

RESHAPING RETAIL

*Why technology is
transforming the
industry*

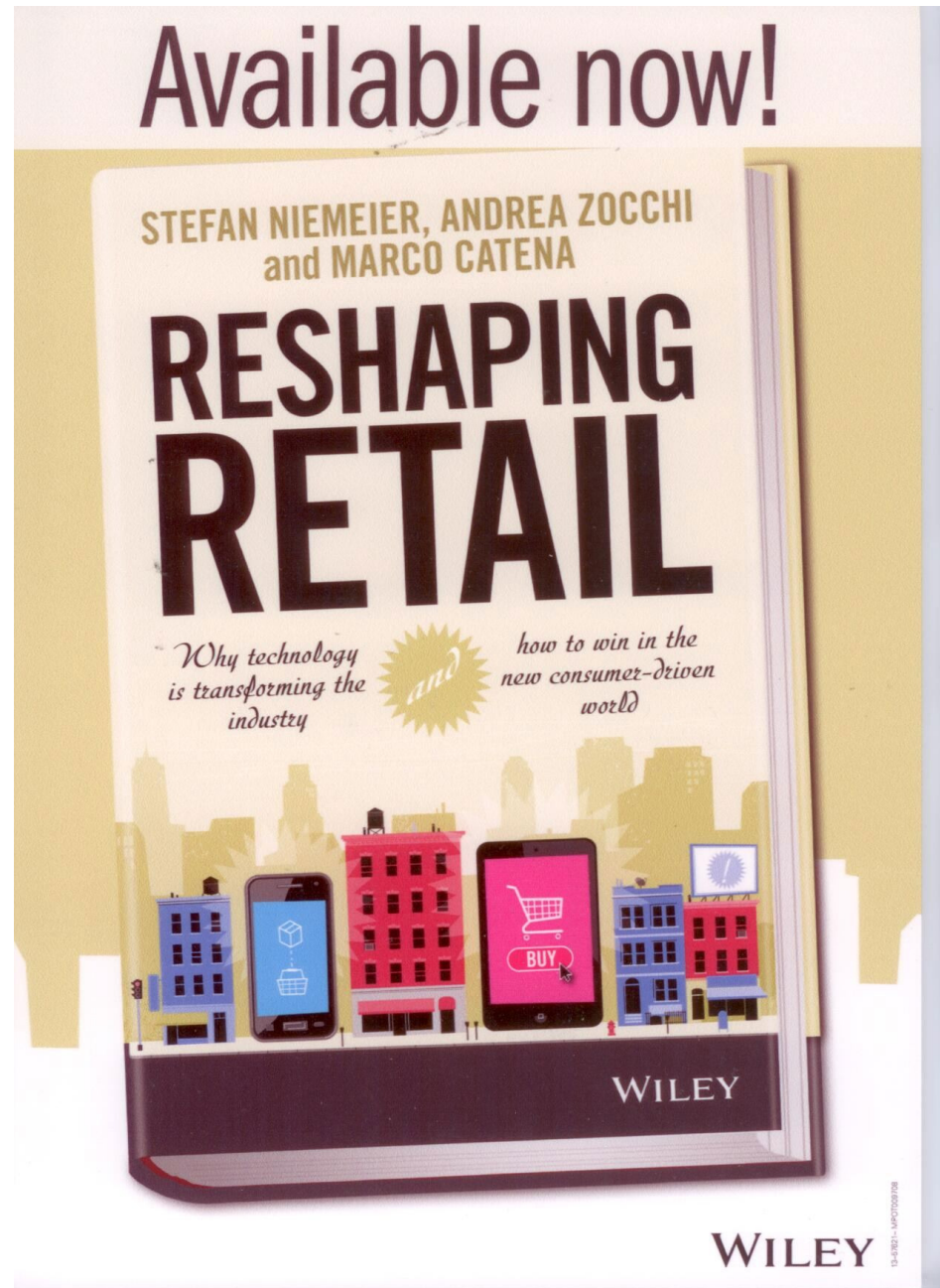
and

*how to win in the
new consumer-driven
world*

Andrea Zocchi and Marco Catena



The
following
presentation
is based on
the book...



