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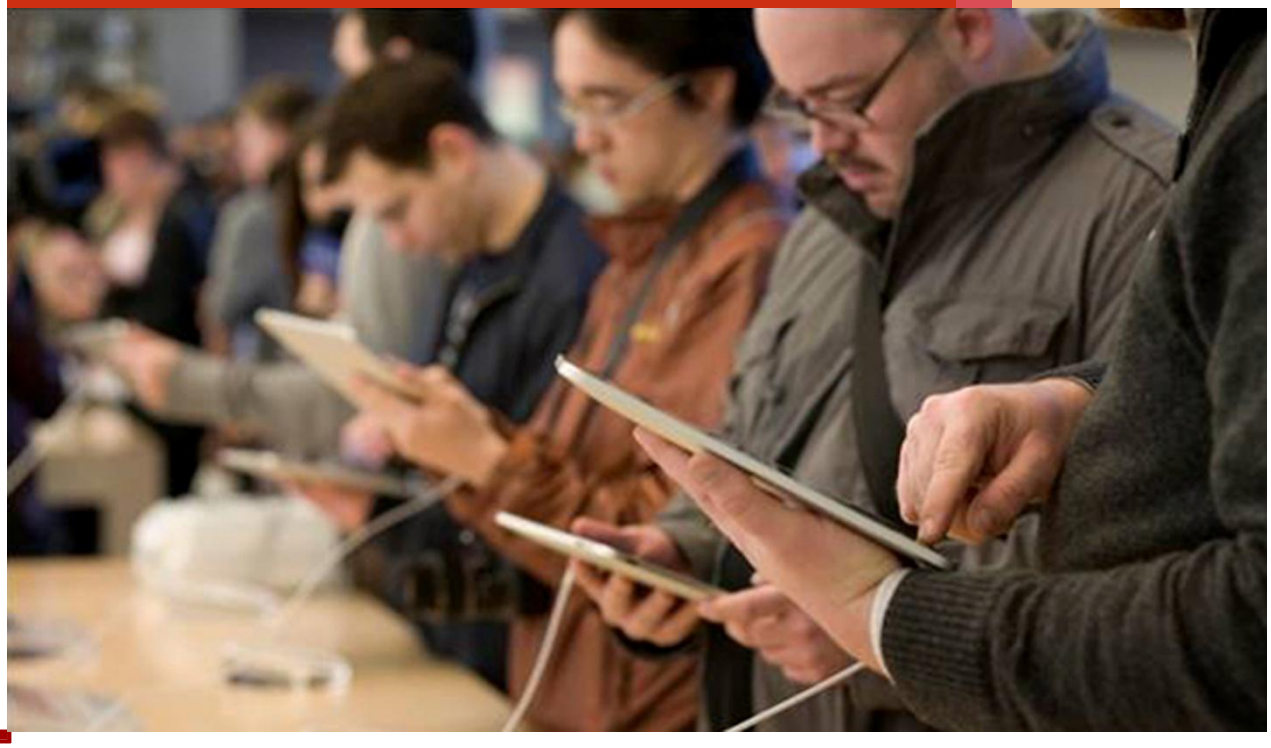
Retailing 2020: Winning in a polarized world



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PwC and Kantar Retail are pleased to present *Retailing 2020*, a follow-up study to our original *Retailing 2015* report published in 2007. This 2020-focused document identifies and investigates some of the economic drivers that could shape the US retail landscape, as well as components of channel and shopper. This report also documents an intriguing, forward-looking dynamic as we move from the early 2010s and advance toward the retail landscape of 2020. The current retail landscape has been recovering from the worst economic downturn in memory for most shoppers. At the same time, the US retail market continues to evolve into what we term the Post-Modern market evolution phase, characterized by hyper-competition—both online and off—and signals an era defined by very challenging circumstances to understand and master. In short, the retailers and suppliers willing to "up their game" will likely remain the most viable in a rapidly changing, shopper-driven retail landscape.

We anticipate that the 2020 retail landscape will be shaped by retailers leveraging increasingly complex operational, financial, and brand models. Retailers and suppliers, we believe, will need to address and manage the complexity and diversity of the "retail realities" that make the market challenging. Speed of technological advancements, globalization, and ways to leverage information are some of the drivers that may lead to a more consumer-centric landscape.

This new reality creates several critical implications for retailers and their trading partners. The market forces that are expected to impact the retail industry are significant, but can be leveraged by retail leaders that seek new growth opportunities.

Our research suggests factors that retailers and suppliers should consider when deciding how to manage the complexity and diversity of retailing in 2020. This report lays out defining principles (elaborated under "the new efficiency" concept) that retail brands should recognize and address in order to solidify their place in the retail marketplace of tomorrow.

This report represents a synthesis of a number of sources: interviews with Kantar Retail and PwC's senior leadership and retail channel professionals, *Kantar Retail ShopperScape®* reports, *PwC's 2012 Global Multichannel Survey, PwC's Experience Radar 2011*: Insights for the US Retail Industry, government statistics, analyst reports and other published materials. We are providing general information which is no substitute for consultation with professional advisors.

We hope that you find this report informative and insightful, and we look forward to dialoguing with you about your experiences, opportunities and strategies as we move forward into the retail world of 2020.

Regards,

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Executive Summary

Retail 2020: Winning in a polarized world

Based upon updated research and the combined views of our retail industry professionals, following the previously issued *Retailing 2015: New Frontiers*, we believe successful retailers of 2020 will be those most likely to properly position themselves to master the highly dynamic marketplace in which they operate, a marketplace that will likely be increasingly polarized. The polarization of 2020 is expected to manifest itself in a variety of ways:

- **Channel fragmentation**. The US landscape is expected to experience a significant increase in non-store retail. Successful brick-and-mortar formats will look markedly different from one another. Most major retail outlets will operate a multitude of physical footprints, all aimed at pleasing their target customer in a variety of shopping modes. In fact, these "footprints" may not involve physical stores at all.

- **Non-store retail's accelerated growth**. According to Kantar Retail's Global Database, by 2020, non-store retail is expected to account for 12% of the overall US retail marketplace for non-automotive goods. The concept of a "wall-less", omnichannel retail world underpins many of the drivers, trends, and strategies that will evolve by 2020.

- **Smaller footprints.** The retail environment of the future will see retailers increasingly opening smaller stores to generate new growth as already seen in several urban markets such as the UK, and Mexico. The online world will capture an increasing share of planned shopping trips, leaving brick and mortar retailers to capitalize on immediate, or impulse, needs.

- **Income fragmentation adaptation.** The US is the most income-polarized developed economy in the world, according to US Census Bureau and Operation for Economic Co-operation & Development (OECD) data. This polarization will continue to drive success stories at both ends of the economic spectrum—increasingly catering to a wider income range.

- **Growth of recession-trained and fixed-income shoppers.** These groups, regardless of wealth, are expected to pursue increasingly polarized shopping decision processes. For categories these shoppers care deeply about, we expect a rise in premium products that are tailored to their specific needs, and in the "indifference" categories, we expect a rise in the extreme value segment. The middle of the market will need to react with distinctive positioning to thrive.

Drivers of change: A floor plan for the world without walls

Technology-enabling, consumer-centered transparency

The “wall-less” metaphor is one that has conceptual appeal for framing the 2020 retail marketplace. More and more retail volume is expected to come from non-store-based retail and stores will come under increased productivity and competitive pressures. The power of technology as a driver of change is not just limited to the shopper and retail environment. Increasingly, the “world without walls” will also require a value chain without walls as shoppers gain more transparency into all aspects of the retail supply chain. Tracking technologies like Radio Frequency Identification (RFID) and other innovations will enable seamless checkout while providing shoppers the opportunity to understand everything from product origin to brand legitimacy at the touch of an icon on a handheld device. For the retailer, precise inventory level tracking, enabled by technology at all phases of the supply chain, will result in tighter management of inventory to optimize cash flow.

Polarization forces value and relevance to get personal

The polarization of the retail landscape, combined with increased consumer connectivity, will be reflected in key consumer drivers that will shape the flavor of this wall-less retail environment. More personalized and contextualized communication will change the nature of the retailer as expert. For instance, signage and service will be part of the equation, but unless retailers can apply that expertise to customized specifics about a particular shopper’s life, they may lose the opportunity to build loyalty. Retail brands will also need to leverage the “transparency in all actions performed” – and this visibility will recast the nature of premium brands to be more transparent and authoritative. “Big Data” (large and complex sets of data that come from multiple sources) mining will enable retailers to also know a great amount about their shoppers, with insights that go well beyond their transactional behavior.

Value will also become more personalized, where a retailer's pricing dialogue with its best shoppers will be centered on private conversations personally tailored to that customer's preferences. Additionally, multiculturalism will become an integral part of doing business as more and more brands and conversations globalize.

Globalization requires more nimble retail operating models

Globalization is another major category of key drivers expected to impact retailer operating models. The global nature of the materials market makes nearly every business a global enterprise, which, when combined with the continued growth in the developing world, will put inflationary pressure on raw materials for retailers and shoppers. To meet this challenge, retailers will need a supply chain that is networked globally, but that might ironically become more intensely local. The pressure for cash flow, combined with the need for speed, will cause many retailers to consider sourcing closer to the point of final distribution rather than across an ocean.

Driver manifestation: Where and how retailers will sell and operate

The retail community's reaction to these core change drivers will change the definition of a successful retail model. These changes will come to life in the core areas where retailers sell, how they sell, and how they operate.

Where retailers sell

We anticipate that globalization will push retail into a variety of new and different types of markets. In addition to being successful at competing in different geographies, we expect that the global learning platform will influence the types of stores retailers operate. Benchmarks of global formats will spread more rapidly, and retailers will adapt global best practices swiftly to meet the needs of their markets. Even local retailers will be required to understand the global format portfolio in order to make sure they have a strong format strategy to compete in an increasingly polarized world.

Polarization will also require physical stores to be more focused and aligned with the needs of specific shoppers in distinct trading areas – further enabled by technology that aids personalized conversations for an even more customized and unique experience. Replenishment planned shopping trips will be automatic, particularly in low-engagement categories and will be managed in a hands-off, online environment. Brick-and-mortar retailers will still be leveraged for immediate and acute needs and will need to be in close proximity to shoppers to be successful. This will require more precise real estate modeling and smaller physical footprints.

How retailers sell

To enable more personal connections, retail brands will need to be well integrated across physical, digital, and media touch points in order to realize the full range of opportunity. Retailers will weave manufacturer brand themes and resonance into their brands to tell branding stories more effectively and their reach will continue to expand beyond selling products to services and lifestyle solutions. This branding will be aimed at positioning the retailer as a “one-stop life shop". The need to scale personal connections will push retailers into customization techniques that will allow personalization of clusterable opportunities.

How retailers operate

Consumer-centric stores and relationships will require a like-minded consumer-centric supply chain and operating model. Active consumer interaction in the supply chain will cause a divergence of shoppers. Some shoppers will pay significantly more for specific ingredients, faster delivery, sustainable attributes, or higher product quality. On the other hand, some will trade down to lower cost products with none of those features. Retailers will need to understand where they sit on that continuum and how many consumer-centric opportunities they will need to leverage.

Shoppers will also aggregate buying power into buying groups, and retailers may have entire departments dedicated to managing consumer buying groups. Such groups will be able to employ short-term promotions for purchase advantage or resale – creating a world where retailers may, in essence, morph into wholesalers and remain conventional retailers to individuals. All of these transitions are expected to put intense pressure on retail economic models, particularly in the mission to drive square footage and asset productivity.

Strategic implications: The paradoxical choices

The 2020 retail landscape may represent one of the more complex environments retailers and their trading partners have ever faced. Retail organizations that do not change *where* and *how* they sell and operate will fail to adapt and succeed in this challenging landscape. The drivers and key trends we've outlined lead to core strategic choices for retailers, perhaps best described as "paradoxes": the paradox of where I operate, who I sell to, what I know, and how I work.

The paradox of where I operate: Am I global or local?

Brick-and-mortar retail operators, we anticipate, will be under pressure to balance localization and personalization in an increasingly global world. In order to make sense of this complexity, retailers will need to build distinctive skill sets in dynamic clustering – to aggregate similar opportunities that might not be alike in obvious ways and to bring those opportunities to life. From a global perspective, retailers will continue to search for a balance between global skill sets that can be applied everywhere and a need to adapt to the local market. In particular, we expect that parallels will be drawn between segments of geographically disparate markets and that global retailers will establish trading ecosystems made up of distinctly different country segments that have significant points of commonality.

As global buyers, retailers will need to increase their ability to partner with their global trading partners to understand the world and capitalize on opportunity, as opposed to simply trying to leverage scale for lower acquisition costs.

The paradox of who I sell to: Am I a standard brand or a series of personal relationships?

The importance of retail brands in helping shoppers simplify their lives will likely continue to be crucial, but in 2020, the brand will be less standard and more tailored to the specific customer. Touch points will be more complex and require proficient integration. The key to bringing this all together is a retailer's conversational marketing skills. Leading retailers will be classified by those that are the best conversationalists – good at listening to their shoppers' needs, along with communicating a secure and self-confident image to their consumers. This conversational prowess will also help retailers leverage other best-in-class brands they sell to build their equity.

