

The image features the Accenture Strategy logo in the top left corner, with 'accenture' in black and 'strategy' in red. A large, vibrant blue splash of liquid paint is the central visual element, with a thick red diagonal bar crossing through it from the top left to the bottom right. The background is white.

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PAINTING THE
**DIGITAL
FUTURE**
**OF RETAIL AND CONSUMER
GOODS COMPANIES**

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The retail and consumer goods industries will change more in the next 10 years than they have over the past 40. One primary force is responsible—digitalization. And it has already begun to help companies around the globe make their business strategies a reality.

As you read this, a digital wave is underway that could bring a cumulative **US\$2.95 trillion in value by 2025** for the retail industry. Accenture Strategy sees four main drivers of success through 2025—actions leading companies can take that are critical to consumer companies' success. All are powered by digital, which will be the key tool industry leaders will use to transform themselves for the next decade and beyond.

WITH TRILLIONS IN POTENTIAL
PROFIT AT STAKE OVER THE NEXT
DECADE, **RETAIL AND
CONSUMER GOODS
LEADERS ARE DOING
4 THINGS TO BE ON
THE CUTTING EDGE.**

**LEADERS WILL USE DIGITAL TO
UNDERSTAND AND CONNECT
WITH CONSUMERS.**

While on the surface it appears retailers and CPG companies have been doing this for years, understanding the consumer is more important than ever because that same consumer has more product choices than ever. The average consumer has global access to more than one billion products. Product choice has increased exponentially over the past several years, as new players and traditional competitors battle for consumer share. Across every retail department measured, more than 114,000 new products were introduced to the market through the first three quarters of 2016. There are 11% more items available in the average grocery department today than in 2012.¹

The fallout from this larger playing field has been more fragile customer loyalty with standards that continue to increase—from preferences on responsibly sourced raw materials to speedy delivery. To win on this field, retailers and CPG companies need to become masters of the traditional levers—cost, choice and convenience—but also master providing a stellar customer experience. It is a tall order and requires a wealth of consumer data and touchpoints. Digital technologies, however, can help throughout all areas of the business, from personalization to last-mile delivery.

LEADERS WILL RAPIDLY ADOPT GAME-CHANGING TECHNOLOGIES NOW.