**We are
experiencing a
transition to a
new world
where ...**

**... technology
is at the center**



The **computer in your cell** phone is about...

1,000

times more
powerful

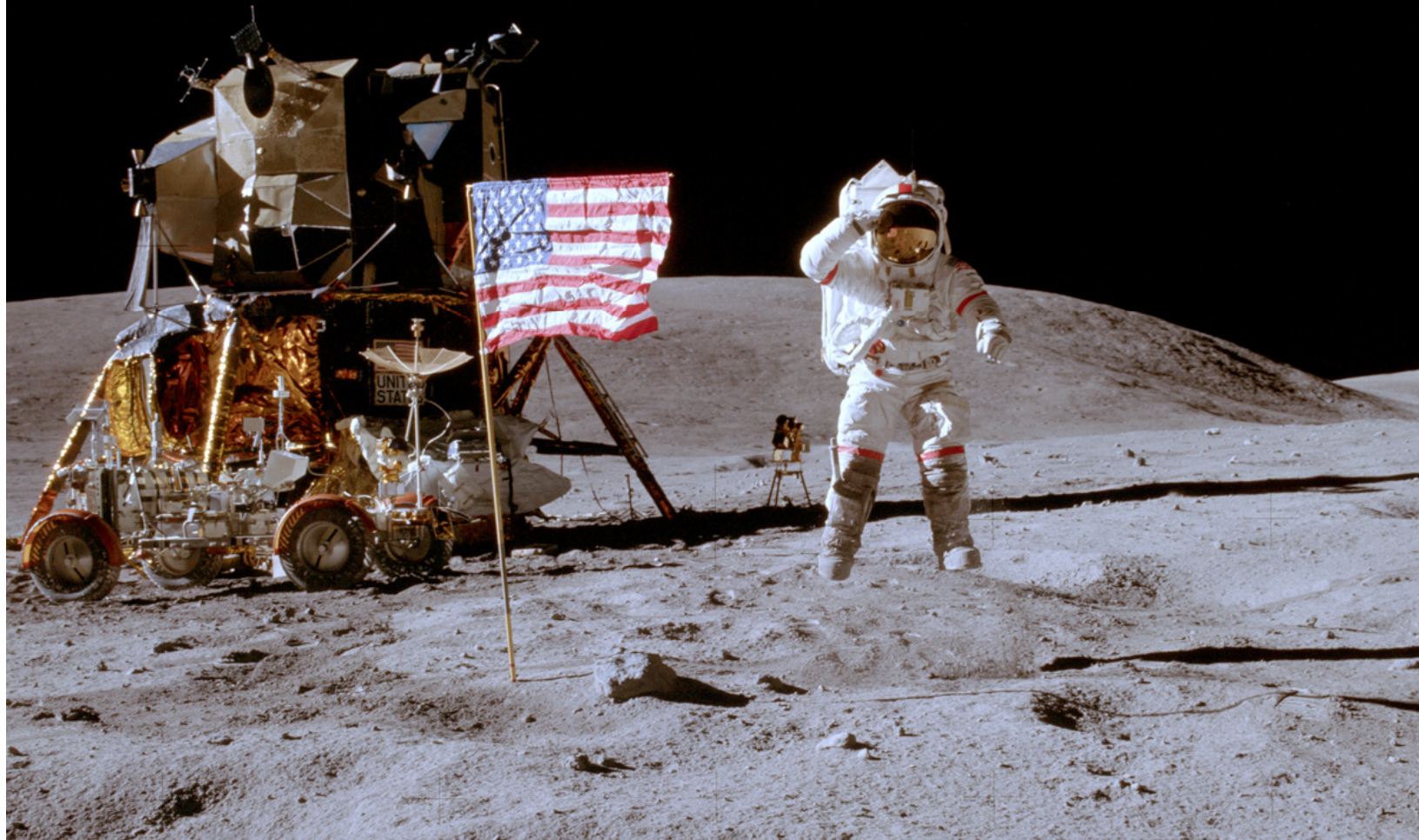
100,000

times
smaller



and about
30 million
times cheaper

**... than the one carried by Apollo 11
in 1969**





