

Trends Driving the Future of the Retail Industry for the Next Decade



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ABSTRACT

The next decade is expected to be the age of the consumer, with shoppers having more choices and control than ever before. They will be presented with a growing array of products and services, often personalized to their specific needs and wants. Consumers will continue to demand price and quality transparency along with a wide range of convenient fulfilment options. Overall, the retail experience is poised to become more inspirational, exciting, simple and convenient, depending on the consumer's ever-changing needs. The evolution in consumer demand, combined with transformative technological innovations, will continue to drive fundamental changes. The boundaries of “retailer” and “manufacturer” will continue to blur, as companies evolve to meet their customers' needs. These forces will cause the retail and consumer packaged goods (CPG) landscape to change more in the next 10 years than it has in the past four decades.

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The key drivers of success over the next decade will be centered on building a deep understanding of and connection to the empowered consumer, promptly incorporating disruptive technologies, embracing transformative business models in both the offline and online space, and establishing key capabilities. With this transformation, there will also be challenges to solve by proactively readying organizations for change and implementing the required technologies to address issues related to store closures, employment (job loss/reskilling) and potential adverse environmental impacts. This insight report focuses on digitally developed markets and represents a call to action to stakeholders across the private and public sectors. Retail and CPG incumbents need to address the accelerating opportunities and challenges to their current business strategies and operating models. Moreover, in collaboration with policy-makers, regulators, and in some cases, educators, it is critical to take clear positions on the societal implications of the industry's transformation to ensure positive outcomes.

Drivers of success

To succeed over the next decade and beyond, both retailers and CPG organizations will need to:

1. Build a greater understanding of and a stronger connection to increasingly empowered consumers Empowered by technology, the hyper-connected consumer is redefining value. The traditional measures of cost, choice and convenience are still relevant, but now control and experience are also important. Globally, consumers have access to more than 1 billion different products offered by a wide range of traditional competitors and dynamic new entrants, all experimenting with new business models and methods of customer engagement. As choice increases, loyalty becomes more fragile, and the consumer becomes more empowered. Businesses will have no choice but to remain agile, and constantly innovate and disrupt themselves by embracing new technologies to meet the high standards and expectations of consumers.

2. Rapidly adopt game-changing technologies

Technology will be the key driver of this industry transformation. Industry participants will only succeed if they have a relentless focus on using technology to increase the value added to consumers. They must, however, do so with a realistic assessment of their costs and benefits. The following eight disruptive technologies are critical for transformation: the Internet of Things (IoT), autonomous vehicles (AV)/drones, robotics, artificial intelligence (AI)/machine learning, augmented reality (AR)/virtual reality (VR), digital traceability, 3D printing and blockchain. Over the next 10 years, all of these technologies will come of age in the retail and CPG industries, creating an unprecedented level of disruption. In particular, IoT, AVs, drones, robotics and AI are predicted to be most transformational for retail and CPG industries due to their widespread applications, ability to drive efficiencies and impact on labour.

3. Unlock the power of transformative business models in physical and digital spaces

Over the next decade, the line between online and offline will continue to blur. Emerging business models will continue to proliferate, gaining scale and momentum. With slow-growing incomes in

most digitally developed countries and a shift in consumer spending from products to services, the retail industry is likely to see greater value migration (from one company or business model to another) than value addition.

In the future, e-commerce penetration is projected to grow from approximately 10% today to greater than 40%. Averages, however, can be deceiving, and some product categories are likely to register penetration rates of 50% or more, while others may not grow beyond 20%. Despite growth in e-commerce, the physical store will continue to be the channel that contributes the most revenue for the majority of large multichannel retailers. However, its value proposition will evolve from being a distribution channel to that of a platform for discovery, engagement, experience and interaction. This will be done through leveraging technology for differentiated customer experiences, developing new technology-enabled frontline engagement with shoppers and new collaborations to repurpose the stores and hubs for social interaction.

The empowered consumer

A new breed of consumers is shaping the industry's future, where incumbents must adopt disruptive technologies and business models to cater to them. Increasingly empowered consumers will have ready access to information, which means they will make decisions differently. They will use technology, especially mobile devices, in day-to-day decisions and tasks. They will also be hands-on, creating and controlling unique, personalized experiences. Across the value chain, the consumer has traditionally been involved in purchasing the product and follow-up servicing. That is now changing as the consumer takes on new roles, actively participating in every step of the journey. Consumers will soon be involved in:

- The creation process for companies (R&D, financing), as well as marketing content and product sales (marketing and sales) and products (sales)
- Personalizing their own products (innovation, manufacturing)
- Working as contractors for companies (distribution, store execution)

As a result, companies will need to open up their value chains and find ways to partner that further enhance the dimensions of the consumer value equation.

As the retail and CPG industries revolve around the empowered consumer, organizations will have to focus on certain critical priorities:

- **Consumer-first mentality.** Companies must embed a consumer-first mentality even deeper into their corporate cultures. Consumers must be the focus as business strategies and initiatives are developed. Organizations must understand their end consumer in terms of demands, expectations and pain points. They also need to know how their products and services meet these demands and expectations, while solving the pain points.
- **Agile consumer experience.** Companies must stay on top of rapidly changing consumer preferences and expectations. They need to be agile in order to continue shaping and enhancing consumer experiences. Successfully understanding the future consumer and enabling a competitive consumer experience means incorporating new, disruptive technologies throughout the value chain. These technologies will provide both the data to develop consumer insights and the direction to

optimize consumer experiences. They will be a critical means to attract, engage and retain consumers.

