listed in the introduction to this paper. Providing shoppers with endless choice and making the whole browsing, purchasing and fulfilment experiences seem so effortless reflects a kind of ideal for what people have been trained to expect in the modern age; the ability to access and purchase (and, in the case of around 25% of overall online orders, return) from a range that seems to have no logical limit, wherever and whenever they want. It reflects an infrastructure built up around a definition of individual as *consumer* – a type who has little involvement in business processes until the point of delivery of the products and services they provide. They then

[1] https://www.youtube.com/watch?v=2Dsoou7WSxU

make decisions as to which products and services they feel are best for them so, logically speaking, the more choice and competition in a given area, the better the chances of finding a suitable match.

As the internet removes geographical barriers (whereas a store does have such restrictions), the amount of choice we are presented with can be bewildering for the individual. A search query for 'buy blue trainers' executed on Google on 28 July 2019 returned 330 million results. On the same day, searching for 'white tshirts' on the Asos retail site returned 3,281 matches. While it's reasonable to suggest that giving more information in these queries – such as a gender, brand name or style – may have helped refine down the results, this is actually somewhere near the crux of the issue; in many cases, people don't really know exactly what they are after when they start to browse.

Having as much choice as possible is the current systemic solution to this problem, but that on its own does not help the individual to arrive at a decision any easier; arguably, it does the reverse. But there is another problem with this focus on choice – the environmental impact of excessive creation, which is twofold. On the one hand, there are all the materials and emissions involved in the manufacture and supply of each product, and on the other there is the issue of what happens to it once it has been made. It may be sold successfully to someone (it may not, and need to be disposed of somehow soon after), but once that individual is finished with it again disposal is an afterthought. Some items can be recycled, but many end up in landfill as there isn't an obvious alternative option (1.2 billion tonnes according to the Ellen MacArthur Foundation).

'Thought it, bought it' is a model that has been very successful over the past decade and more, but in the new era that we are starting to enter now, where sustainability and greater awareness of the impact of our consumption habits have ratcheted up in prominence, it's suitability to the challenges of that era is highly questionable.

The model of the last decade was to target people across all channels and networks continually, with the aim of selling more and more to them over time. For the underlying system of value there, shifting greater volumes is a key measurement of success. The model for the new decade requires using far more data far more intelligently to connect people to the right volumes of goods; not looking to *sell more*, but the *right, most efficient* amount. Removing the barriers to this involves reassessing how business success is measured.

As has already been stated, excessive choice is a natural consequence of our ability to access a vast potential marketplace (through the web). Being able to offer a wide range of products with lots of variety is still regarded in many cases as an advantage; if a shopper arrives with one product in mind, they may find an alternative, or even something additional, if they can be exposed to a large product catalogue. While it can be a bit bamboozling for users then, reducing the focus on customer choice is not currently seen as a likely strategy for sustained growth.

Choice, however, is not the most logical value to have as a guiding principle when we consider how technology is evolving. A look at how retailers currently measure and develop their sites helps to illustrate the scale of this shift.

At present, there are a number of metrics that retailers track regularly and they focus on optimising certain areas to improve them. Standard metrics include things like conversion rate (the percentage of visitors that complete a purchase), checkout abandonment (the percentage that proceed to the checkout but leave the site without completing payment) and average spend per customer.

Small improvements to these metrics can bring about major boosts to performance, particularly where the numbers are large. So if, for example, a retail site takes 100,000 orders per month with a checkout abandonment rate of 30%, bringing that rate down by just 2 percentage points would yield an additional 2,000 orders each month. This might be achieved through testing with different structures (removing unnecessary fields on a form), layouts (the font used or colour of the buy button) or options (adding a popular payment or delivery method). Note that's not changing the product range sold at all, simply how the checkout page is structured.

While this may sound like a good outcome for the business, it's actually highly inefficient as it tends to be done at the generic level. So if a new payment method is added it may turn out to be a preference for some customers, but not others – most optimisation is trialled on segments of customers to see if it improves a metric overall and, if so, it is seen to be worth rolling out for all visitors. One interpretation is that it is an approach based on science, another is that the approaches tried are informed by an educated version of 'hit and hope'.

Furthermore, these optimisation techniques are generic in that they tend to apply to how a product is marketed and merchandised; the focus being on that item rather than any intended purchaser. In many cases, there is little done to ensure that the right person ends up with the right thing in a *real sense*. The online experience of how products are presented is often similar to how it happens in a shop – the visitor enters, is shown a few options in prime positions (front of the store / on homepage; perhaps new-in, sale items or best sellers), then everything else is grouped together and signposted accordingly (either on shelves / racking in a store, or in a navigation menu on a site). The customer's role then is to browse and find an item of interest.

On slightly more sophisticated sites, the experience is personalised to some extent for that individual. Depending on where that personalisation is applied and how, an algorithm will usually look at various data-points known about this visitor (such as previous search

behaviour, what they have clicked on or purchased before) and adapt what is shown to them based on their perceived interests.

Again, this might sound like an advanced form of retail, but it remains generic to a segment. The rules the algorithms are following will say something like 'customers who bought this also bought that', so the individual is just being connected to things that should have a higher chance of conversion based on previous customers' behaviour. In addition, this algorithmic 'knowledge' tends to be specific to that single site, so only customers' behaviour on that site is taken into consideration, not what they may have done across all sites. It is personalisation, within a silo.