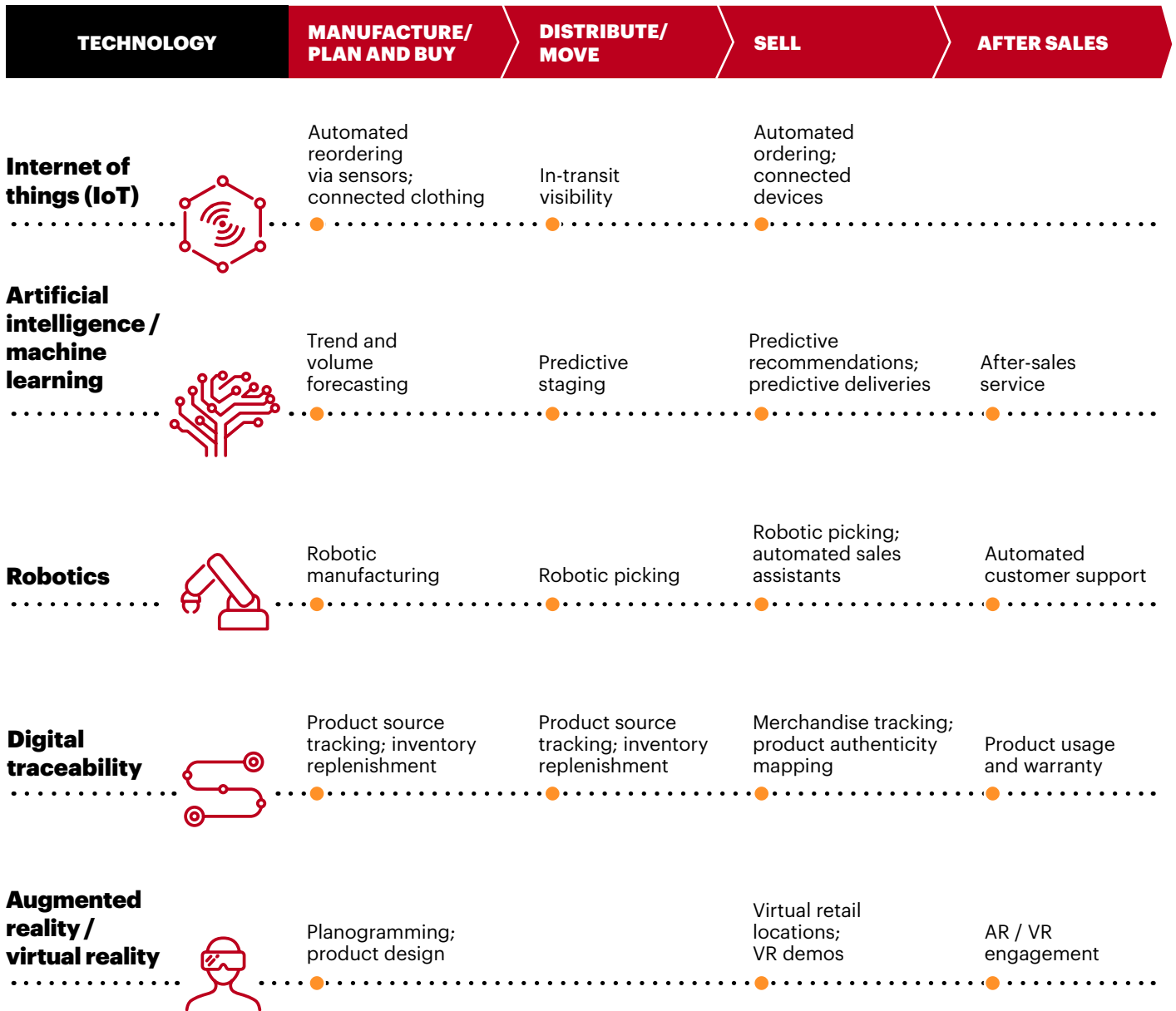
Those who will succeed over the next decade will bring a laser focus to which technologies increase the value-add for consumers, weighing those benefits against their costs. We see eight technologies playing a key role through 2025, impacting all major areas of the value chain:

- **Internet of Things**
- **Autonomous Vehicles/Drones**
- **Artificial Intelligence/Machine Learning**
- **Robotics**
- **Digital Traceability**
- **3D Printing**
- **Augmented Reality/Virtual Reality**
- **Blockchain**

Five of these eight technologies will be at full readiness by 2020; some by 2018. (see Figure 1)

Companies who take the lead in the next era will begin now, if they have not already, to strategize on applying digital to their value chains as rapidly as possible.

Figure 1: Retail and CPG industries value chain



Source: "Shaping the Future of Retail for Consumer Industries," Insight Report, A World Economic Forum project in collaboration with Accenture. January, 2017

LEADERS WILL TEST NEW BUSINESS MODELS.