The paradox of what I know: Is data an advantage or a risk?

Data mining skills, we believe, will be very important to retailers in order to understand and anticipate the needs of their shoppers. In fact, total value chain management will be a competency set that distinguishes leading retailers from the norm. Retailers will not merely use their transactional and point-of-sale data, but will be able to integrate this information with other external data sources to tell more engaging stories. Transaction data must be translated into compelling stories, even in large scale operating models (employing tens of thousands of associates). Data architecture plays a major role in this ability to tell stories: great retailers will be able to dynamically link disparate data sources to tell the right story at the right time.

Data presents significant risks as well. Data security could become either a much larger business risk or a regulated part of the retail landscape. Some shoppers may opt to be “off the grid” and require a very different, less technologically-driven relationship. Retailers may decide the risk is not worth the return and may outsource significant aspects of data management to experts, possibly other retailers.

The paradox of how I work: Efficiency versus effectiveness

Retailers, because they are more operationally-oriented, tend to be far better at efficiency than effectiveness. By 2020, the leading retailers will be those who best blend effectiveness *into* efficiency – yielding a concept that we call “the new efficiency". The new efficiency can be viewed as having the following four components:

1. **The ability to realize and quantify** opportunity as opposed to simply seeing the hard costs associated with change.
2. **The need to understand lowest potential cost** and understand how costs might be lower if the work were required to be different because the landscape has changed.
3. **A holistic understanding** of total value chain productivity.
4. **The ability to stop doing unproductive work** and reimagine new ways to execute.

Understanding these paradoxes and the interplay with the key drivers of change will spur retailers to devise new ways of working as shoppers' needs change, and the demands for service in an omnichannel world grow ever more acute. The following sections of this report shed light on these and many other relevant opportunities that are critical as businesses position themselves for success in 2020 — in what we expect to be a very challenging retail world.

Overview

This chapter investigates current US market conditions that could shape the retail landscape through 2020:

- **Retail industry overview: Transition from Maturation to Post-Modern market**
- **Consumer behavior overview: Post-recession consumer behavior changes**

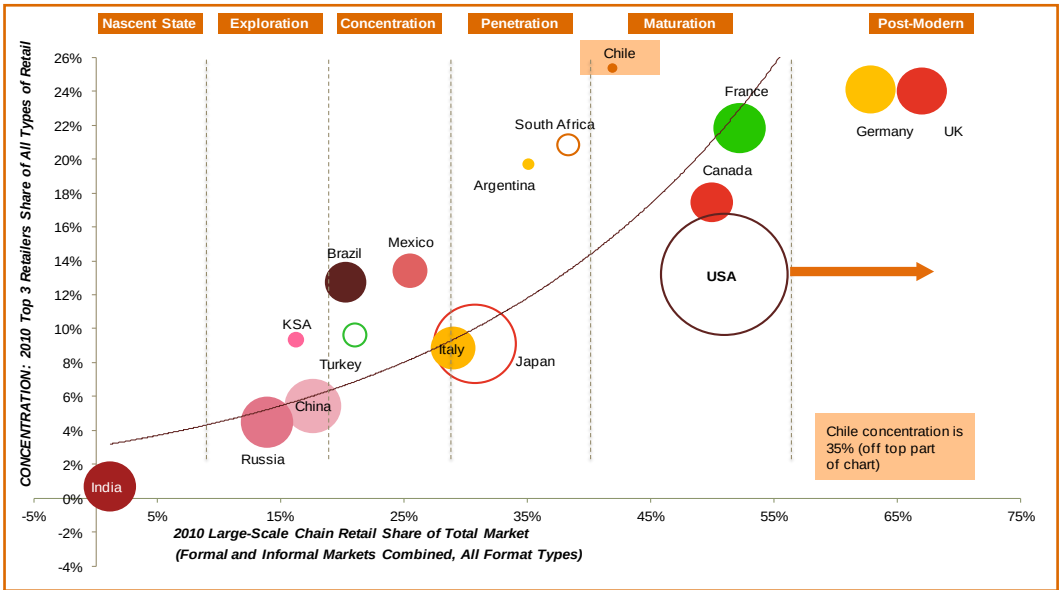
Retail industry overview:
Transition from Maturation to Post-Modern market

The US retail industry is currently considered as being in the Maturation stage as compared to other countries' retail sectors and is rapidly progressing toward the Post-Modern retail evolutionary stage, according to Kantar Retail's *Retail Market Evolution Model* (Fig. 1). In the Maturation stage, the US retail market continues to concentrate and to be reduced to fewer companies, some major retailers fail and, in parallel, available real estate saturates the market. Further, Supercenter formats (Hyper/Mass Channel) capture a disproportionate share of all US retail.

As the retail industry evolves toward the Post-Modern period, the end of Supercenter growth will be a key change in the retail landscape both for retailers and suppliers. The retail industry will also experience the proliferation of small, urban, "alternative" retail formats, as well as reliance on multi-format portfolios to capture future growth. This will likely compound the dismantling of mass homogenization and scale assumptions that propelled two decades of US retail growth and that has resulted in a highly fragmented retail landscape for shoppers.

By 2020, the US retail industry will have entered the Post-Modern retail evolution phase, joining the likes of Germany and the UK, whereby retail is characterized by high levels of chain competition and a slow pace of growth among major chains. Post-modern retailing will also bring limited square footage growth, increase the pressure on existing space to be productive, and heighten retailer investment in independent capabilities (e.g., private brands, direct to consumer advertising and marketing). As a result, large chain retail growth through the decade is anticipated to remain very close to the early 2010s recessionary rate, with about one-third of large chain growth coming from online sales.

Figure 1: Retail Market Evolution Model



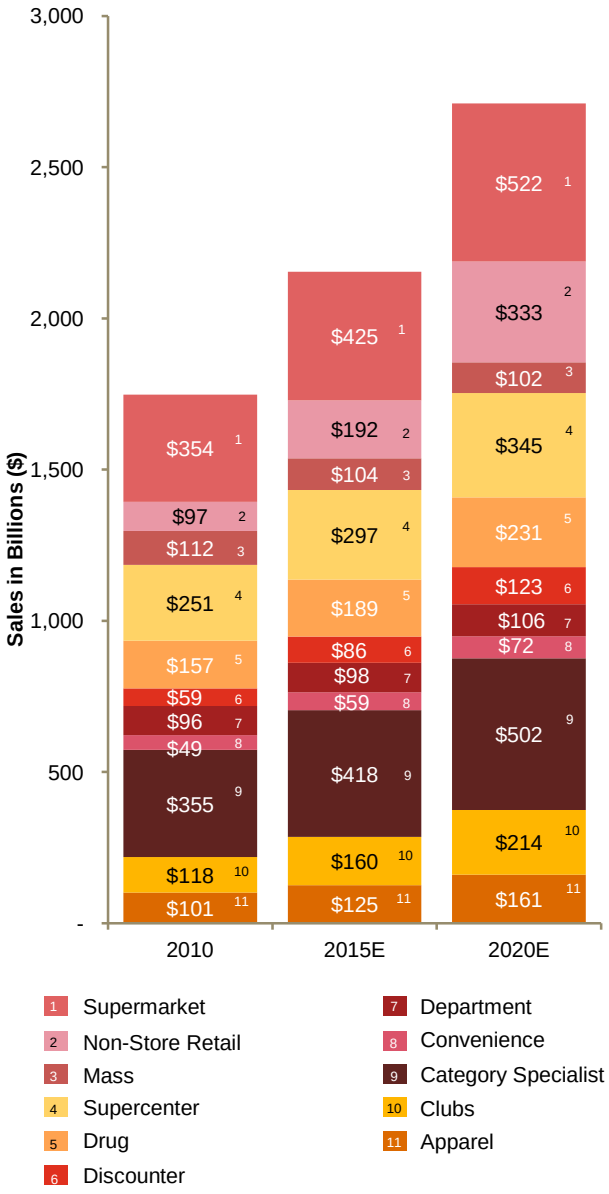
By 2020, the US retail market will have entered the Post-Modern retail evolution phase, joining the likes of Germany and the UK, whereby retail is characterized by growth fragmentation and the proliferation of small, urban, "alternative" retail formats.

Source: Kantar Retail Analysis, 2012

Where will retailers find future growth?

The outlook for retail channel growth is diverse. There will be no single channel or retailer that will dominate growth in the forecast period (2010E-2020E (Fig. 2)). A portion of the growth that was attributed to Supercenters in the Maturation period will spill into the Discounter channel, which has benefited in the past few years from the economic downturn and the resulting increase in value shopping. We project that the Discounter channel will continue to grow in the Post-Modern period similar to past Supercenter growth.

Figure 2: Projections, US Sales by Format

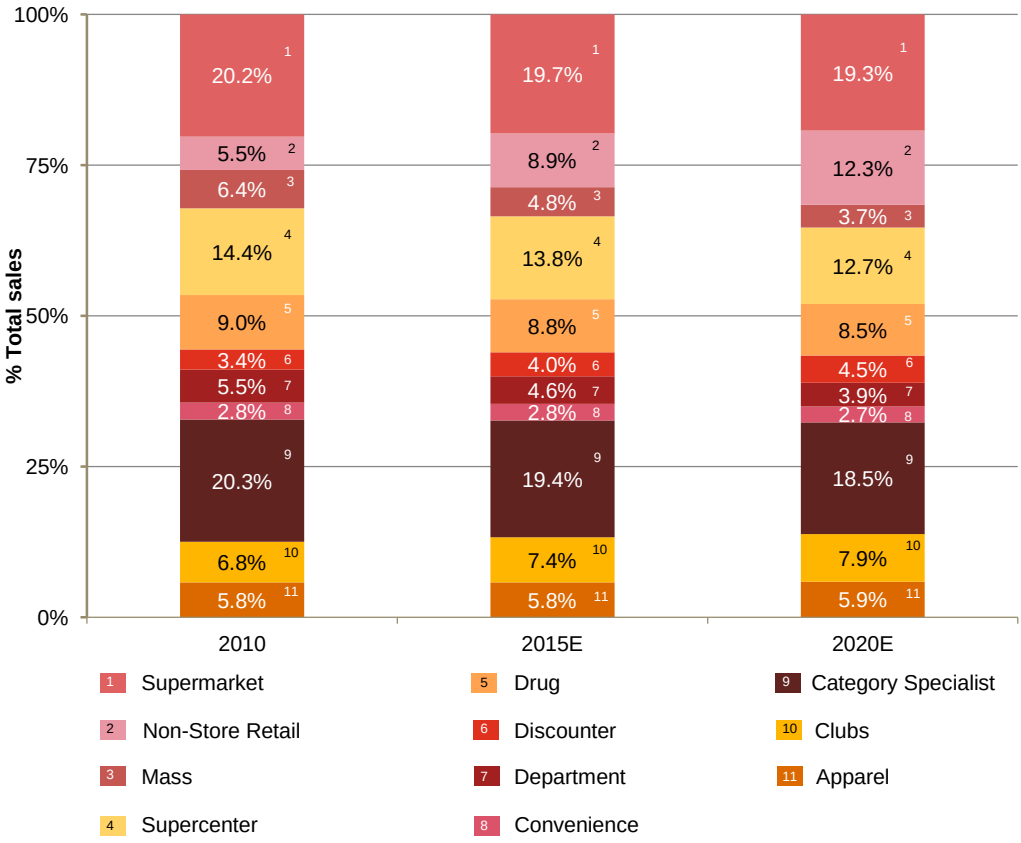


Channel	CAGR '10-'15E	CAGR '15E-'20E
Apparel	4.4%	5.1%
Clubs	6.3%	5.9%
Category specialist	3.4%	3.7%
Convenience	4.0%	4.0%
Department	0.5%	1.6%
Discounter	7.9%	7.4%
Drug	3.8%	4.1%
Supercenter	3.4%	3.1%
Mass	-1.4%	-0.5%
Non-store retail	14.7%	11.7%
Supermarket	3.8%	4.2%
Channel totals	**4.3%**	**4.7%**

Source: Kantar Retail Analysis, 2012

Non-store retail, driven by online today, and likely mobile and tablet commerce in 2020, is projected to be the fastest growing retail channel in the future. Conversely, Supermarket, Drug and especially Mass channel retailers are likely to face a tough growth environment in the coming 2015-2020 period—even if job and income growth surmount global pressures. Likewise, Supercenters, as a percent of total US sales, will decrease to 12.7% from 14.4% today (Fig.3).

Figure 3: Percent Sales Importance of Retail Formats - 2010 to 2020



Supercenters, as a portion of total US Sales, will decrease from 14.4% in 2010 to 12.7 % in 2020.