Transformative business models

A range of new business models have already blurred the boundaries between online and offline retail. Over the next decade, as new models proliferate in the online space, physical stores will continue to exist, but will require an evolved value proposition for consumers. For large multichannel retailers, the brick-and-mortar store

will continue to make the largest revenue contribution, partly thanks to evolved value propositions that include offering services outside their traditional scope (e.g. healthcare or financial services). However, stores will transition from distribution channels through which they merchandise products, convey information and process purchases, to places that tell stories and are platforms for discovery, engagement, experience and interaction.

At the same time, digitally enabled models will emerge that can be adopted into current business models – both offline and online – to better serve consumer needs and create the next frontier of digital retail.

From stores to stories: The evolution of physical retail spaces

Retailers will place a premium on personalized services and experiences that requires high levels of interaction with products and staff. Stores of the future will be smaller, carrying streamlined inventories that mix in-stock product and the ability to manufacture customized products on site. This transformation has three key enablers:

1. *Differentiated customer experiences.* Tomorrow's physical stores will offer rich, dynamic interactions and virtual experiences. They will become more like media platforms or flagship showrooms where consumers go to interact with products and expect hyper-personalized services. For example, by combining IoT and data analytics with AR/VR, "smart fitting rooms" can predict consumer preferences using knowledge of the customer gathered through previous interactions. This innovation helps customers envision (digitally) how items of clothing will look on them via interactive screens.

2. *A new frontline workforce.* Many of retail's traditional human interactions will be taken care of by a digital workforce. This will further differentiate and enhance the customer journey from discovery to purchase. For example, customer interactions could be through IoT-enabled personalized messaging and promotions throughout the store, or robotics-enabled shopping assistants and payment processing.

3. *New collaborations to repurpose physical stores as hubs for social interaction.* Physical retail spaces will be centres for community building and communal experiences. To appeal to local communities, stores will have a strong local flavour, complementing their core business proposition

with ideas, themes and events designed for the local consumer base. In addition, stores can be repurposed to serve previously unimagined dual business and social needs, e.g. offering lifestyle services, do-it-yourself training classes and health check-ups. This will help differentiate in-store experiences, supplementing the product exploration and experimentation component.

E-commerce's next frontier: Emerging business models

Over the past five years, new players with different models, fueled by emerging technologies, have challenged what and how goods and services are consumed, disrupting the industry's demand and supply sides. For traditional retailers – both offline and online – there are key elements in these transformative models that could be merged with current business models to better serve the needs of the consumer and reach the next frontier of e-commerce.

Four new business models, in particular, show the strongest potential to take the retail and CPG industries to the next level. They can add value for the end consumer across the dimensions of price, assortment, convenience and experience. These four business models are directly related to new models of consumption that have emerged over the past three to five years:

1. Next-generation sharing economy (rental and secondary markets)
2. Personalization economy (curated subscriptions)
3. On-demand economy (auto-replenishment or smart reordering)
4. Services economy ("Do it for me")

The business models will impact the CPG industry's subcategories to varying levels, mainly due to consumer trends and differing consumption patterns of high- and low-engagement products. For example, home and personal care will be directly impacted by auto-replenishment/smart reordering whereas apparel and hard goods will be the two sub-industries primarily impacted by the rental and secondary market model. For industry players, depending on which sub-industries they participate in, it will be critical to consider how components of these newer models can be leveraged to create business value.

Considerations for business, regulators and policy-makers

As organizations evolve their business models, it will be critical that they have the appropriate foundational capabilities in place to serve new models. These capabilities will require willingness for companies to innovate, collaborate and disrupt themselves. In particular, companies will have to consider the following:

- **Reimagining the physical store.** Businesses will have to evolve the retail space ecosystem to optimize the return on asset, and to maintain shopper loyalty. Retailers should think about repurposing their physical stores, and collaborating with CPG companies to enhance the pleasurable, social aspect of shopping in order to redefine the value of the physical asset from a revenue standpoint. Innovation and collaboration will be key here.
- **Strategic fit of offline-online models.** Businesses will need to determine which one – or more – of the various new offline-online models best fits their strategic priorities and will help them maintain a competitive edge. Even within the same product categories, different models might be better for

different companies, depending on the individual organizational capabilities that exist or could be developed in the short to medium term. Again, it will be vital for companies to be collaborative and open to disrupting themselves when necessary.

Conclusion

Consumers will be central to shaping the future direction of the industry. As their expectations around cost, choice, convenience, control and experience continue to climb, they will challenge the industry to keep up. At the same time, new and disruptive technologies will fundamentally impact the end-to-end industry value chain, benefitting both the industry and consumers.

Business models will also transform to accommodate these consumer and technological evolutions. The traditional retail model is quickly being replaced by brick- and-mortar stores with evolved value propositions and transformative business models in the online space. To thrive, organizations will need to aggressively pursue innovation and be willing to disrupt themselves.

Industry players will need to build the right capabilities to ensure they are ready for success in this new world. Societal challenges – such as the impact of physical retail on communities, the impact of new technologies on the industry’s workforce and the implications of last-mile delivery on sustainability – need to be tackled head on. To overcome these hurdles, partnerships (intra-industry, extra- industry and public-private) will be critical.

Collaboration among stakeholders will also be crucial to ensuring that the digital transformation of retail benefits everyone: the industry, consumers and wider society.

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