The outcome pursued, the ultimate aim on the part of the retailer, is to convert this visitor into a customer; to get them to buy something. Their role is just to connect customer to product – what they do with it afterwards is not part of their involvement. Now that we are entering the period in which connected technology is so prevalent, data will increasingly exist on almost all things that happen. How (and, of course, if) something is used post-purchase is information that should be communicated back to the retailer to help them hone the accuracy of how they connect people to products. A metric to track there might be specifically related to how the item was used.

Whereas to date personalisation has been used to convince people that they need to buy something, the purpose behind it has been too strongly titled toward the interests of the business (ie making a sale). Connecting customers to things of strongest relevance given the context of a specific need is in the interests of both the business – who has a satisfied customer, low chance of item being returned, high chance of repeat custom – and customer, who has an item from which they get maximum use.

The model of retail we currently operate – where each company acts in its own interests, keeping the data it has on an individual customer to itself, even though that same individual may interact with multiple others and having that more rounded picture of preferences and interests may help to connect them to items of greater accuracy and relevance – is outdated. The 21st century version calls for a far more collaborative model, where efficiency in those connections is paramount (see Post-Economic Institute blog post explaining this further[2]).

[2] https://posteconomic.org/blog-post/retail-as-we-knew-it-is-dead-time-to-start-discussing-its-rebirth/

If we remember that the slogan 'thought it, bought it' perfectly captured how retail evolved over the past decade, where the infrastructure was built around the idea that choice and convenience are paramount, we have to consider how that would translate to an era defined by data, personalisation and AI, against a backdrop in which business is falling under intense pressure to improve environmental performance.

First, let's look at choice which, as a value, is losing relevance for two primary reasons. The first is that it is naturally incompatible with reducing waste and emissions. If people are to be presented with excessive choice, by definition many of those options will be rejected. This means producing too much in a generic (and, therefore, un-personalised) manner to ensure there are sufficient options available. The second is that a focus on choice represents a rejection of data and AI as guiding concepts, as it puts the onus on the individual to make decisions each time, requiring them to understand all the available options, which may be multiple, varied and complex. Algorithms are far more adept at this.

AI, in its truest sense, works by taking on a lot of the heavy lifting usually done by the individual. It sifts through all the available data to come up with suggestions that are already at an advanced stage of relevance for that individual at the first point of interaction. At its most extreme, it could be able to provide an individual with experiences, products and services that the specific person had no idea they wanted or needed, but are far more useful than they probably would have found if it was left to them to do so. Having choice as a value – which requires explicit permission from the end-customer each time before physically connecting them to something – presents a conflict with the strongest potential of this technology.

For convenience, it's fair to say that customer-facing businesses have created a monster in the guise of the modern consumer. As services have been built around the concept of convenience, a culture in which expectations are for the fulfilment of experiences as quick as possible, as easily as possible and with the minimum requirement on the part of the customer has been built up. They can be evermore demanding, because businesses will find ways to meet those rising and, increasingly, unreasonable demands. A continuing focus on convenience as a core business value is about as incompatible as can be imagined with that intense modern need to improve environmental performance.

Ultimately, if businesses are to genuinely improve their environmental performance, their services have to be built around different values; such as efficiency. Efficiency is the logical goal that can be targeted through AI and personalisation; by analysing multiple and varying datasets, it increases the chances that products and services can be provided in the least resource-intensive manner, while having the highest probability of being a positive match. The enabling businesses win, as they are able to carry out tasks with maximum efficiency, and the individual wins as they get connected to things that are most useful to them in their specific circumstances. But to get there, choice and convenience have to be relegated as fundamental concepts in business thinking.

Furthermore, if the model of business we operate is changed with the pursuit of efficiency in mind, the balance of benefit in terms of how data on people is used would shift from being primarily in the interests of business to those of the individuals. In that situation, where the way in which data is used delivers clear value to those individuals, it becomes

far more likely that they would understand how their actions contribute to, and support the pursuit of, efficiency.

But for this to become possible, we need to put in place an infrastructure – and supporting culture – that is based around the idea of sharing data between disparate businesses, so important to the functioning of AI algorithms, to create outcomes that are in the interest of individuals. Without that, people will be unlikely to see the benefit of having so much data on them shared between those businesses.

The promotion of efficiency as a core business value requires more focus and explanation than is possible here; this serves only as an introduction that will be examined further in future content.

As technology has stripped away the geographic and physical barriers that used to restrict how widely available everything could be, a model of retail based around selling more things to more people through more channels, ever-faster, has emerged.

The sheer scale of choice, supported by severe competition around low prices, round-the-clock accessibility and availability have placed convenience at the absolute centre of business-to-customer engagements. 'Thought it, bought it' – the idea that you can have something the moment you think of it – might be considered the mantra of the 2010s; but the 2020s are starting with retail in a very different place to where it was at the start of the previous decade.

The business virtues that made Amazon such a force to be reckoned with are beginning to lose their sheen. It might take shoppers a little while to adjust their behaviour, but the environmental pressures will eventually tell – and at that point, the way we have been doing retail will need to change fundamentally.

Retail has become too focused on boosting metrics in relation to the business; the real shift is instead in moving metrics over to be specific to each *individual*. This approach is entirely consistent with what retail is supposed to be all about – ie the customer; the 'thought it, bought it' model, due to the obvious tensions it creates with environmental performance, is not taking the customer with it into the new decade.

The evolution of 'thought it, bought it' is to recognise that the things we buy require a lot more thought, with the bulk of that thought being done in advance by business. And, to enable that, the way we manage data between businesses needs to undergo deep transformation.

About

POECI receives no funding and has no affiliation with any other groups; its research purely aims to bring a fresh perspective to debates on how to evolve business to make it appropriate for the 21st century.

http://posteconomic.org