



The Future of Retail: Get Ready for the Revolution

Technology is transforming the retail sector. Developments in the pipeline in artificial intelligence (AI), virtual reality (VR) and innovative delivery systems will by 2030 enable dramatic changes in consumer behavior, challenging the economics of many retail business models and rendering some obsolete.

If retailers are to avoid being left behind, they must act now. At present, most view their businesses through the lens of a three-to-five-year strategic planning cycle, preparing predominantly only for the next wave of incremental change within that period. The deceptively slow penetration of digital retail to date, and its uneven impact across the sector, have created a false sense of security. Yet while planning in the medium term, retailers are also making longer-term commitments to retail store networks and format concepts that may prove unsuited to the future of shopping.

In this paper, we explore the technological advances that are changing the retail sector and their likely impact. We look at the prospects for existing business models and set out the questions that retailers must address to prepare for the future.

The slow path to digital

Many retailers have been slow to introduce digital technology. While online shopping channels such as Amazon have sprung up on the back of the internet and mobile technology revolution of

the past two decades, brick-and-mortar retailers have tended to offer digital to supplement existing physical distribution channels rather than to replace them. In part, this generally limited development has been a result of two landmark economic events: in the 2000s, after the dotcom boom and bust, many physical retailers chose to focus on driving in-store sales; and since the recession hit after 2008, they have been forced to cut prices in an attempt to draw customers to stores through a prolonged period of weak consumer expenditure. Cash for transformational investment has often been in very limited supply.

The lack of investment in digital infrastructure is likely to have serious consequences in the long term. Canadian sci-fi writer William Gibson says, "The future is already here — it's just not evenly distributed." This is true of digital retail. Digital retail is already important in electronics and appliances, accounting for almost a fifth (19.5%) of U.S. sales in 2017, according to U.S. Census Bureau data. By contrast, all other major categories are below 10%, including clothing (9.5%), furniture (6.4%) and general merchandise (3.3%). Digital also has only moderate impact overall, accounting for 14.8% of retail spend in the U.S. and 16.8% in the U.K. in 2016. Consequently, a fundamental rethink of business models has seemed unnecessary to many retailers.

However, technological developments will soon make both the experience and economics of online shopping attractive to consumers for a much greater number of categories. This will drive acceleration in the rate of digital adoption, reinforce the scale advantages that the leading ecommerce marketplaces already command, and amplify the significant challenges for businesses across the entire retail sector.

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