

Get ready for the future of retail

New technology and changing consumer preferences are disrupting retail worldwide, putting pressure on retailers. Leading retailers around the world are not complacent. Already, they are making structural and organizational changes, building the critical capabilities needed to adopt or create new technologies that address their customers' needs. These organizations offer examples to other retailers of how to reshape, rethink, and reinvent traditional business models.

The pandemic accelerated changes that were already underway. In 2019, e-commerce was just 3 percent of total retail sales in the GCC, but doubled to reach 6 percent in 2020, according to Euromonitor. Most millennials and generation Z in the GCC want to shop online. Similarly, digital technology has changed how consumers engage with products and brands. Some 80 percent of Saudi millennials have interacted with brands on social media or the brand's website, according to IPSOS. The result is that niche brands can compete, pricing is more transparent, brand choice has increased, and loyalty has declined—not to mention the possibilities for convenient fulfillment through a quick-commerce model. An additional source of pressure in the GCC is increased competition from global players. The previous barrier to entry, the requirement for local ownership, has been lifted.

To cope with these changes, GCC retailers will need to act at different speeds in five areas. How they act will depend upon where they stand in each of these areas, as well as changes in the retail environment.

One area is expansion beyond traditional retail by creating an ecosystem of products and services. Retailers can broaden their offerings through partnerships and joint ventures with capable third-party players. Large retailers in other markets are creating platforms that give consumers a single point of access for an array of products and services. In Japan, AEON holds the rights to Carrefour, offering groceries, cosmetics, and food and beverage. AEON is expanding into financial services, including credit cards, e-payments, and consumer financing. It is also moving into online logistics and last-mile delivery.

A second area is the creation of an omnichannel experience. Although only the largest retailers in any market can realistically build an ecosystem-wide platform, all can offer an integrated experience in-store and online. Retailers should consider partnerships and acquisitions with specialty providers to accelerate building omnichannel capabilities, including order management and fulfillment, along with digital payments and wallets.

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This article originally appeared in *Arabian Business*, January 2022.

A third area is reassessing the number of stores and real estate assets that a retailer controls, and getting the most from real estate given the shift of sales to online. Shutting locations en masse will not work. Rather, companies should reduce costs by closing some physical outlets, while creating a differentiated experience in remaining stores. In other markets, stores are becoming showrooms rather than locations with inventory. Nordstrom Local in the U.S. has merchandise-free stores. It offers online order pickup and return, alterations, style advice, and tailoring services. Other services include nail and beauty services, and in-store bars. Moreover, retailers could explore repurposing their unused inventory assets and large geographical footprint to create on-demand hubs. For example, Reef Technology has transformed parking garages and lots across the U.S. into hubs for the on-demand economy, offering delivery-only restaurants (known as “ghost kitchens”), healthcare clinics, and last-mile delivery services.

A fourth area is strengthening data management and analytics capabilities to understand customers and continuously improve customer experiences. That means GCC retailers synthesizing the large amount of information they possess, generating insights, and providing tailored products and services. The British luxury fashion retailer Burberry uses big data and machine learning to provide personalized experiences, and to design products that reflect changing consumer tastes. Algorithms analyze customer data from loyalty programs, purchase history, and social media activity to predict individuals’ product preferences and identify the latest fashion trends. These insights allow for customer-specific recommendations online and in-store. Sales assistants use tablets to display tailored recommendations to shoppers in real time.

A fifth area is building a test-and-learn culture. Retailers should conduct pilots, and learn through experience. For many organizations that means a culture shift. Management can instill this change by promoting and rewarding innovation. In the U.S., the home improvement chain Lowe’s has established Lowe’s Innovation Labs to develop and test ideas to help customers and employees. The company is developing virtual reality tools that allow customers to envision their home improvement projects. Lowe’s is also testing exosuits, which reduce the physical strain on employees of lifting and moving heavy objects.

As consumers change, GCC retailers must do more than keep pace. They must transform and anticipate their customers’ needs, to provide them with a dynamic and exciting experience. The future of retail is upon us.