

Changes You'll See in 2020



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In 1950, a magazine called "Popular Mechanics" attempted to predict the future in an article entitled, "Miracles You'll See in the Next Fifty Years." Many predictions were wildly off the mark. (An example: One forecast saw people of the 21st century recycling underwear to produce candy.) Other guesses were much closer to today's reality. The article foresaw the ubiquity of television and even the convergence of it with other technologies: "Of course the [average person has] a television set. But it is connected with the telephones as well as with the radio receiver." According to the article, the housewife of the future would be able to dial up a department store and have personnel "obligingly hold up for her inspection bolts of fabric or show her new styles of clothing." What prognosticators in the 50's couldn't predict were technological and social shifts that dramatically changed future possibilities—namely the women's movement and the Internet.

To take a not-so-far-out look to the future of the retail industry—to the year 2020—what are the major socio-demographic, technological and business trends that will likely impact retailing as we know it today?

Green retailing

Arguably the single most important issue for retailers today is the environment. Once considered a niche playing field, green retailing has moved from "nice to have" to "must have" as both customer and regulatory demands tighten for the industry. And some of the biggest players are leading the charge to more envi-

ronmentally aware practices. Tesco famously declared their intention of becoming "a leader in helping to create a low-carbon economy." To do so, Tesco will transform its business model "so that reduction of our carbon footprint becomes a central business lever," according to CEO Terry Leahy.

One of many green steps the company has taken: Tesco is bringing emission-free delivery vans to London and other locations. The battery-powered vehicles save 21 tons of CO2 per year, the equivalent of driving 51,000 miles in a car. The supermarket chain has currently bought 15 of the vehicles, though this is set to rise drastically in the next twelve months.

Coop, one of the world's largest grocery chain, is basing its product ranges on green propositions. In fact, the company is working with Bio Suisse, the umbrella association of more than 30 organic farming organizations and about 6300 farms engaging in organic production in Switzerland.

With the likes of Tesco, Coop as well as Sainsbury, Home Depot, Marks & Spencer, Starbucks, Zara and Wal-Mart leading the way, not having a distinct environmental plan built into retail strategies has become the exception, where only a few years ago it was the rule. What to expect then in 2020? Premium payments for enviro-friendly products, more low-energy production, and the creation of new—higher—standards for ethical trading.

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Individualized service

Service and in-store experience continue to break out of the "one-size-fits-all" offering. Both are becoming more individualized and specialized for specific target groups.

Today's shoppers are, of course, a highly differentiated demographic that promise to become even more so in the future.

Working women, baby boomers, singles, teenagers and even children want products, services and shopping experiences that are as distinctive as they are. Leading retailers aim to satisfy these requirements by diversifying. Hence the trend to "niche" stores, like those for "tweens" (9-12 year olds); or Footlocker's partnership with Nike, its biggest supplier, to launch a network of specialty, "House of Hoops" basketball stores across the US.

The US office supplies retailer, Staples, carefully analyzes its customers' purchases, conducts continuous surveys to monitor trends and then uses this data to develop distinctive strategies that target big, frequent shoppers. Similarly, the high-performance UK-based retail grocer, Tesco, uses the data generated by its loyalty "Clubcard" to identify and keep track of the personal preferences of 13 million individual shoppers. In quarterly mailings to these individuals, Tesco includes vouchers that "buy" products at no additional cost to the shopper, but which benefit Tesco by boosting sales volumes and getting customers to try new products in new departments where they may continue to shop in the future. Dixons, the largest electronics chain in the United Kingdom, has developed a pricing solution that is designed to predict consumer behavior. So if, for example, Dixons buys 50,000 laptop computers that have an average shelf life of 12 weeks, that gives the electronics retailer 12 weeks to sell those units. Using the markdown clearance capability, Dixons can re-examine the number of units unsold at different intervals during the 12-week time frame. If Dixons decides at any point that there are too many still unsold, the company can consider ways to stimulate demand—by further lowering pricing, increasing advertising or

offering incentives to computers—so that it can sell the quantity it has at the most profitable price.

In the future, service will become an even more finely-calibrated proposition between retailer and customer. And service components will evolve increasingly from reactive to predictive as retailers battle to win the loyalty of an ever-elusive—and more fragmented—customer base.

Going for growth

Another hallmark for the future of successful retailers: growth in terms of the multiplicity of geographic, online and format offerings. Let's look at Tesco again as a harbinger of the future for retail. The company has an incredibly aggressive growth agenda. Tesco's plans include expansion into "the usual suspects" of under-penetrated markets like Eastern Europe and China with supermarket formats. The company is also opening convenience store formats in the United States. In November 2007, Tesco opened 100 Fresh & Easy Neighborhood Market stores in the Phoenix, Los Angeles, San Diego and Las Vegas metropolitan areas.

What fuels Tesco's successful expansions? Meticulous research and the ability to understand customers at a local level, then tailor offerings accordingly. For the Fresh & Easy concept, a team of executives and researchers spent two weeks living in the homes of 60 American families so that the company could fine-tune the new stores and innovate according to a deep understanding of the target segment.

Woolworths Australia, like Tesco, has a multi-pronged growth strategy. The retailer is expanding its existing chains, making bolt-on acquisitions, boosting its presence in New Zealand and establishing a consumer electronics joint venture in India—not counting its push into the liquor store business.

Best Buy is another retailer driving a relentless growth agenda that includes the acquisition in 2006 of Five Star, the third-

largest appliance and consumer electronic retailer in China. Like Tesco, the expansion is being undertaken with the customer at heart, and the company is testing different operating models aimed at improving customer experience and ensuring a local touch from an international player. Best Buy is looking to beef up revenue growth by expanding its service offerings like Geek Squad, among others. The company has also developed a strong online presence that is tightly integrated with their bricks and mortar operations. Best Buy notes on their corporate website that they "invested in the required technology to allow our customers to define how they did business with us—not the other way around." This customer-centric approach has steered the development of a robust multi-channel interface, with purchasing available in store, online or through call centers.

What we can predict won't change

The environment. The increasingly individualized store experience. Growth and diversification of formats. Clearly these are all areas that will impact retailing through the next decade and beyond. Contemplating this increasingly complex, hyper-competitive world, it is somewhat comforting to note that one thing will never change in retail: Companies that can react swiftly to market trends and respond relevantly to new customer behaviors will achieve high performance and growth despite marketplace conditions.

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