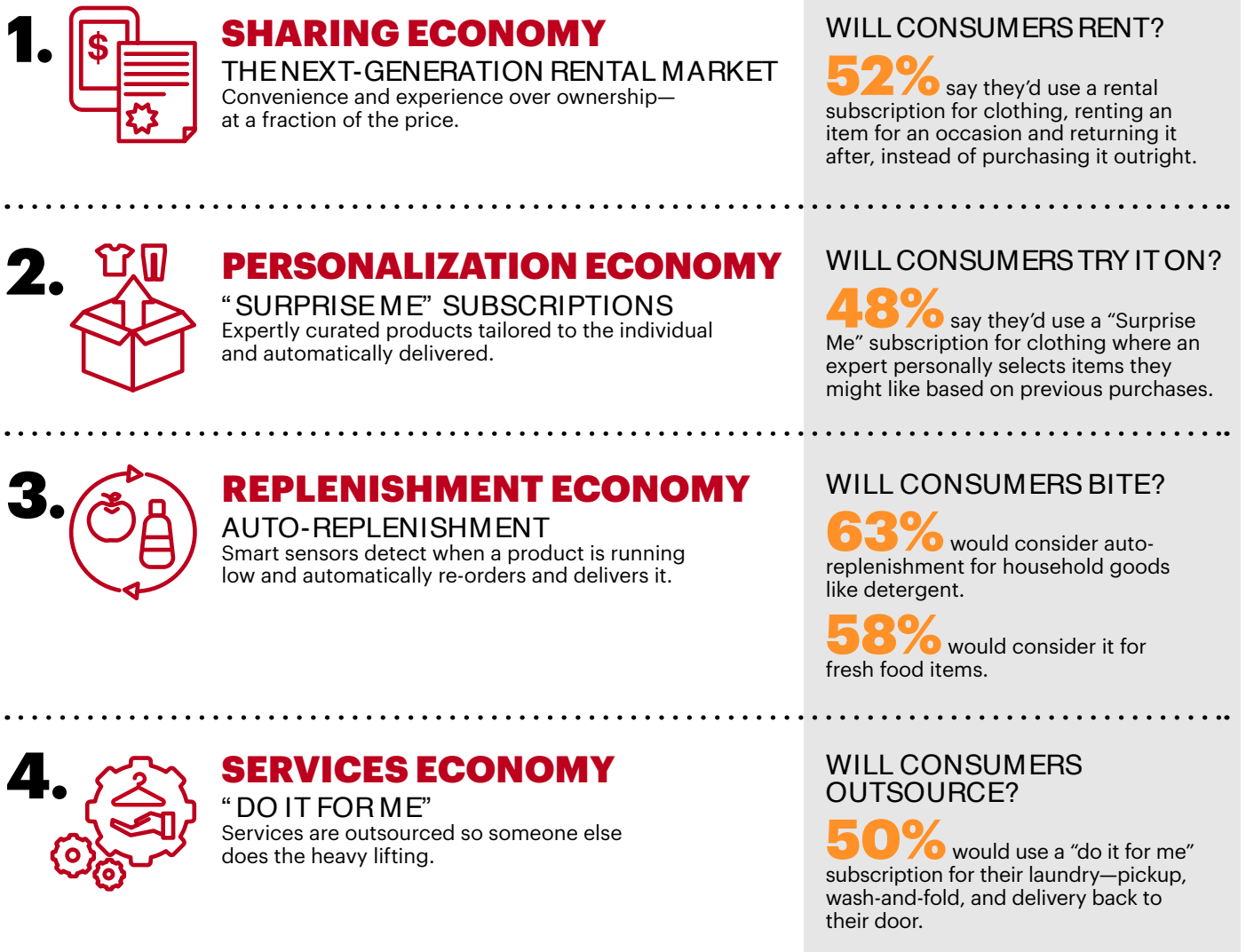
With slow-growing incomes in most digitally developed countries and a shift in consumer spending from products to services, the retail industry is likely to see greater value migration (from one company or business model to another) than value addition.

While business models are in flux, traditional stores will undergo a metamorphosis to stay relevant when online purchases in most categories are growing. Omni-channel strategies will play an important role. Consumer products companies will also need to have effective strategies to compete in a flatter world, identifying ways to replicate and maintain the quality of consumer experience across channels.

Despite continued growth in digital commerce, the physical store will continue to be the largest revenue producing channel until at least 2026. But, it is already evolving from a distribution channel to a customer experience platform. Technology is enabling front-line engagement with customers in store. We see more high-engagement social interaction in brick and mortar. For example, within six months of creating a digitally connected store, clothing designer Rebecca Minkoff saw a six- to seven-fold increase in ready-to-wear sales. As stores evolve, and online sales grow steadily, retailers will reduce their physical retail footprint—the overall number of stores and/or the typical store’s respective size.

As if the online/offline mix were not enough of a challenge, industry leaders are also already grappling with digitally enabled business models such as rental and secondary markets (the sharing economy), the personalization economy (curated subscriptions), auto replenishment and smart ordering via the replenishment economy, and the services economy (“Do it for me.”). But, adapting business models to accommodate these new trends could be highly profitable, with US\$2.95 trillion of potential value for the industry and consumers.

