

RETAIL'S NEXT REVOLUTION

RETAIL USED TO CONSIST OF THE FLOW OF PHYSICAL GOODS. IN THE FUTURE, THE FLOW OF DATA WILL BE JUST AS IMPORTANT

Traditional retail, after decades of following essentially the same business model, is on the cusp of radical change. As many consumers show signs of having reached “peak stuff,” digital technology is making it easier to go beyond selling more things, and offering instead the access to a broader range of products and services. Retailers will be transformed into information businesses, where the collection, analysis, and use of data underpin competitive advantage.



The change will be revolutionary and have implications for delivery, scale, and operations. Retailers need to get ahead of the trend, or else they will lose out to rivals and new, disruptive competitors. No one knows exactly where this will lead. But here are five predictions that show what the future of retail might look like.

SELLING PRODUCTS IS OUT; SERVING NEEDS IS IN

Many sectors have already shifted from selling merchandise to serving customers' needs: People used to buy CDs; now they subscribe to music streaming services. Traditional retailers have lagged so far. But food retailers could make a start by customizing online shopping lists and suggestions to meet needs such as a vegetarian, dairy-free, or low-saturated-fat diet. They could use aggregations to set limits, such as treats making up no more than 5 percent of a total basket. And they could factor in customers' diaries, reducing a standard weekly order when someone goes on a trip.

The delivery-box model – which sends complete recipe ingredients to your door – is one example of groceries as a service. The first firms to do this have been smaller and mostly independent. But in future, clever use of data should enable big grocers to go further. Food subscription services could monitor your store cupboards, and then suggest a few additional items to complete a new recipe. In this world, the customer makes broad decisions about diet and budget, and the supermarket deals with what, when and how much. Customers will not shop at a retailer; they will set parameters in their subscriptions with a food-needs provider.

Beyond food, subscription services could manage clothing needs on the same principle. Customers would set their preferences for color, size, and body shape. The retailer would supply a mixture of basics and seasonal purchases – plus rental of designer outfits for special occasions.

RETAILERS WILL KNOW MORE ABOUT YOU THAN FACEBOOK

Serving needs effectively implies knowing consumers better. In fact, traditional retailers already have a lot information on their customers, as point-of-sales data tracks people's everyday economic lives, sometimes including their use of telecoms, utilities, and financial services in retailers with a broad offering. In one important way retailers are gathering more significant data than social media: Facebook knows what you say; retailers know what you do – as well as where, and at what time.

Retailers will gather even more information as they expand their services. When they discover a customer prefers healthy foods, they might propose health-related services or insurance. Home delivery services will let them know when a customer is in. Much of this information will be very personal, and providers will need to make sure customers are comfortable sharing it. We think that they will be – so long as they get something useful in return. Many people will be grateful for a digital prod such as, “We know you have no dinner in the fridge. Would you like some recipe ingredients delivered at 8.30, assuming you’ll be back from work at the usual time?” Over time, the more useful the services are, the more willing customers will be to share information.

FEWER, SMARTER PEOPLE WILL WORK AT A SHRINKING HEAD OFFICE

The new business model will depend on crunching vast quantities of data to understand consumers and suggest solutions. That means digitizing the corporation in a way that empowers managers to make quick decisions and drive rapid product development. One retailer in London recently formed a new analytics and digital division, to begin looking at deep customer analytics and associated opportunities. The unit also brings entrepreneurship into the organization: It operates and feels like more like a startup than the blue-chip corporation it is part of.

Simultaneously, digital analytics and approaches will replace many traditional tasks – such as product selection, pricing, and forecasting – with algorithms. Only exceptions will be flagged for human intervention. Basic tasks such as invoice processing will be fully digitized, slashing head office costs.

Put together, these two trends will lead to a radically different corporate headquarters. Its function as a digital core will make the head office more powerful – but it will take on a virtual character and employ far fewer people than today. Some online-only retailers are already there, and traditional retailers will follow. At some point, retailers will abolish the physical head office entirely, distributing small agile teams around the business.

HOME DELIVERY WILL BE UBIQUITOUS

The importance of physical stores will diminish too, as home delivery becomes a core element of the new services, aided by smart transport solutions. With progress towards self-driving cars already well advanced, it won’t be long before an unmanned, hybrid delivery van sends you a WhatsApp message to say that it’s at your house and you can collect your purchases from the van’s delivery box using a password. If you’re not in, it will proceed to other nearby deliveries and circle back to try again later. Or, perhaps a robot will simply put your products in a locker in your driveway.



Given that many retailers will need to deploy the same shipment service, delivery might become a utility like gas and electricity, and be regulated by governments to minimize traffic. One designated delivery supplier for all retailers would be more efficient than many vans from numerous companies – and the reduction in congestion and pollution would be worth the price of blunting competition.

THERE WILL BE HALF AS MANY LARGE GROCERS IN 10 YEARS' TIME

As these changes loom, international mergers are back on the agenda – witness the recent deal between Delhaize of Belgium and Ahold of the Netherlands. The obvious reason is the efficiency of international sourcing, which is how Aldi keeps its prices so low. Another factor is the potential to use technology at scale. Apps and analytics are expensive, and Amazon is a world-beater because it develops algorithms just once, and then uses them everywhere.

To compete with Aldi on prices and Amazon in subscription services and home delivery, food retail will turn from a national business into an international one through a wave of mergers and acquisitions.

Many traditional grocers who survive will become international behemoths that leverage synergies in sourcing, back-office functions, and technology at the regional or even global level.

Or they'll be nimble local players, which play up their local adaptation to the max and win customers by being precisely what the international players are not. Retailers who don't think hard about their place in the new world might end up in neither of these categories – and instead be swallowed up into someone else's strategy.