Source: Kantar Retail Analysis, 2012

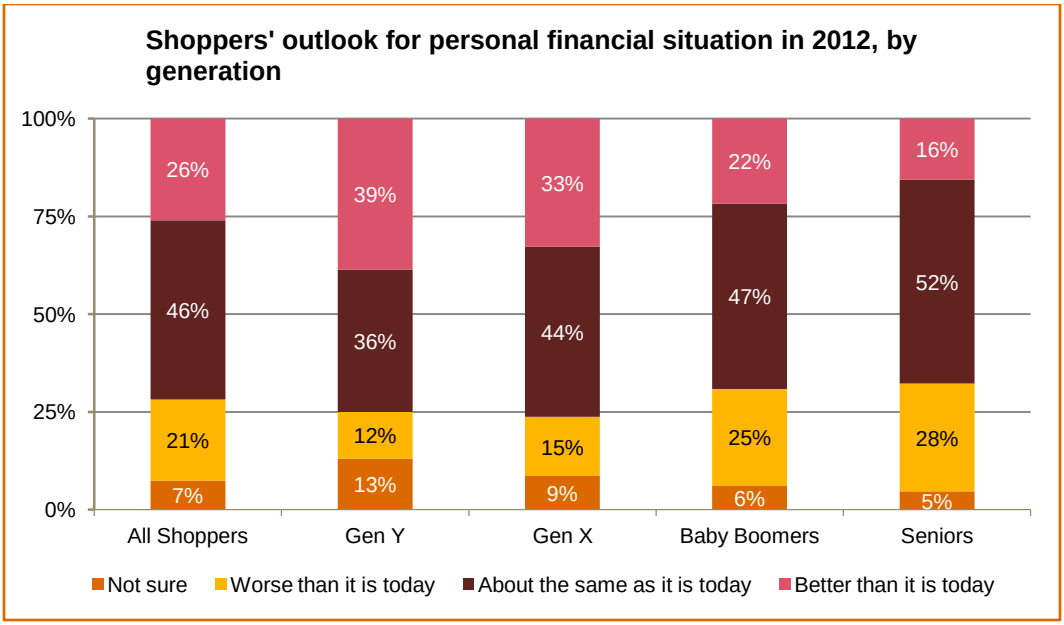
Consumer behavior overview:

Post-recession consumer behavior changes

Kantar Retail ShopperScape® research shows that two-thirds of shoppers changed their behavior during the 2008/09 recession period. Spending intentions slowed and shoppers continued to signal that deal-seeking and limiting behaviors will dominate the shopping mindset. However, even with the economy stuck in "low gear", shoppers maintained a fairly positive outlook throughout 2012: Twenty-six percent of shoppers expect the outlook for their personal financial situation to be better in 2012 versus last year (Fig. 4). Only 19% expect the economy to improve in their 2012 assessment of the overall outlook for the US economy (Fig. 5).

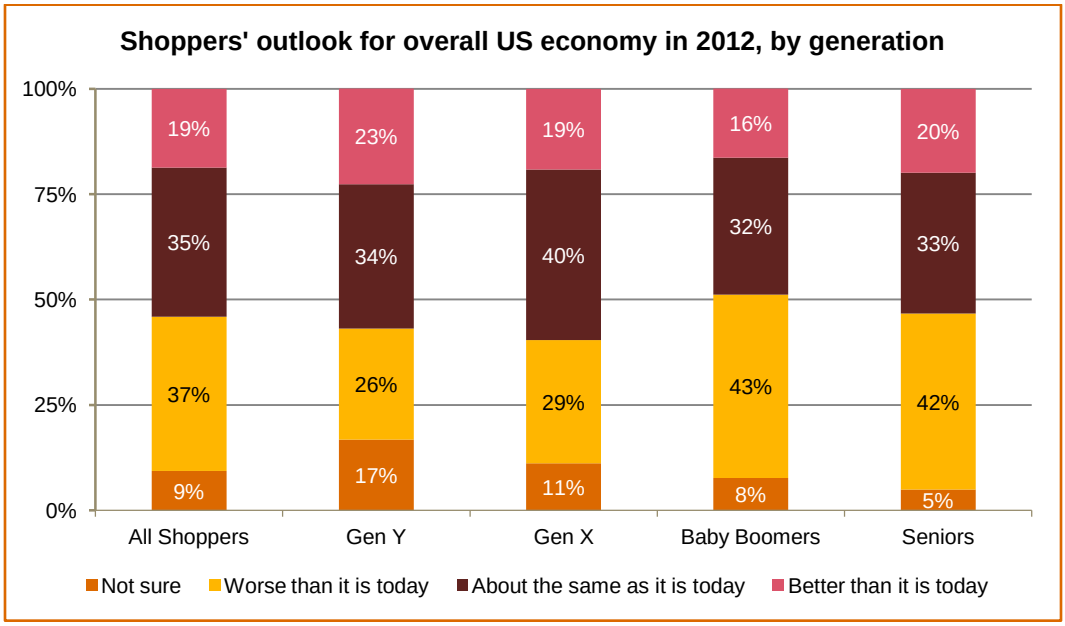
This “shopper story” becomes even more intriguing when comparing sentiments across different shopper cohorts. The positive outlook for personal financial situation rockets to 39% of Gen Y shoppers, and 33% of Gen X shoppers. Seniors and Boomers continue to be skeptical about improving prospects, consistent with their below-average spending intentions throughout the recession and subsequent recovery period (2010-2011). The older generational cohorts, having lived through several recessionary cycles, are more financially conservative in their economic outlook than the younger generation.

Figure 4: Shoppers' Outlook for Personal Financial Situation



Source: Kantar Retail ShopperScape®, October 2011

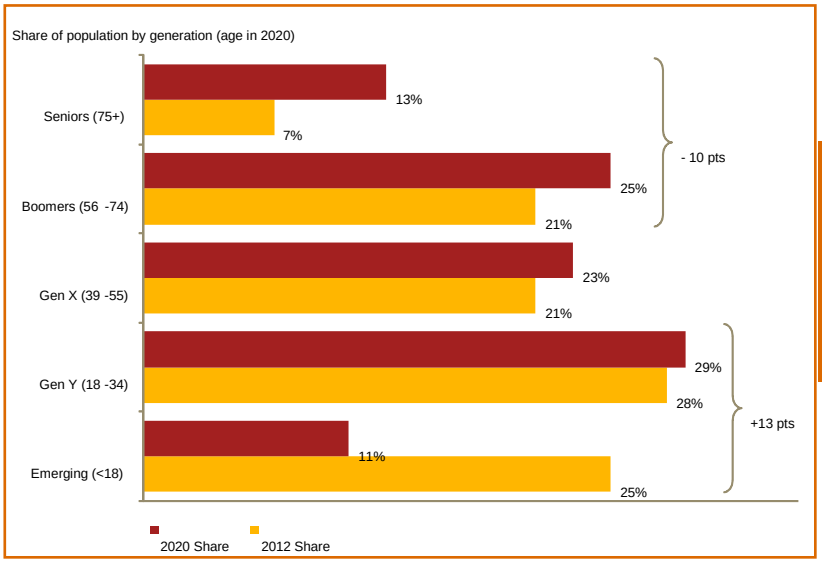
Figure 5: Shoppers' Outlook for Overall US Economy



Source: Kantar Retail ShopperScape®, October 2011

These generational differences will become even more apparent as the US demographic picture progresses into polarization or demographic fragmentation over the next decade (Fig. 6). This polarization will create, in effect, two mega-cohorts—the "over-50's" and "under-30's"—dividing the US into two very different "shopping nations".

Figure 6: Generation Share of Population



In 2020, ongoing demographic fragmentation will create two distinct cultural, societal, and "retail reference" groups.

Source: Kantar Retail Analysis, 2012

US income fragmentation continues: Growth of the "Haves" and the "Have Nots"

In addition to the differences between demographical generational cohorts, the future US retail landscape will also be driven by income polarization. The US is the only major developed economy in the world where income classes define retail channel dynamics – its distribution of income looks more like a developing economy than a developed one. We expect this difference to continue through the decade, and to have a disproportionately large impact on the development of the US retail marketplace. This impact is most noticeable in three areas:

1. **"Masstige" retail** – A combination of Mass and Prestige, "Masstige" is retail with a mid-market positioning, but aimed at the higher end of the mid-market. This area will continue to thrive when well executed. In many countries, the sheer size of the upper middle class is too small for standalone retailers to serve this need, but the US presents a massive platform for this positioning to grow.

2. **Discounters** – Channel projections reflect aggressive growth in this area, much of this coming from continued conversion by low-income shoppers to the trade class best designed to help stretch their available cash from pay event to pay event.

3. **Ultra-premium** – The very top end of the US marketplace will continue to be an attractive market for both US-based retailers and global operators using technology to reach these shoppers wherever they are located.

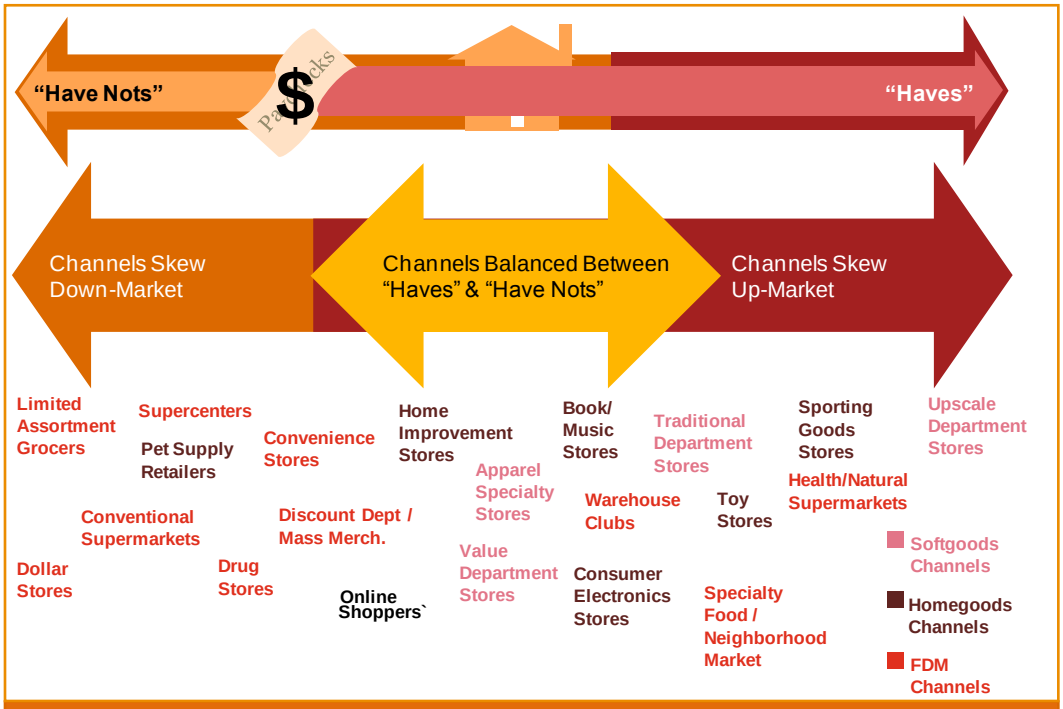
Income fragmentation: Impact on economic recovery of retail channels

Kantar Retail defines 'Haves' as those who are more likely to have bounced back from the economic downturn due to professional qualifications, education, and are likely to be in higher income brackets. By the same definition, 'Have Nots' are defined as those households that are significantly disadvantaged economically to bounce back from the economic downturn due to jobs held and lost, primarily in the manufacturing sector, and because many did not have a four year degree, they have found it tougher to recover from this recession than past recessions.

By 2014, we project that the "Haves" will see the most immediate return to economic growth and the "Have Nots" are likely to remain a core challenge for retailers and suppliers. Despite starting to benefit from an improving job market, the "Have Nots" will continue to display higher sensitivity to economic pressures (e.g., lack of disposable income or job-loss insecurities) compared to other income groups in the US (Fig. 7). Furthermore, the grocery saving habits adopted by middle class families during the economic downturn will likely impact their future shopping patterns as well.

The breakout of households into "Haves" and "Have Nots" is a qualitative benchmark, by Kantar Retail, based on income and poverty data published by the US Census Bureau and education and unemployment data from US government agencies.

Figure 7: "Haves" vs. "Have Nots"



Income changes the way Americans shop. The US has a unique distribution of income among developed economies that leads to unique positions by retail channel.

Source: Kantar Retail Analysis, Kantar Retail ShopperScape®, and US Census Bureau

Based on US Census Bureau data and Kantar Retail estimates, by 2020, we expect demographics and income gaps between the shopper segments to widen (Fig. 7 & 10), creating shopper segments with different expectations for product offerings and shopping experiences. As a result, leading retailers will have to rethink their scalable "one size fits all" approach. Any retail strategy must include a plan to fit the ever-diverging needs of the US shopper, including both the "Haves" and "Have Nots". For example, we have already witnessed retailers starting to diversify their format portfolios (e.g., testing urban or small footprint formats) and this "niche" trend will accelerate in the coming years.