Figure 2: Four business models shaping the future of digital commerce



Source: Accenture Strategy Global Consumer Pulse Survey, July 2016

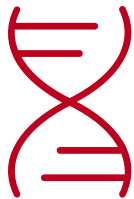
LEADERS WILL KNOW THE THREE MUST-HAVE CAPABILITIES TO THRIVE OVER THE NEXT DECADE.



The partnership mindset. In the past, many companies could go it alone, depending primarily on building their own in-house capabilities. Given consumers rising expectation for things like personalization and the customer experience, companies will need to work with participants in the current retail ecosystem as well as forge partnerships with new companies in the consumer space.



Last-mile delivery. For digital commerce to become cost effective, eco-friendly and responsive to consumer preferences, innovations in last-mile delivery are necessary. From costs to containerization, companies will need to apply a digital lens to leapfrog ahead.



Advanced data sciences. Collecting consumer data is no longer enough. Data mining for insights that systematize enhanced decision-making is no longer a nice-to-have option, but rather a need-to-have component of the business.

WHAT DOES SHOPPING LOOK LIKE IN 2026?

ROUTINE PURCHASES BECOME EFFORTLESS.

Product purchases with low mind share, which are routine purchases, are delivered automatically via auto replenishment, saving consumers time and simplifying their lives. Routine purchases primarily occur on digital channels with a cadence dictated by the consumer. Retail interaction with consumers is divergent with high-engagement product categories (e.g. hard lines, consumer electronics) purchased in extremely interactive, experiential stores, while low-engagement products (e.g. home and personal care) purchases now are automated and hassle free.

STORES ARE A DESTINATION EXPERIENCE.

By 2026, shopping in a store has been transformed. It is no longer about merely a product purchase, but is a rich, engaging and specialized experience driven by innovative business models. Retail is reimagined and shopping is an experience full of discovery and excitement. Stores are destinations to interact with the product, talk to product experts and provide an ambiance which encourages consumers to stay and keep coming back. They are technology enabled, which means a consumer's digital device is integral to providing an engaging experience.

DATA, DATA EVERYWHERE LEADS TO HIGHLY PERSONALIZED SHOPPING.

Consumers are truly the epicenter of the retail and consumer packaged goods industries. Their lives are simplified and their lifestyles have improved due to technological advancements. Technology is embedded into their daily lives, which means hyperconnectedness is the status quo. Sensors and digital devices are everywhere—throughout homes, in clothing, in appliances—and the data that is collected drives a highly personalized customer experience in the journey to purchase a product.

Consumer preferences are immediately understood, which means companies provide hyperpersonalized product and service offerings. In fact, a consumer's current emotional state is identified and factored into an interaction. In addition, consumers have an exponential amount of control and choice in every step of their journey and influence everything, from personalizing products to instantaneous delivery.

NO ONE BATS AN EYE AT THE ROBOTS.

Activities that do not drive value to the consumer experience, for example stocking shelves, checking out, etc. are automated. Robots work alongside a highly skilled human frontline workforce to drive this highly personalized and interactive shopping experience. From chat bots and automated software that ease the shopping experience, to robots that pick product at the warehouse, the frontline workforce in retail has been transformed, for the better of consumers, the business and the workforce.

GETTING STARTED

Digitalization will play out over the next decade in conjunction with other trends—urbanization, a growing global middle class and Millennial spending. A myriad of other factors will need to be taken into account as retailers and CPG companies begin to step firmly into their digital future.

But, the key indicator of a truly digital enterprise is agility. The leaders are already perfecting it, using digital technologies to meet rapidly changing market needs around the globe. From developing platform-based ecosystem that utilizes advanced data sciences and nails last-mile delivery (a la Amazon), to helping prepare the workforce for how the next wave of digital changes their jobs, retailers are making core changes to their business to become more competitive in the digital age.

Turning up the digital dial now—focusing on the four areas we have discussed—could put your firm on the path to realizing its share of the trillions of consumer dollars at stake.

To learn more about the digital future of retail, check out Accenture’s paper, written in conjunction with the World Economic Forum: “Shaping the Future of Retail for Consumer Industries.”




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¹ “Shaping the Future of Retail for Consumer Industries,” Insight Report, A World Economic Forum project in collaboration with Accenture. January, 2017

² Accenture Strategy Global Consumer Pulse Survey, July 2016

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