



Three major trends can be observed that will transform the consumer market over the coming decades. The gist of it is that companies need a new management model if they are to continue servicing this market properly. What do these developments mean for the businesses that are active in the consumer market and for their IT organizations? Eric Daanen shares his insight into the factors that will play a vital role in this process, along with his vision of the future.

Retail Is Entering a New Era: “The Winner Takes All”

Developments in the Consumer-Focused Market Economy and the Implications for the Supporting IT Function

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How would you describe the current developments in retail?

The retail sector is in crisis and requires a complete change of old practices. A crisis is never caused by just one single issue that gets out of control. On the contrary: it is usually due to multiple and complex issues. We observe three major trends ([CBW10], [Gare11]) underlying the huge changes that are already taking place in retail:

1. the growth of the middle class economy (demand side);
2. globalization of the economy (supply side);
3. the impact of the internet on information transparency (mapping of demand and supply).

Over the coming decades, the middle class economy will grow by over 1 billion people worldwide to reach approximately 4 billion by 2030. This growth is mainly expected to take place in Asia. More than 4 billion consumers will see their income tripled over the next 20 years, which will make them the engine for future world growth.

This new middle class represents enormous profit and growth opportunities for international retailers. However, these new consumers also demand affordable products, such as the “\$35 tablet”, “\$100 laptop”, “\$2,500 car” and other nice “value for money” products. Globalization has given European consumers a free ride in this respect, in terms of easy access to these cheap goods.

Another element of globalization is the easy access to low-cost suppliers and to local markets. Current labor costs in Asia amount to around 10% of those in Europe. These factors trigger our search for the best manufacturing locations and motivate merging markets to bring their products to us, which in its turn makes products increasingly inexpensive on the European market.

As a result of the increased transparency in supply and demand due to the internet, and the possibility of shipping products worldwide relatively simply and cheaply, we very much want to buy these “value for money” products, irrespective of

where they are coming from. Similarly, the sellers are very keen to sell them to us. Our own economic crisis has only served to further strengthen the development of this “glocalization” (global production and local selling).

What does this mean for retail in the Western economy?

Based on the above trends, some major developments in retail are predicted ([KPMG15]). It is likely that the market will need at least 10 to 20 years to adapt to this new economy and reach full maturity.

Some of the expected developments are outlined below.

1. *Extreme client-centricity.* The entire process of orientation, purchase and after sales is entirely focused on the customer, with a view to meeting the customer’s needs anytime, anyplace and anywhere, with or without the help of a supplier and at the lowest price. The consumer will tend to follow that process that is the most convenient and user-friendly.

2. *Digital super consumer.* Across mass media and micro media alike, the internet has turned consumers into experts who keep themselves informed of the latest news via online and offline sources on a daily basis. They draw inspiration from various websites and can look for the best solutions for their needs and the best suppliers to obtain these solutions from. “Value for money” and “The winner takes all” are the guiding principles in this context.
3. *Customization.* Each consumer is an individual with specific needs and desires. Consumers are on the look-out for tailor-made products and solutions and are increasingly less sensitive to “mass communications”. They want to feel that a product range is made just for them. These wishes can be met through a personal approach, and services attuned to specific needs.
4. *Omni-channel.* Offline and online are intertwined. Consumers can more and more easily obtain information on prices, products, locations, waiting times, delivery times, stock levels and feedback by other consumers. On the other side of the transaction, entrepreneurs can have access to more information on their (potential) customers, as they are able to follow their behavior and activities online. This will make the retail sector much more transparent. A shop then becomes an experience center instead of just being a transaction-driven physical location and therefore evolves into a marketing tool.
5. *Optimization of the supply chain and the underlying process.* The online world challenges the offline world in terms of efficiency and customer focus,

and vice versa. Process-focused thinking is maximally motivated by chain integration, and consequently some links within the chain will be outsourced. The parcel delivery guy will be pleased to see the demand for his service increase due to growth in logistics related to online purchases (and returns).

6. *Consolidation of providers.* Technological developments will result in new forms of collaboration and new business models. Due to the “winner takes all” effect, the number of touch points with a customer will be lower. Top labels will go straight to the market through online sales and will therefore bypass small retailers. These “A” labels will use flagship and licensed stores for their offline customer contacts, and will deliver goods through consignment deals. Large, possibly international, retail chains will dominate the marketplace with their own-label products. In the digital world, some clearly recognizable online channels will survive in specific categories or segments, where individual consumers can trade on their own behalf in a supply and demand-based system, as is currently the case with eBay, Uber and Airbnb.

What will be the consequences for IT developments in the consumer market?

IT budgets will increase exponentially. IT is no longer a supporting but rather a strategic tool to conquer the market through the integration of supply chain, omni-channel, the internet and product development.

- In order to optimally manage the omni-channel environment and the supply chain, integrated

IT systems are required based on real-time data processing. Only the very latest database technology offers opportunities to handle such large-scale data.

- Chain integration requires a modular ERP structure for manufacturing, stock, transport and sales. Middleware enables relatively easy data exchange between the various environments and the various parties involved.

Powerful websites will fully support customers’ needs in a new way (from inspiration to purchase and right through to returns) based on customer recognition and interaction. New technology will make it possible to reach consumers in different ways. 3D demos, simulations and instruction videos, 3D printing, virtual and augmented reality will have conquered the world of retail in 30 years’ time. Interactivity will play a central role in our communication. Mobile payment will be the norm.

- The consumer will tend to expect that the provider knows everything about him and recognizes him instantly. Powerful central databases of customer, transaction, stock management and product information will assist the customer in searching or buying. Big data analyses will make it possible to exploit unstructured data in the process and facilitate more focused buying and selling. Through the use of the latest ICT technology, a supplier can offer cost-efficient personalized services and customized products to consumers with relative ease.
- But above all: privacy is guaranteed!

Would you venture to make concrete predictions about what the retail sector will look like in 30 years?

In view of the effect of “The winner takes all”, speed is of the

utmost importance. New startups such as Airbnb, Alibaba and Uber were launched without the burden of old business models and are very successful. Some existing companies like Zara will also be successful in adapting to the new economy of their own accord. Some companies are too big to fail or will be supported by governments, if necessary, to overcome any disruption. However sadly, all the other companies that operate in retail today will fail and face bankruptcy.

In the future consumer market, success will be no longer determined by the management of efficiency, but by the management of change, action and effectiveness. A total mind shift is required to really adopt the new economy without delay, and with all the energy and skills at your disposal.

One fairly reliable prediction is that in a couple of decades the list of the global top 10 retail companies will be totally different from today’s. Why wait for the winner to be declared, when speed makes all the difference. Go for it!

References

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