Key change drivers

This section explores a variety of underlying assumptions that will help drive the 2020 US retail industry outlook. Key US retail landscape change drivers include:

- **Speed of technological changes**
- **Shifts in US demographics and shopper behavior**
- **Ripple effects of the changing global shopper**
- **Global economics of procurement**
- **Transparency and knowledge-centric shopping**
- **Challenges to retailer economic models**

Speed of technological changes

The speed and pace of technological advancement have increased radically in the past few decades with internet and digital communications making the innovation "ecosystem" considerably smaller, faster, and more varied. By 2020, the pace of technological innovation will have accelerated even more and mastery of new technology platforms will define the retail winners of tomorrow. It is difficult to forecast the exact nature of this technology, but it will likely revolve around three major business needs:

1. **Deeper understanding of the data available on individuals** to provide a detailed view of behavior and to make predictions ("Big Data")
2. **More granular comprehension of product movement** to meet regulations, reduce costs, increase safety, and mitigate loss
3. **Perpetual connectivity and communication** manifested by the rise of internet penetration, smart devices, and social media

Deeper understanding of the data available on individuals – known as "Big Data"

A relatively new concept, Big Data can be loosely defined as large and complex sets of data that come from multiple sources. Some of these data sets are collected for a specific purpose, and some are collected as a result of the individual's passing through the wired world. Combined, this data provides a detailed view of behavior and predictive indicators. Access to Big Data, and the ability to synergistically use the information to make informed and actionable decisions, will become a norm for retailers and suppliers by 2020, based on the expanding use of data today.

For instance, by 2020, we anticipate that retailers' analysis will pull from the following "common" sources of data:

- Information automatically generated by internalized elements embedded into cars, smart devices, home goods, and medical appliances.

- Consumer/shopper intentions, either through a verbal command or unintentional signals, such as body chemical analysis or household product inventory status changes.

Big Data will create a vast pool of data that can be analyzed for patterns. These patterns can be turned into insights and used to create consumer demand, shopping cues, or retailer assortment maps. The patterns can also be used to minimize risk. For example, quick, automated pattern recognition around complaints due to a product failure will be detected, tracked, and fixed in a much timelier manner than what is typical today.

Ongoing business intelligence improvements will bring about a higher degree of anticipation for consumers and system owners, setting a higher expectation for what's "standard" by 2020. For example, as mapping and driver assistance become standard, sitting in the driver's seat of an average car will cause elements to be shaped to a user's known preferences, from the wheel, seat, mirrors, internal atmosphere, and entertainment ("infotainment"). Production lines will have access to the same sources of information, setting production based on global demand and profit modeling of retailer sales data. In short, the ability to mine Big Data will be an enabler for the standardization of this type of sophistication.

Overall, retailers will have the opportunity to store and manage massive data sets derived from point of sale, supply chain, and consumer input via loyalty cards or social media interactions. The ability to provide this level of analytical insight and to use it to manage all other parts of the business, including the shopper, will, we anticipate, determine which retailers will thrive and succeed through 2020.

More granular comprehension of product movement

Today, tracking product movement is represented by Radio Frequency Identification (RFID). RFID technology, available for well over a decade, has been seeking a proper business case and a scalable application. The concept of relying on a tiny chip to contain all moments of change, and reading that data in real-time had immense potential to reduce costs, increase safety, and mitigate loss. Though RFID works for tracking containers and pallets with proximity to power supplies, it does not work well at the individual product or item level. For RFID to work at product level, the question of power supply must be solved.

In the future, products will be tracked and recorded throughout the entire supply chain, from commodity source through manufacturing and quality assurance and into shoppers' homes.

As RFID technology becomes more prevalent, its use will influence everything from supply chain management to retail checkout/payment.

- The need to track products in the supply chain will intensify due to regulation in certain areas (e.g., pharmacy and food safety for products such as infant formula). Traceability of the perishable supply chain will also be a major factor from a shopper level with RFID as a possible solution in this area.

- For retail checkout, both payment and product scanning will take place with far less human or machine intervention, changing everything from a retailer's labor model (checkout personnel will become discretionary) to its merchandising strategy (determining how to create virtual points of interruption to drive impulse without a logical stop at checkout).

Given these benefits and the changing landscape, tracking tools will likely be embedded in most products and consumer smart devices by 2020.

Perpetual connectivity and communication

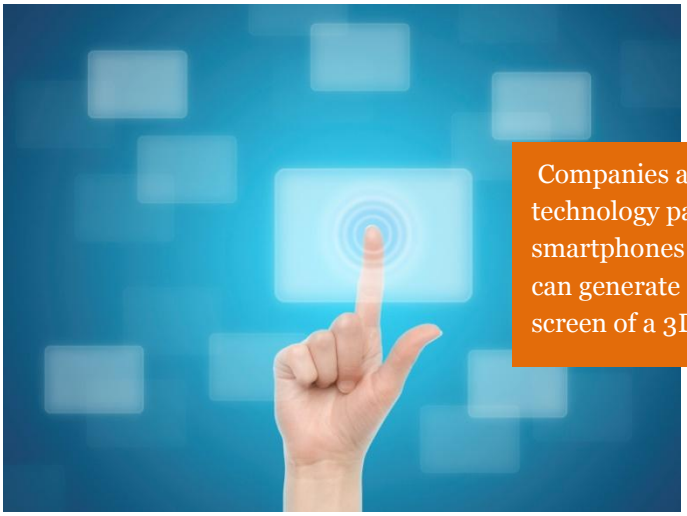
Consumer electronic devices have evolved from occasional-use devices to highly embedded tools in our everyday lives. According to a 2011 Nielsen report, approximately 46% of all mobile phone users own a smart phone. Smart phones will become even more enmeshed in daily lives, becoming more efficient and easier to use, and will also provide greater functionality and require less power. Focusing on increased battery efficiency and alternative power supplies, the ability to store and use power over long periods of time will be a key variable that we anticipate will be resolved by 2020 based on current technologies under development. Ongoing user interface improvements will make the shopper's connection to the wired world increasingly seamless and effortless. Effective leverage of smart devices, specifically prompting users to engage at retail, we believe, will become an everyday reality for the retail industry of 2020.

In the context of this perpetual connectivity, we project a host of potential applications will emerge within retail that can fundamentally reshape the classic "4Ps" of retail marketing:

1. **Product** merchandising at the shelf will be more interactive for the shopper.
2. **Packaging** will actively show products in use or communicate directly to smart devices.
3. **Pricing** will be a fluid dynamic between the price initially offered, the interaction with the consumer, and the "final price" based on rewards or special deals offered to the individual to close the sale.
4. **Promotions** will be triggered by a shopper's physical presence, personalized and tailored to the shopper.

Social media, a powerful enabler for consumer engagement, provides exposure to online coupons, group deals, and promotion information. By 2020, the next generation of social media will force merchandising and marketing into a "group activity" both online and in-store (e.g., "likes" associated with products, at the shelf level in its stores). In the future, expect shelf tags with ratings that change as shoppers review and purchase, as well as usage suggestions derived from social media groups providing product information at the store. All of this activity may be enabled via electronic content in fixture, on the floor, or even in mid-air though hologram technology (Fig. 8).

Figure 8: New Applications for Shopping



Companies are looking at hologram technology patents for future use on smartphones and tablets.Technology can generate an image above the screen of a 3D page for shopping.

Shifts in US demographics and shopper behavior

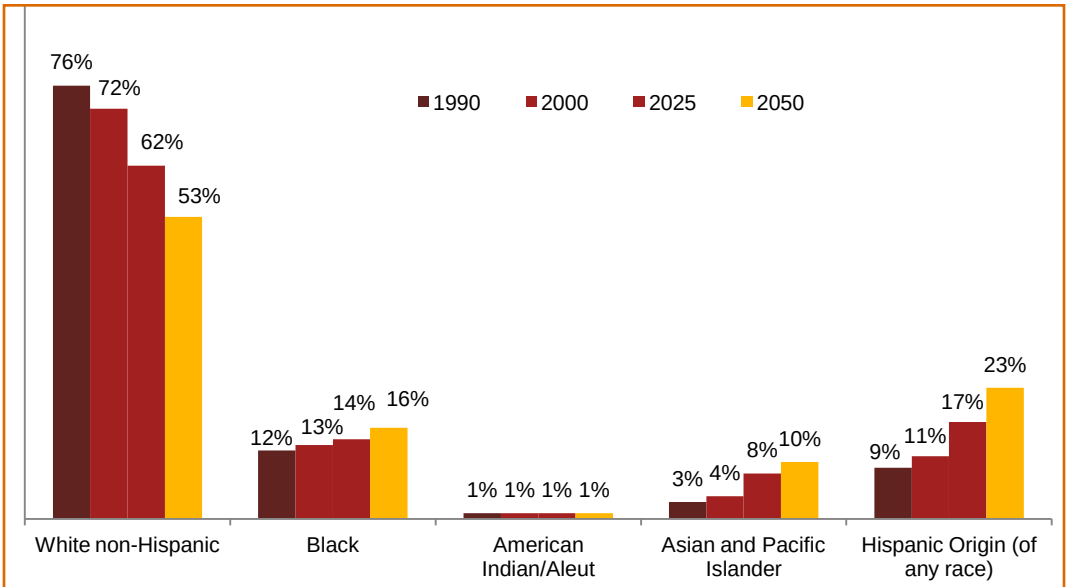
In the coming decade, we anticipate that the US will witness an even stronger polarization of income, age, and other demographic brackets, based on current trends and US Census Bureau projections. These factors will drive a higher awareness of not only what is possible, but what's expected by consumers and this will accelerate the demand for a different type of retail model in 2020.

Diverse demographics

The generations of Hispanic and Asian immigrant children born during the late 1990's and early 2000's will be grown adults by 2025 and will constitute 25% of the US population (Fig. 9). With this increase will come a shift in American culture as key elements of their heritage (e.g., music, food, language and literature, celebrations and holiday traditions) become part of their shopping experience. Simultaneously, those over 65 will make up a large part of the population, but they will likely want to "preserve" what is familiar to them and retain their existing culture.

Given the birth-rate demographics, the population under age 35 will be markedly more diverse and open to multicultural marketing. Today, Hispanic merchandising has been prevalent largely in stores where the demographic enabled it. In 2020, for retailers and categories aimed at young families, multicultural marketing will be the norm—not an ancillary capability. The need for nuance in communications as well as a balanced marketing and merchandising approach will be critical, especially for those retailers who court the general population, not limited or niche audiences.

Figure 9: Percent of Population by Race



By 2050, 53% (compared with 76% in 1990) of the population will be White, non-Hispanic according to the US Census Bureau. Given the increase of smaller families, a higher percentage of that population will be over age 65.

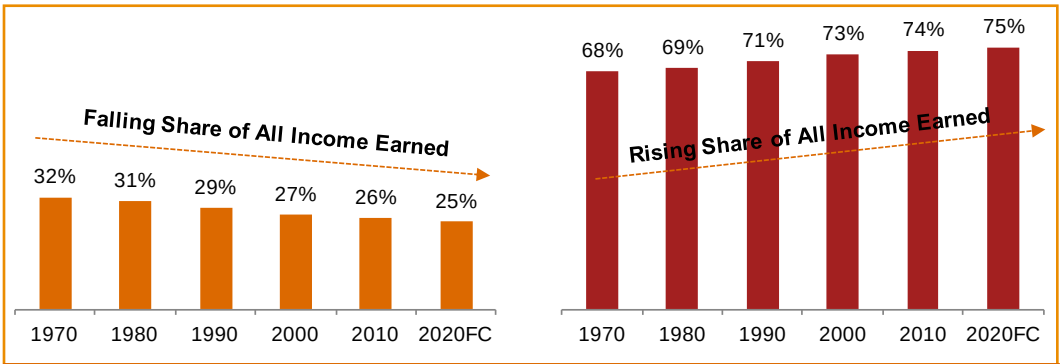
Source: US Census Bureau, Population Division 2011

Income disparity

Over the past 30 years, the number of middle income families in the US has declined, resulting in a widening gap between high and low-income segments (Fig. 10). Needs of the low-income population will be met by the increased penetration and transparency of the internet but will be constrained by a lack of disposable income. As portable broadband access becomes ubiquitous and affordable, we anticipate low-income families will use mobile shopping applications as a critical component of family budget management. In contrast, high-income households will be more concerned about managing time and convenience, optimizing the procurement of what they want, when they want it, with price playing a diminishing role.

As mentioned previously, the fastest growing US brick-and-mortar retail channel is Discounters, a format designed to meet the needs of low-income shoppers who generally live pay check to paycheck. As the price value of convenience intensifies, we expect high-income, tech-enabled, affluent shoppers to seek out Discounters for price value as low-income shoppers seek out Discounters as a necessity.

Figure 10: Income Divergence Splits the US - Middle Income Families



The movement of wealth away from lower income US households (on the left) toward higher income households (on the right) is expected to continue. This also means that the "middle" is squeezed in multiple ways.

Sources: US Department of Commerce, Kantar Retail Analysis

The polarized value-centric, premium-seeking shopper

Beyond income and generational differences, the recent recession has changed the way shoppers perceive value. The meaning of value has also become divergent for the premium shopper who is becoming increasingly frugal in certain instances, while at the same time seeking premium for products and categories they care deeply about. Technology is further enabling this frugality and search for value. In most cases, affluent shoppers trade value sensitivity for time: their time is more valuable to them than a few pennies saved on their weekly grocery bill. In the future, digital price management applications will remove this time barrier, driving pragmatic frugality through most routine purchasing, regardless of income.

At the same time, we'll also see an emergence of the "new premium". Shoppers will have both the opportunity and desire to pay more for products that meet their needs more specifically. Though this will be more extreme among the affluent population, younger shoppers are increasingly treating certain categories (particularly tech-enabled ones) as “needs", not “wants", and are paying premium prices for them.

Internet-enabled shoppers, in particular, will be able to more clearly define and find specific products to meet their needs. We believe that shoppers will pay a premium for products or services that reflect their values, or for products that accomplish very specific things. In particular, this “new premium” will be defined by three core attributes:

- **Transparency** – Access to information will allow shoppers to know what brands stand for, and this visibility will be essential to brands positioning themselves as “authentic” in the broad marketplace.

- **Preservation** – Although shoppers will increasingly become concerned about preserving the world, they will also spend significant and increased amounts on preserving themselves. Health and wellness will continue to be a priority for shoppers and an increasingly lucrative business platform for retailers.

- **Purpose** – We expect to see shoppers continuing to make decisions based on a broader sense of social responsibility. Consumers will be even more engaged and energized by a range of larger social responsibility issues by 2020.

Digital divide

By 2020, we anticipate that retailers will be confronted with a "digital divide", presenting two very different multichannel shoppers with different shopping expectations that will be difficult to address and serve using a single strategy. One of the only common patterns in shopper expectations will likely be that the online channel will be mandatory for most retailers. Gen X and Gen Y shoppers are becoming more oriented toward online participation in everyday activities, including retail activities, according to Kantar Retail ShopperScape®. When faced with a need to shop, their first inclination will be to search and purchase online. The rest of the population will be more casual regarding online interactions. For this group, shopping and social interactions will be based on a range of shifting need states and situations. The largest change will be that almost all shoppers will be in one group or the other; those who entirely opt out of shopping online will be a smaller segment.

Ripple effects of the changing global shopper

The good news: Demand increases for global retail

Increased connectivity and a rise in the living standards of a growing middle-class across the globe will create a heightened sense of awareness for global retailing (Fig. 11). The massive flow of information, increased exposure to cross-cultural trends and diverse lifestyles, and the flexibility of supply chain fulfillment could determine a new "global standard" for the middle class by 2020. Regardless of home location, the global shopper will expect the same product access and benefits that exist in developed economies, increasing demands for and consumption of all types of quality finished goods.

Figure 11: Global Middle Class Statistics - population in millions

	2009		2020		2030	
North America	338	18%	333	10%	322	7%
Europe	664	36%	703	22%	680	14%
Central and South America	181	10%	251	8%	313	6%
Asia Pacific	525	28%	1740	54%	3228	66%
Sub-Saharan Africa	32	2%	57	2%	107	2%
Middle East and North Africa	105	6%	165	5%	234	5%
World	1845	100%	3249	100%	4884	100%

In 2020, the percentage of the population considered "middle class" is expected to shift from North America and Europe to Asia-Pacific, reflecting the region's surge of higher incomes.

Source: Organization for Economic Cooperation and Development

The challenging news: Demand increases for global commodities

A far broader and more informed consumer base around the world will place greater tension on the base commodities needed to support rising consumer expectations. Increasing demand will put a strain on global commodity prices and as a result, impact retailers and consumers in both developing and developed economies. By 2020, pricing pressure and increased sourcing of commodities will continue to be prevalent as demand mounts in developing nations such as China and Brazil. Kantar Retail anticipates that gasoline/petrol prices will continue to climb with increased global demand, impacting not only the supply chain, but also petrochemical production and pricing.

Global economics of procurement

The ability to manufacture products almost anywhere and deliver them to a consumer thousands of miles away is made possible by standardization of communications and transportation systems. Within this context, manufacturers will continue to find the cheapest and most efficient way to source product for the end-consumer. Today, China is one option widely used for manufacturing. However, with the rising cost of living in China and the appreciating Yuan, the next manufacturing hubs may be in other less expensive economies in Asia or Africa. Key drivers for this sourcing diversification will be technological advancements that allow for seamless sourcing, lower or lowest cost, and evolving shopper preferences for products sourced globally.

Seamless outsourcing of goods and services

The continued development of technology and the "frictionless" nature of data exchange via the internet will drive companies to emerging countries as potential markets for outsourcing services. Competition for outsourced services will intensify and create more options for retailers and consumers to select from, ultimately reducing cost and improving cycle times.

Manufacturing at home

With increasing global demand for goods and services, we expect the cost of goods sold to increase. In addition, transport-related cost, as previously mentioned, will be a deciding factor for procurement location. In some instances, manufacturers will move manufacturing bases back to the US where the benefit of short transportation and lead times will outweigh the increased costs. Further, shopper preferences may play a significant role in where goods are procured–these preferences may be based on food provenance or product-safety-related issues. In all likelihood, the expansion of global sourcing will not be seamless; even today, safety issues related to products from some developing countries are a concern. Concerns regarding the quality of the global supply chain should create new opportunities for manufacturers and retailers to leverage more localized sourcing.

Transparency and knowledge-centric shopping

By 2020, advanced information systems tools will be available to glean quality information from vast quantities of data. The result will be greater transparency and faster answers to both business and consumer questions. Information regarding product sourcing, workforce management and financial transactions will be in the public domain regardless of how diligently companies work to keep the data private. Transparency will manifest itself in multiple ways by 2020, transforming the ways in which retailers and consumers interact and conduct business.

Information exchange

Consumers will expect and demand an element of trust and reciprocity in their relationships with retailers. That expectation will include increased information flow regarding the conditions by which products and services are procured, the working conditions in the company and its suppliers, and adherence to social responsibility standards. The information flow will not only be one way. Retailers will also have a view into their shoppers through the exchange of information generated during and after a transaction. The unhindered flow of information will help anticipate and respond to consumer needs and causes (e.g., sustainability).

Value perceptions change and pricing gets personal

Retail pricing today is already complex, complicated by value statements around branding, dynamic and aggressive competitors, proximity to other products, immediacy of use, and the product's role in the retailers' strategy. This is currently visible in how prices are widely available via smart phone applications and websites. We see this online today in the information and cost breakdown associated with cars and real estate. By 2020, we anticipate that the level of detail available to shoppers will be far more complex, as retailers automate value setting using both store and digital devices to find the right price at the right time to close the sale (Fig. 12). This will allow more individualized pricing, defined by what consumers are willing to pay as a "fair price".

Figure 12: Pricing Gets Personal

Price comparison websites provide an up-to-the-minute view of pricing on all items in highly priced competitive markets. They also act as a clearinghouse for manufacturer coupons. In some instances, they will link a coupon directly to a retailer's loyalty program so that it can be redeemed in store by swiping the shopper's loyalty card at the checkout.

Challenges to retailer economic models

By 2020, many of the current models for successful retailing will have undergone significant change. Surviving companies will have to develop new strategies and tactics to engage the consumer in a profitable manner. Some of these will be “back to the future” in nature, as old models are enabled through new technology to make retail competitive again. Historically, retail’s core economic equation was "can a store sell enough at a high enough margin per physical building to offset its real estate and operating costs and deliver a successful return on investment (ROI)". New pricing mechanisms will put intense pressure on this margin structure. This leaves selling productivity as the other key variable. With far slower growth in aggregate demand in physical retail, retailers will need to become even more focused on space productivity to maintain profitable returns.

Managing square footage profit erosion

One of the core metrics for retail is the ROI of "productivity per square foot" of selling space. For multiple decades, stores were able to grow rapidly, but sales per square foot would typically increase even faster. Recently, this has slowed down or come to a halt, and by 2020 retailers will need to measure "productivity in profit dollars per square foot". This will squeeze profits even further. As a result, there will be a need for retailers to review ways in which to keep stores profitable through shrinking formats and shorter terms associated with property, despite the higher costs incurred.

Key trends

This section describes key trends that will impact the US retail landscape by 2020:

- **The consumer-driven supply chain**
- **Growth fragmentation of US retail channels**
- **Globalization: Why retail growth is coming from "unfamiliar" markets**
- **From multichannel to omnichannel: Fully integrated brand retailing**
- **Consumer-driven transparency of everything**
- **Consumer-centric retailing**

The consumer-driven supply chain

The integration of supply chains at the local, regional, and global levels has been one of the major achievements of retailers over the last two decades. Additionally, due to the influence of technological advances and consumer demands for what and where they buy products, managing the demand chain is now an imperative for stronger growth. Going forward, closer integration of the demand and supply chains will be needed to maximize value and drive profitable growth.

By 2020, advancements in the business intelligence field will provide tools that will help retailers better understand consumer behavior by examining behavioral patterns and overall trends, even before the need has been expressed. Improving the accuracy of the demand signal through analytics will help to drive efficiency throughout the supply chain. Simultaneously, consumers will have visibility into what products are available, their provenance, and how the product fulfills their needs. Through better alignment of the demand and supply chains, both manufacturers and retailers alike, will be able to ensure higher in-stock positions and "speed to shelf" to meet demand, and will compete to be the frictionless interface to the consumer. This highly visible, end-to-end supply chain—equally accessible to all parties in the system, but increasingly working to the consumer's favor—will be called the "consumer-driven supply chain."

Key to end-to-end visibility of the value chain is understanding how consumers buy, what they buy, and when and where they buy—and adjusting retail strategies accordingly.

How consumers buy: Group replenishment models

By 2020, the integration of the overall supply chain with relevant information sources will further expand the trend of consumer-formed groups to find their own acceptable "cost-to-value" returns. Earlier versions of so-called "group buying models" were generally in scope with retailers and manufacturers that made offers based on the number of individuals buying. The future version will proactively seek out consumers, based on profiles, to participate in deals, in essence creating groups on-the-fly in order to establish the best value equation. These groups will be based on purchase and lifestyle analyses derived from purchase history, social media participation, and/or recognized changes in life stage (such as a child starting school or joining a sports team, or disease-state management). Retailers, whether multichannel or brick-and-mortar, will move to be

either the provider or the key intermediary in these new "smart" applications as quickly as possible to defend and increase market share.

What consumers buy: Integrated data from factory/ consumption

The retailer of 2020, we believe, will have the ability to monitor and use data that tracks product transactions and changes in the entire supply chain, from manufacturer to consumer. They will use this information to reduce costs and realize new revenue opportunities including those from fast-emerging trends. From a value-added-service point of view, this gives the shopper a clear view back to the factory floor to provide reassurance for quality, availability and ethical sourcing practices. Given the visibility into the process and the key decision points that are associated with costs (slow vs. fast shipping, distribution center vs. factory direct, standard package vs. special order), the consumer can actively play a role in adjusting costs to individual needs and budgets.

When and where consumers buy: Shift from linear to matrix supply chain

By 2020, it will likely be possible for partners engaged in the entire supply chain to view alerts and transaction information. These alerts will include end-to-end information as well as external forces that impact the supply chain, such as unexpected demand, volatile weather or regulatory changes. Beyond the value of lower costs and improved fulfillment, it also will provide consumers with a vantage point for evaluating the supply chain for their own needs. Those needs, in fact, may be shaped by the very evaluation process, as consumers become aware of availability or scarcity of products. Given the potential challenges around commodity procurement and pricing, this point should not be underestimated for manufacturers or retailers by 2020.

Growth fragmentation of US retail channels

Growth fragmentation of retail channels will be prevalent in 2020, primarily driven by ongoing shopper behavior fragmentation and ever increasing access to product information and end-use opinions. In particular, brick-and-mortar formats will need to be more precise in their positioning in order to flourish in a world where stores will be under pressure from non-store retail.

Shoppers will be armed with information and focused on finding the best fit for their changing needs, with retailers and their trading partners trying to play "catch up". Shoppers will be influenced by fast-developing viral trends and retailers will become much more nimble in their marketing efforts. New product trial and category experimentation will become easier and more common, as the risk of new product trials can be mitigated by user opinions accessed via easy-to-search blogs and recent online product reviews. In parallel, retailers will be refining their shopper insights and shopper segments to find more consistent and profitable response behaviors. Overall, this process will require retailers to find growth in manageable, niche audiences or fragments and to isolate and respond to newly forming, or dynamic "pockets of opportunity."

Redefining shopper segments: From large population to smaller targeted segments

By 2020, relying on large consumer marketing campaigns followed by supporting sub-campaigns to reach smaller segments will not be as strongly embraced, as consumer information sources continue to become more robust and fragmented. Retailers will have to redefine messaging and store formats to more granular geographic levels and will need to redefine their placement and use. Based on the need to rapidly open and adjust stores to respond to the changing needs of this population, growth in this space will be dominated by smaller units. These smaller stores will also have a high-degree of digital integration to expand online retailing and related applications. This hybrid of the physical and online worlds will provide a means of rapid change to match the evolution of the targeted segments or new ones that might emerge.

Retail growth: Shift to non-traditional formats

Over the coming decade, the pressures of competition and the range of digital shopping solutions will, most likely, force retailers to reconsider the value of their original operating formats. Many of today's major retailers will be transitioning from their original business model into non-traditional, typically smaller store formats. Those formats are likely to be numerous and varied to match the shifts in what, when, and where consumers want to shop. Many of these non-traditional formats will be temporal in nature, such as pop-up stores, mobile retail trucks, or flash websites existing for certain periods of time in temporary physical locations. Some current examples of pop-up store formats include holiday toys, fashion-show street sales via mobile stores, and urban bodegas with 30-day lifecycles featuring one-off products or unusual imports.

Figure 13: Rise of Non-Traditional Store Formats—Pop-Up store, London Underground

The pop-up store is a non-traditional smaller format that is gaining in international use. It moves away from permanent ties to a specific location to a small limited store in a short time period. Pop-up stores, situated in high-traffic 'trendy' areas, such as the one featured on Monmouth Street in London, create a platform for introducing new products and gaining a wider clientele.

Source: Kantar Retail Store Visits, March 2012

Globalization: Why retail growth is coming from "unfamiliar" markets

Kantar Retail expects moderate and sustained economic growth will have returned to the US by 2020 (Fig. 14). However, for most retailers, we forecast that growth will be weaker than in prior economic eras as aging generations, which currently account for a large portion of the US population, typically slow consumption as they age and purchase less. At the same time, the US middle-class is expected to have retained many of the deal-seeking shopping habits adopted during the recession period. Therefore, we anticipate that with the need to find retail growth in 2020, retailers will push harder into new markets in which they do not operate today. The need to go beyond their "comfort zone" of traditional formats and home markets will cause retailers to rapidly and continually rethink their roles and store formats.

Figure 14: Kantar Retail's Point of View on Short- and Long-term Disruptions

	Short Term (~2012-2013)	Long Term (~2014-2020)
Expected Negative Impact	Persisting Disruptions: • Oil Supply Threats, Euro Financial Crisis • China/Emerging Markets • Regulatory/Financial issues	Fiscal/Monetary Policies
Expected Mixed Impact	Fuel Prices, Food Prices, Housing Market, Business Investment, Wealth/Stock Market, Jobs, Consumer Confidence	Non-Food/Fuel Prices, Wealth/Stock Market, Demographic Factors (e.g. Have vs. Have Nots)
Expected Positive Impact	Non-Food/Fuel Prices, Interest Rates, Fiscal Stimulus, Exchange Rates, Shopper Spending Intentions	Dissipating Disruptions: • Oil Supply Threats (Iran), • Euro Financial Crisis • China/Emerging Markets • Resolved Regulatory/Financial Issues Jobs, Income, Confidence, Shopper Spending Intentions, Housing Market, Business Investment
Expected Net Outlook	Short-Term Outlook: As safe haven, U.S. will fare well relative to rest of world, although growth will still slow in nominal terms and weaken in unit volume terms.	Long-Term Outlook: 2012 and 2013 most vulnerable to slow-down, but dissipating impact of global disruptions will create better conditions for long-term growth.

In the long term through 2020, growth conditions in the US retail market are expected to improve as various global and domestic economic shocks and disruptions dissipate in their macroeconomic impact.

In the short term, particularly through 2013, Kantar Retail believes that these disruptions will weigh on US retail growth. Growth will likely be sustained at modest levels, however, as the US market maintains a "safe haven" appeal compared with the European and emerging markets hurt most directly by these market disruptions.

Price inflation will be a key factor shaping the outlook in both the short term and long term periods.

Retailers will be also looking across national or geopolitical borders for solutions to common consumer needs. The universal nature of the internet and social media will influence the development of commonalities in habits and needs globally. For many people, virtual communities will be the starting point for interests and lifestyle choices, but with more volatility and interaction across all borders. The isolated regions will reflect this global influence even more than is observed today and will further erode and evolve the retail environment.

Retail growth: Finding the unknown lands

Based on Kantar Retail analysis, we anticipate that finding profitable growth may require retailers to become more global in terms of supply chain (efficiencies and cost savings) and to procure an ever-growing product set for consumers. They will be forced to think more globally to find new sources of revenue outside of their existing store footprints or brick-and-mortar formats.

At the same time, going global will likely not be easier in 2020. Africa is the fastest growing continent, but also one with a challenged infrastructure (Fig. 15). Though Indian retail environment shows many of the characteristics favorable to formal retail development, based on growing income per capita and systematic modernization, there will be ongoing struggles with the introduction of formal retail, given the limitations from national and state laws as well as with India's developing infrastructure. The Middle East, Western Asia, and North Africa are all areas of rapid economic and population growth, but each poses significant challenges for retailers--both local and global.

Figure 15: Global Retail Formats

Africa is a region that has experienced a range of challenges that have slowed the growth of formal retail, but more recently, local retailers that have successfully navigated the challenges have gotten the attention of multinational retailers looking for expansion opportunities.

Source: Kantar Retail Store Visits June 2012

Format dynamics: Parallel evolution

As retailers expand globally, they will experiment to find the right physical or virtual store for a range of consumers. This process will produce winning formats suitable to meet the needs of consumers in multiple countries. The smart retailer will analyze why a particular format launch was successful; they will translate that knowledge and criteria as they attempt to move into new markets with a winning format. This will not be a linear process that arrives at the "ultimate concept", but rather a merging of common success elements into a format that can morph and keep up with the needs of rapidly changing consumers and cultures. Some of this can already be seen in the UK where some large retailers are converting small stores into fulfillment centers, enabling the expansion of online grocery sales. In addition, with their newfound role, these small stores also act as local convenience stores or small grocery formats for the local population.

Global consumer trends: No longer national

It is anticipated that the 2020 global consumer will be more aware and responsive to the early formation of trends, by way of instant communication and streams of information. Some trends will work on a rapid cycle, with some remarkably important for just a few days or even hours. Retailers will be monitoring these fast-emerging trends closely, trying to filter the ones that they can respond to with the products and services they already have. In online retailing, the endless shelf concept will serve as a come-as-you-are reaction to rapid consumer demand or sudden changes. Therefore, predictive analysis of shopper trends, done at a rapid pace, will become a necessary new means of projecting product planning to allow for flexible product response as needs arise.

The neutral marketer: Finding the common avatar

As retailers seek international expansion, they will be confronted by the same dilemma that global manufacturers face today: whether to market *locally authentic* or *globally neutral*. In the *locally authentic* approach, understanding local cultural and key consumer drivers can be a time-consuming and costly investment, but it mitigates the risk of getting the message right, but the tone wrong. Using a *globally neutral* marketing approach means developing a set of marketing messages that work in most cultures by leveraging neutral ideas instead of culturally sensitive or locally relevant marketing campaigns. The most common solution will be to leverage automated human or animal-like avatars (computer representations of a person, company, or entity) to deliver to a wide, diverse audience (Fig. 16). In the future, we believe these concepts will become an area of competition as retailers try to find solutions that not only cross national boundaries, but appeal to the transnational interest groups that they are potentially seeking.

Figure 16: Avatars

Avatars have evolved into a highly sophisticated computer generated set of images for advertising purposes. Companies are able to leverage human-like images as avatars to communicate their brand message universally, across all markets in which they sell.

From multichannel to omnichannel: Fully integrated brand retailing

Multichannel retailing is most often associated with retailers that have brick-and-mortar stores combined with an online retail channel. A new concept is now emerging, called "omnichannel", which describes a channel-agnostic view of how consumers experience the retailer brand. Shoppers increasingly demand a consistent level of experience regardless of channel or mode by which the retail is accessed. Such shoppers avoid retailers who are ill-equipped to deliver a seamless brand experience online, in-store and across multichannel media, both consistently and continuously.

By 2020, we believe the need for a unified consumer omnichannel experience will be complicated by the need for nearly perfect execution. However, expert use of business intelligence tools, coupled with a profound understanding of shoppers' needs and experiences in real time, may make omnichannel a realistic goal.

One shopper, one retailer: The experience is the same

With the convergence of physical retail formats, digital services, and eCommerce channels, retailers are currently confronted with the need to correctly deliver a fully integrated shopper experience from start to finish. By 2020, this should be a reality, with shoppers experiencing retailers as a single brand consistently across all points of contact, both virtual and real world. Retailers will strive to find a means of bringing the one-to-one relationship of the internet to the mass-oriented store setting.

Inquiry, procurement, fulfillment: Decoupling the chain

The competitive pressure to get the total retail brand experience correct regardless of how the shopper touches it, will put additional pressure on how retailers are organized. Instead of each format or channel managing its own customer touch points, they will be managed across channels by third-parties. Internet service providers (ISPs) already specialize in key activities within online retailing such as transaction and credit management, product inventory and order status. Key to managing and leveraging

disparate third party services is the ability to act seamlessly with online retail processes. This same uncoupling of functions will create a dynamic environment inside physical retailers, especially as digital activities become further integrated into brick-and-mortar stores. Point of sale stations, already heavily weighted toward self-checkout, will be managed and monitored by the same company that does transaction management online. Customer support, already offering a range of options for shoppers to interface with online, will be found within the aisle.

Full service retailers: Being the only stop

A competitive advantage for retailers in 2020 will be attempting to redefine one-stop shopping as part of that seamless, omnichannel experience. The convergence of physical formats, online formats and digital tools enables consumers to browse and purchase products almost anywhere on a smart device. Thus the notion of one store as a complete, one-stop shop will likely be less relevant. One-stop shopping in 2020 will be more about one retail brand offering a number of options for order and fulfillment: home delivery, store pick-up, or in-store payment (e.g., "click-and-collect" concept where shoppers buy online and pick up their purchases in the store). This opens up the potential of virtual inventory management for the best possible location - which is often the distribution center or vendor depot.

An additional benefit of integration is the facilitation of a wider range of services, made possible by having instant access to the expertise of a dedicated third-party provider with retailer transaction data. These services will range from simple home delivery and shopping list administration to more complex functions like financial management. All of these will be attributed to the retailer (and its brand) regardless of the actual provider name. This single, full service brand offering will be important to gaining wallet share (amount of a consumer's spend in a particular category that goes to a particular retailer) and building brand awareness with those shoppers who expect nothing less.

Retail integrated to brands: Synergies created

Given the range of different media tools and shopper interfaces available across a retailer's omnichannel footprint, manufacturers will increasingly weave their own branding initiatives into those of the retailer. For example, if shoppers are searching online to replenish paper products, the brands they are offered will be co-branded with the retailer they most often shop, or perhaps the retailer closest to them. Integrated marketing efforts will provide similar retailer-manufacturer branding synergies, enabled by business intelligence (BI) tools that help personalize communications to individual shoppers.

Consumer-driven transparency of everything

Savvy shoppers by 2020, we believe, will be equipped with ever expanding abilities to "see" into the inner workings of retailers, manufacturers and distributors across the entire supply chain. Today, shoppers focus on key issues related to retail and consumer packaged goods manufacturing, such as corporate social responsibility and ensuring transparent product quality (e.g., "certified organic" standards). Tomorrow's shoppers will be more attuned to the true transparency of raw ingredients, fair trade procurement, and the environmental impact of all ingredients, packaging, transport and storage processes, up and down the supply chain.

For retailers in 2020, this opportunity is not without risk; transparency means having to re-examine, properly document, and continuously track all supplier relationships, product sourcing, even third-party labor practices. By 2020, we believe efforts to limit such transparency will be repaid with possible consumer backlash fueled by the viral nature of social media and other online communications.

Legitimate personalization: Consumer-created value

The concept and lure of "mass customization" has been of growing interest to both manufacturers and retailers. The challenge has been to engage consumers so that they are not only part of the process, but also take active ownership of it. By 2020, we believe a shift will occur, requiring retailers to seamlessly integrate customization-related processes with existing consumer-driven personalization tools. In the near future, that interface may be as simple as offering menu options in a restaurant to match dietary needs or suggesting specific financial products that are relevant to a particular life stage (Fig. 17). The edge that retailers will be seeking to achieve is comprised of more profitable, complex solutions that offer real value to individuals—such as point-of-purchase options (e.g., home décor selection and installation services ordered in a single touch) or more broadly, online choices (e.g., recognition, with nuance to infinite social awareness parameters that offer a limited assortment of "affinity" products).

Figure. 17: Future Shopper Interface

A touch-driven display to build a salad shows the integration of the learned process of using touchscreens from tablets. The future will consist of the integration of complex solutions into seamless solutions, based on a common tactical interface for shoppers.

Source: Kantar Retail Analysis

Seeking out the truth: Real brand value

The 2020 consumer will, most likely, have the tools to research various parts of a retailer's operations and will have access to information from key oversight or governing organizations (e.g., palm oil awareness, renewable energy advocacy groups, etc.). They will also have access to applications that specialize in providing this information. By 2020, smart phone applications, we believe, will proactively inform a shopper regarding specific issues with products or retailers upon entering a retailer's brick-and-mortar store or using its website. Managing and manipulating information (e.g., for rumor control), will be more of an issue than ever as "flash truth" reports are distributed more frequently. Brand management by 2020 will need to develop a host of new skills, tools, and communication modes, both nimble and innovative, than are typical today.

Green retail requirements: Transparency forces sourcing

The consumer of 2020, we believe, will be curious and diligent about tracking retailers and their key suppliers. Given the ongoing fragmentation of sourcing, it is likely that some action on the part of one or more suppliers will be revealed to the public as illegal, dangerous, or unethical. Retailers will, in turn, increase their capabilities in risk mitigation, both automated and human, with a core focus on the issue at hand (e.g., sustainability). As retailers have shown today, sustainability is a social issue that transcends nationalities and communities, though often expressed in local variations (e.g., sustainable farming in the US, carbon footprint in Canada, palm oil in the UK).With the tools and information sources available to consumers in 2020, the metrics associated with "green retailing" will, most likely, be provided as easily accessible scorecards. These scores will often be brought to the attention of shoppers as they make a retail location choice using their smart device. Retailers will find advantages not only in managing their operations for strong scoring, but also in evolving a scorecard to match their own capabilities over time.

Consumer-centric retailing

Consumers will be moving targets in 2020 as they respond and react to trends, fads, and information faster than in the past. Retailers will try to move at the same speed as consumers, but their best strategy will be to get as close to the consumer as possible. That can be attained through digital engagement or by placing brick-and-mortar stores in ideal locations to tap into new shopper groups or to supply a product range that appeals to localized shopper needs. It will also require changes and evolutions in retailer business models as they try to stabilize and improve the ROI of existing brick-and-mortar assets.

Getting smaller to get closer: Consumer format engagement

The trend away from large stock-up shopping (meandering aisle to aisle) to more targeted, time-efficient, needs-based trips will continue. Convenience driven shopping trips are anticipated to increase in 2020 as families become smaller and the US population ages. They will shop stores that are easier and faster to access. With a reduced average store size, retailers will need to serve different trip needs with limited choice or tailored assortments.

The concept of the "endless aisle" online, and the integration of online with brick-and-mortar shopping, will likely become reality as these smaller stores become more engaging and are more likely to be integrated with digital and internet resources at the shelf level. In-store integration with online will also make small stores ideal fulfillment centers for internet shopping sites.

The missing shopper: Online steals trips

Key replenishment items and destination categories have historically driven shopping trips and the retailer's mission was to capture the trip by means of having the best selection, value, or product quality. Online retailers, like traditional brick-and-mortar counterparts, must be concerned with the destination categories that draw consumers to their virtual shelves. Online megasites have already shown the power of using a loss leader category (e.g., diapers) to capture trips from brick-and-mortar competitors. In 2020, we project there will be a broader range of online retailers with greater penetration and knowledge of shoppers' trip needs. Each will be looking to optimize a number of "must have" items to entice and retain key shoppers.

Retrofitting to new economics: Making square feet work harder

With online shopping and replenishment growing, retailers are already preparing for an erosion of physical-store sales. As sales per square foot decrease, retailers will need to either increase same-store sales or shrink selling space to balance their numbers. Another option available to retailers in 2020 will be to transform large existing stores into other lines of business and services. Some in-store services, like banking, are already growing today. Retailers will see the opportunity of sharing space and infrastructure with stores that are still open; they will merely be locating the retail portion to a smaller space within a larger box. Medical services, financial planning, and government offices are all candidates for this type of alternative sharing of excess space and leveraging retailer expertise in location maintenance and security.

Big Box or big eCommerce: Coexistence will be difficult

Big Box store growth started to slow in 2010. By 2020, Supercenters are likely to have reached the end of their lifecycle as smaller formats will have figured out how to offer broad selections and competitive prices using a range of new fulfillment techniques and technologies. Transitioning away from mega-formats will require new uses for these large spaces. Big Box stores may become alternative distribution centers and management support offices for clusters of smaller stores. Meanwhile, eCommerce sites will grow, requiring innovative internet purchasing solutions and the need to integrate them into larger operations to gain economies of scale.

Outlook and implications

In this chapter, we highlight some factors that retailers and suppliers should consider addressing in order to manage the complex and diverse "retail realities" that will likely make the retail market more challenging by 2020, and assess the forces we envision will impact the retail industry.

- **Total data value chain management**
- **Dynamic clustering to optimize fragmented growth**
- **Competing on a truly global scale**
- **Branding in omnichannel space**
- **Managing data security and privacy**
- **Managing diverse retail models**

Total data value chain management

The years leading to 2020 will be about pulling together essentially three types of data:

1. **Value-chain-centric data (granular)** contains all of the relevant information about trading patterns such as product movement and pricing information, both between trading partners and the end-consumer.
2. **Value-chain-related data (both "random" and seasonal)** is causal information that falls outside the direct value chain. It entails impact of seasonality, shocks to the system (e.g., an extraordinarily successful competitive launch or a natural disaster), and changes in causal variables (fuel prices that drive both retailer performance and category growth rates).
3. **Value-chain framing data (tectonic)** entails tracking the big tectonic shifts that move the landscape over time (e.g., demographics, diversity, changes in domestic infrastructure and purchasing power).

Data platforms will need to get better at moving between data fields aimed at massively different scopes, something that inflexible legacy data architecture makes very difficult.

Data mining: Extraction rather than collection

Historically, most of the capital expense of data mining involved the collection and warehousing of information, with less attention to how the data could/should be extracted. By 2020, "data mining" might still be a useful term, provided that the capital and resource allocation shifts to the "mining" aspect (extracting the valuable data) and not the "acquisition" of mines (databases). By 2020, we believe leaders in data mining will bring two core attributes to the mining process: flexible architecture and great storytelling.

- **Flexible architecture**. Most data mining today is somewhat limited by the layout of the mine. We can go across or down in fairly prescribed ways, many of which tie back to the legacy architecture of a system built for an entirely different world. Great data miners in 2020 will be able to recalibrate the layout of the mine depending on the desired outcome and will need to develop great data framing skills. From a people perspective, this will require teaming people that understand the data with people that understand the architecture of data, working alongside the people that use the data regularly. By 2020, the idea of IT as a separate function or structure will be, most likely, obsolete. The data architects become almost a permanent liaison between the merchants, marketers, and operators in the retail world and the field of information available.

- **Great storytelling**. The mining process is not just about architecture, but about turning the outputs from raw material into something much more valuable. The data team of the future will include data "polishers" as a core component of the team. The team will increasingly look to develop people with data fluency: those that understand where the data came from and are also capable of simplifying the data into compelling, actionable business stories. Collectively, this data mining and application know-how will be a critical competency of leading retailers and manufacturers in 2020.

Integration between consumption and fulfillment

Retailers will continue to integrate themselves seamlessly into their shopper's replenishment processes, and best-in-class retailers will find ways to act as a bridge between this real-time consumer data and the rest of the supply chain. The implications for a retailer's system architecture are significant: leading retailers of 2020 will, most likely, be known as the fastest "data translators". Retailers that can create value for their trading partners by aggregating and redistributing real-time consumer information in useful ways will be the sought-after partners.

Dynamic clustering to optimize fragmented growth

Dynamic clustering

The formation of rapidly fragmenting shopper segments, compounded by the ongoing fragmentation of retail growth, points to segmentation being important by 2020. Particular influence will come from the ability to cluster fragmented opportunities so that they can be aggregated into scalable growth platforms.

Being able to identify like patterns of opportunity in geographically diverse areas is a foundational skill for dynamic clustering. For instance, national food retailers and suppliers have historically been able to identify similarities between Rochester, New York, and Charlotte, North Carolina–two markets that have strong premium grocery competitors. For large companies to succeed in a fragmented retail world, taking polarized data and collecting it into scalable platforms like this will become important.

To extend this example, Rochester and Charlotte are not similar for every business problem; for seasonal programs, anticipating summertime to come to both cities simultaneously may produce an unfortunate result. That's why this clustering skill needs to be dynamic–it's the business application of the flexible architecture outlined above. Different business problems will yield different "similarity clusters", and winning

organizations will be able to attack the problems that are most important with equal vigor, regardless of how those clusters take form.

One particular business challenge may deserve particular attention: for most of the developed world, the majority of growth in young families between now and 2020 will come from the "non-majority" population. Though this is a well-understood phenomenon in the US (due to ongoing growth of Hispanic populations) and Canada (due to a historic swell of immigration from a variety of countries), there may be real opportunity to translate multi-cultural marketing tactics to markets like Europe, Mexico and Brazil, in order to capitalize on immigration patterns in these key geographies. Some retailers already do this well, and thus we expect to see the acquisition of high-capability chains to help larger, less nimble retailers quickly build this type of competency.

Dynamic structures

The notion of adapting strategy to situation is hardly revolutionary, but today many retail organizations struggle with this concept. By 2020, we believe success in this area will bring competitive advantage. Legacy brick-and-mortar retailers tend to have operationally-centered organizational structures based on the need to manage stores and trading areas and to drive standards and accountability across thousands of disassociated employees. An opportunity-centric structure for headquarters personnel would be a radical departure, but one that may be essential to optimize the fragmented world. Forward-looking retailers are already working to reframe the way their teams think about retail by consistently experimenting with structure and adapting it to shoppers' cultures.

Dynamic resource allocation

If structure suffers from an overly linear and rigid challenge, resource allocation and funding management may suffer from the opposite issue. A disproportionate amount of the energy required to prepare for 2020 will be spent on understanding not the massive strategic shifts in the industry, but how the shifts truly impact the granular work like how trade funding flows to and through retailers. A dynamic pricing environment and an omnichannel branding world will place more strain on supplier/retailer relationship models. When a supplier runs an ad on a retailer's website, is that trade-centric or brand-building spend? Suppliers today separate those buckets of funding with great zeal (due in part to the pressure on fair and equitable trade spending required by antitrust laws). In the future, the trading partners that master a more transparent, solution-oriented approach to this issue will need strategy informed by deep operational understanding to bring dynamic clustering to life.

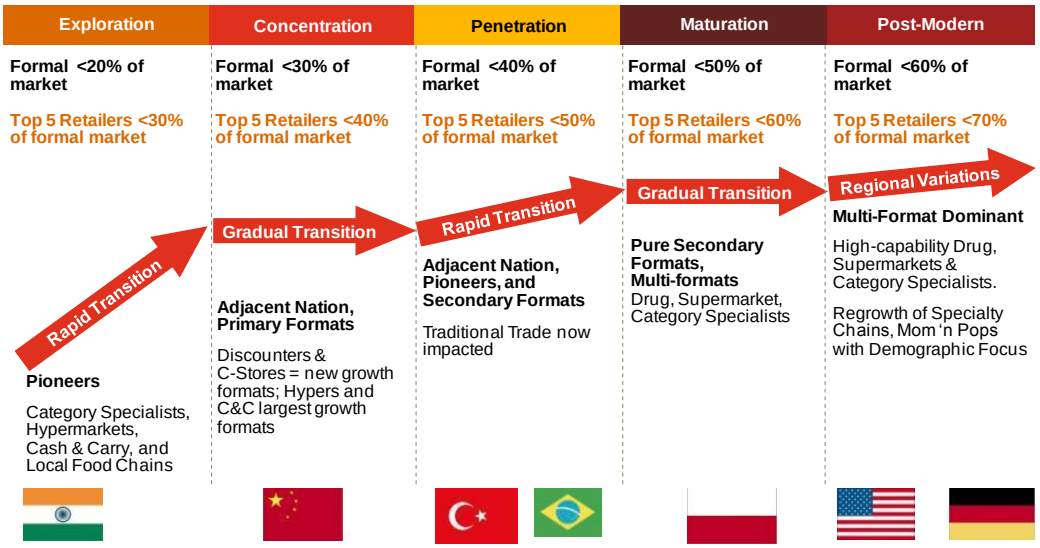
Competing on a truly global scale

Market clustering: Mapping "uncomfortable" places

The Rochester/Charlotte comparison example becomes even more acute for companies trying to understand how to leverage global competitive scale. Retailers and their trading partners anecdotally know that geographically disparate markets have enormous competitive similarities. Today, some companies have structures that reflect this understanding. Given the differences between US and Canadian retail realities, global retailers often align Canada with its more similar market partner, the UK, rather than cluster it with its geographically adjacent US market. The systematic ability to look at markets around the world and allocate resources appropriately will require different ways of configuring global teams rather than traditional regional structures or old grouping constructs like "developed" and "emerging." Companies that use these constructs to approach the retail trade in BRIC countries (Brazil, Russia, India, China) today will be

challenged in 2020, as the retail trades of the BRIC countries have almost nothing in common beyond growth rates. From a market evolution perspective, Brazil has a modern-trade-dominated, multi-formatted environment, as well as a massive traditional trade in smaller stores and more remote geographies (Fig. 18). India, on the other hand, has almost no formal retail trade at all proportionate to the market size, and Russia and China each have different growth patterns. Finding markets at similar stages of evolution and aligning strategies against them will be typical of successful global retailers. The key takeaway: global retailers that are most consistently successful outside their home market excel at running market-appropriate formats in a fairly diverse collection of markets.

Fig 18: Kantar Retail - Market Evolution Model (MEM)



Kantar Retail - Market Evolution Model (MEM)
This model categorizes each country according their retail development stage. Correlation can be made between measurable levels of retail development and the type of format operated:

- **Exploration**: The market is overwhelmed with non-formal retail: Mom & Pops, stalls, carts, sidewalk sales, door-to-door, etc. with relatively minor penetration of formal retail.
- **Concentration**: Formal retailers start entering the market from outside and internal retailers start to concentrate into larger companies to compete. At this stage, retailers are competing mostly by converting informal consumer to shoppers, not with each other.
- **Penetration**: The market starts to become far more competitive as different retailers vie to be the primary shopping location. It is common to see "compare our price" signs as retailers compete on price more than on brand value.
- **Maturation**: The market starts to further concentrate into fewer companies, some major retailers go out of business as available real estate saturates the market. Branding, loyalty, and private label gain importance at this time.
- **Post-Modern**: The fight for share-of-wallet becomes the primary driver as smaller and more specialized retailers don't seek to own the shopper, but to capture the most they can when shoppers are in their stores.

Source: Kantar Retail Analysis

Retail glocalization and the "de-emphasis of national boundaries"

Today and going into 2020, with online activity being a truly globalizing force, and brick-and-mortar becoming increasingly trade area-centric, we anticipate best-in-class companies will continue to ask themselves a rather existential but important question — "What do countries really mean?".

For reasons ranging from language to law to history, most companies in the world are rooted in a geographic operating structure; the ability to think outside this legacy structure will be critical to optimizing competitive advantage. By 2020, we anticipate that best-in-class retailers will operate using the concept of "trading ecosystems", adept at understanding how those ecosystems require different competitive strategies. In particular, the world's two largest retail markets–the US and China–will yield disproportionate reward to the retailers that can master and exploit similarities and differences in these ecosystems.

From negotiation tool to partnership construction

Multinational retailers have tried for years to identify the "right way" to connect with their global B2B (Business to Business) trading partners. Many retailers have emphasized the increased negotiating leverage they receive, while others have sought to transfer best practices from market to market. Longer term, the ability for global companies to achieve true global joint business planning will be critical, but a significant part of the process will be sifting through and prioritizing limited resources in order to do this globally. Thus, the "global plan" will identify areas of mutual benefit for global development and guide how to capitalize on those most effectively. In particular, the work that each trading partner

undertakes around the “big issues” can reinforce their social credibility to appeal to a younger, global generation for whom those issues genuinely matter. Retailers that are successful in this endeavor will become constructive leaders in 2020..

Branding in omnichannel space

For retailers, the notion of omnichannel branding and consistently delivering a seamless experience across channels presents some distinct challenges, since most great retail brands were not built via media in the first place. Even retailers that spend billions each year on media advertising admit that the stores "make or break" their brand. For retailers who spend much less on formalized consumer marketing, this issue is even more pronounced. Therefore, integrating digital aspects should offer unique opportunities for retailers to build their brands, in particular anything rooted in social interaction or conversational marketing.

Starting today, leading retailers will need to begin building key capabilities and new multimedia, omnichannel-enabling tools to be able to optimize this environment over the coming years.

Integration, the gravitational center

As retail evolves to 2020, retailers must guard against becoming overwhelmed by the transactional data available for analysis. As that potential data set spreads in a mobile world, retailers will have almost limitless potential to maximize their business by marketing to shoppers at a specific time, in a specific place. Though this capability will have value, great retail marketers will understand that without a central proposition to anchor this wealth of data, a retailer’s brand will end up an outcome of this aggregated transactional information, not a driver of shopper behavior as intended. This inherently reactive positioning could be harmful to large companies trying to optimize their effectiveness in a fragmented world. In other words, in a world of overwhelming inputs, the key skill for success will be knowing what *not* to react to.

Retail brands in 2020, we believe, will have three key attributes: consistency, intensity, and accuracy.

1. **Consistency**. In a fragmented world, the need for a multitude of shoppers to have a similar impression of what the retailer stands for actually becomes *more* important, not *less*.

2. **Intensity**. In this highly competitive world, only the retailers with a passionate following can meaningfully influence shopper behavior. Without passion there are too many other third parties and influencing factors that can distract or dilute the retailer’s relationship with its core shoppers.

3. **Accuracy.** The “transparency of everything” will require retailers to be truthful to the image they portray in all aspects of their business. A role like “Global Integrity Officer” may be an organizational response to the ongoing drive toward transparency. This role would oversee everything from supply chain to shelf to ensure that the retailer’s core brand tenets pass the shopper’s “truth check.”

The lost art of conversation

Modern retail has been undergoing a 50-year transition from the classic shopkeeper-customer (one-on-one) relationship to the impersonal mindset that shaped so much of the modern mass-retailing era. Today, a number of retailers are working to go back to one-on-one relationships, but are quickly realizing that a people-based model struggles to be scalable beyond a certain point. Time will tell how scalable the one-on-one in store consultation model is for other competitors trying to emulate it.

Retailer conversations in 2020 will, most likely, have great people at their core, but those people will need to be supplemented with best-in-class real-time information. At the same time, the information must be used to understand more than just what that shopper bought and how to get them to buy more. The core competency in 2020 will be integrating and acting upon what the shopper's passions and interests are with what he or she bought in that store and beyond.

Conversations are essentially real-time, two-way transfers of spoken information and unspoken emotion. Successful retail brands will use integrated information, store fixtures, and people to embody this consistently. The other key part of the conversation is showing how the retail enterprise reacts and evolves based on the insight derived from tracking these conversations. Today, smaller retailers and regional operators have set the pace in this type of communication; the larger players will have to try to execute this well over the coming decade.

"Live together, die alone": Why suppliers and retailers should partner

The omnichannel world fundamentally changes competitive dynamics. In the future, instead of market share being narrowly defined as stealing share from your channel competitor, "share" will become a much broader concept. In particular, "share of engagement" will be a critical objective: How much of a shopper's relevant "airtime" does a brand influence or shape? The historic battleground between retailers and suppliers becomes irrelevant in a world where the war for engagement is being fought by online retailers, social media platforms and whatever else engages the shopper. The omnichannel world presents almost limitless opportunity, but it also presents the risk of eroding the brands of suppliers and retailers in new ways. Historically the efforts to influence the shopper's journey have largely been undertaken by the "asset-owners" in the value chain- the suppliers and retailers. By 2020, entities such as Google and Facebook (the former of whom has already written a book on the topic "The Zero Moment of Truth") will also play an active role in influencing shopping behavior.

Managing data security and privacy

Over time, data management will likely be a competitive differentiator between retailers, whether they manage it themselves or partner with outside experts. This decision will be fundamental for companies based on skill set and investment capability. Accessibility vs. security will be a trade-off to consider. Between now and 2020 there could be massive shocks to the data ecosystem, if deeply personal and confidential information is leaked or stolen. The shopper of the future will almost certainly use retailers' effectiveness at data management as a filter for where to shop and spend–savvy online shoppers already do this today, knowing that many "too good to be true" website offers are simply generators of new email lists for marketers.

There are a few essential skills that the retailer of 2020 will need to master, including building "digital engagement segmentation", cost/benefit/risk management, and reputation recovery processes, among others.

Building "digital engagement segmentation"

Today's shoppers are generally regarded as being "tech-enabled" or not. In 2020, this continuum will almost certainly be more sophisticated, and a core element of how relationships and marketing are managed. A gradation of shopper attitudes and their reliance on technology and personal electronics will emerge. There is a distinct possibility that their relationship with big and small data will be one of the key criteria used to understand brand and communication strategy in the future.

In particular, retailers that have a major asset commitment to brick-and-mortar stores will need to understand that over time their shoppers are going to show less tech and engagement aptitude. That probably means appealing to an older shopper base and/or a more tech-skeptic crowd. Brick-and-mortar retailers may find some advantage in positioning themselves as "data free zones," with guarantees about the limited ways in which data about them and their transactions may be used. In particular, retailers that are under-leveraging the analysis of their loyalty card data may, between now and 2020, invent a competitive positioning rooted in non-intrusiveness and try to leverage this as a go-to-market strategy.

Cost/benefit/risk management

This segmentation melded with the retailer's own analysis yields interesting insights as well. If, as anticipated, data privacy becomes a hot-button issue for consumers, it is safe to assume that opportunistic lawyers are not far behind. Without significant tort reform in the US, the cost of being a data owner in 2020 could be astronomical–it would not be surprising to see a "data malpractice insurance" industry spring up to reimburse companies trapped in multi-million-dollar privacy breach suits. This speculation suggests that there will be many different ways for retailers to frame their data engagement strategy; assuming that all retailers will proceed into this highly data-enabled world at the same breakneck speed is erroneous.

Reputation recovery processes

Any company that commits to a leadership position in data management and analytics needs to invest significant resources into an actionable plan that anticipates data security breaches. Today, the scale of resources allocated to physical disaster recovery is probably akin to the scale of the resources that should be dedicated to "reputation recovery" in the future.

Managing diverse retail models

The 2020 retail landscape will be dominated by retailers operating increasingly complex operational, financial, and brand models. In many cases, this same large retailer will be forced to understand and operate a multitude of these physical formats, and try to understand how to optimize the efficiencies of one infrastructure serving different store footprints. This reality creates several critical implications for retailers and their trading partners, which can be defined as "The quest for the new efficiency":

Elements of "The quest for the new efficiency"

Part I: Opportunity realization. Today "efficiency" in business has a relatively narrow definition, generally framed in the context of conducting the same work more cost-effectively. In a fragmented-growth world, however, if this efficiency calculation does not consider the opportunity cost of overly rigid/centralized structures, it will not reflect the true "cost" in a cost-saving strategy rooted in massive, inflexible, centralized operations. Businesses must get better at quantifying these opportunities in a way that is convincing to decision makers, but at the same time decision-makers need to get more comfortable with "soft" vs. "hard" costs as a fuel for decision input. For senior retail executives, the ability to balance tomorrow's opportunity versus today's reality in this very specific way will be an important criterion for success.

Part II: Lowest potential unit cost. For the manufacturing part of the value chain, the cost vs. flexibility argument will also be critical. Channel volume planning needs to be an integral part of manufacturer capacity development and there needs to be a real understanding of how those channels may require different levels and types of item, case pack, or delivery. Instead of building a model and then hoping the retail environment responds to it, manufacturers would be far better served mapping out what potential volume will look like ten years out, and then assessing whether they have the right infrastructure to supply that environment, at the lowest unit cost, across all of the different types of units they will need.

Part III: Holistic productivity management. Over the past several decades, retail had a set of operating measures that were both relatively simple and that worked relatively well: comp-store sales, gross margin return on inventory (GMROI), and sales per square foot. Most good retailers are fluent to some degree in productivity metrics that drive both strategy and operational behavior. An omnichannel world will put pressure on all of these metrics, rendering them potentially less helpful. For instance, too much focus on sales per physical asset will be overly cautious about digital/mobile engagement and certainly miss more than a few tricks. Additionally, backward-looking metrics in general become challenging when your world is fundamentally, not incrementally, changing. The ability to model forward-looking behavior will become necessary, particularly for retailers trying to understand what to sell in store versus outside the store. Successful retailers will become experts at predictive shelf modeling and predictive space design, linking together store/shelf designers, inventory managers, and merchants to design more holistic solutions.

Part IV: Doing the right work. This report has presented ideas to consider between now and 2020. With limited resources and the inability to pursue all suggested efficiencies, companies should focus on these two critical components and to make sure resources are available to realize growth and opportunity.

- **Focus on eliminating unproductive work**. Aim to overcome bureaucratic inertia to avoid wasting resources on work that should no longer be done.
- **Envision new ways of doing new things**. The new efficiency is not about doing the old work better, it's about doing new work, approaching problems differently and re-engineering huge pieces of the value chain to get to a fundamentally different cost structure.

In summary

We have outlined the "retail realities" we envision that could potentially have an impact on retailers and their operations as we approach 2020. Success will likely be shaped by several factors, weaved together in a flexible, scalable, and agile model. The winning retailers will have a superior understanding of their consumer, considering income and demographic fragmentation, as well as behaviors, and will have the inert ability to analyze shopper data and extract valuable information. They will leverage technology shifts to their advantage and turn business intelligence and data into actionable insight to grow and benefit the business. They will integrate these insights into the demand chain and into enhanced customer service models. They will have an enhanced understanding of market fragments and patterns of growth and will be able to operate and manage "glocally"- on a global scale with attention to local needs. Leading retailers will address the challenges to their economic models and adapt their frame of mind on store formats, employment models and return on investment. The successful 2020 retailer will also build a true omnichannel operation that allows customers to interface through any channel of their preference on a 24/7 basis, anywhere at any time. By embodying these and other success factors, retailers and suppliers alike can manage the complexity and diversity of retailing in 2020.

To have a conversation on the impact of these retail trends and other issues on your organization, please contact:

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