Social media

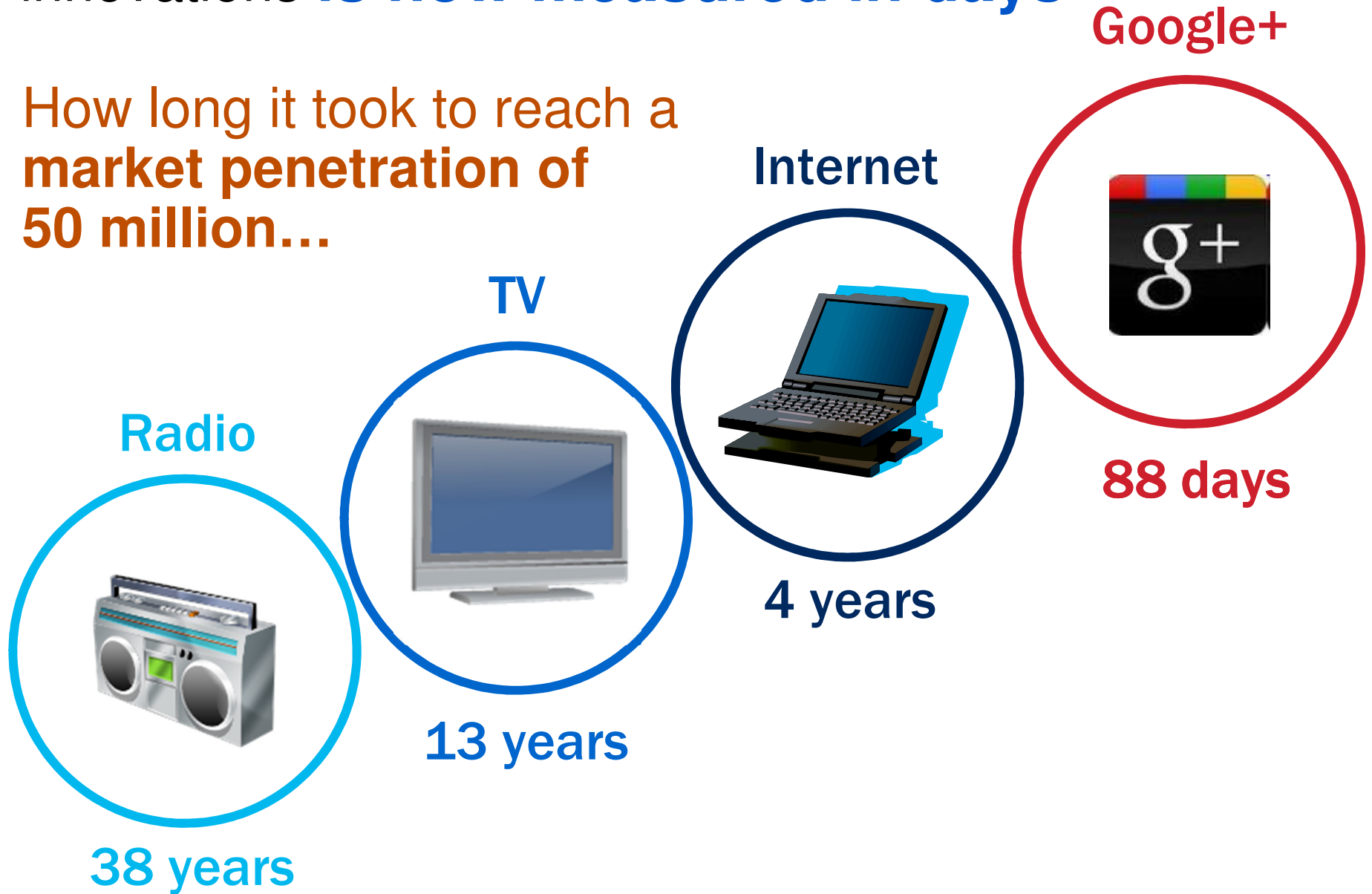
is the #1 activity on the Web

By end of 2013 the number
of **connected devices**
will exceed the number of
people on earth



Penetration “at scale” of technological innovations **is now measured in days**

How long it took to reach a **market penetration of 50 million...**



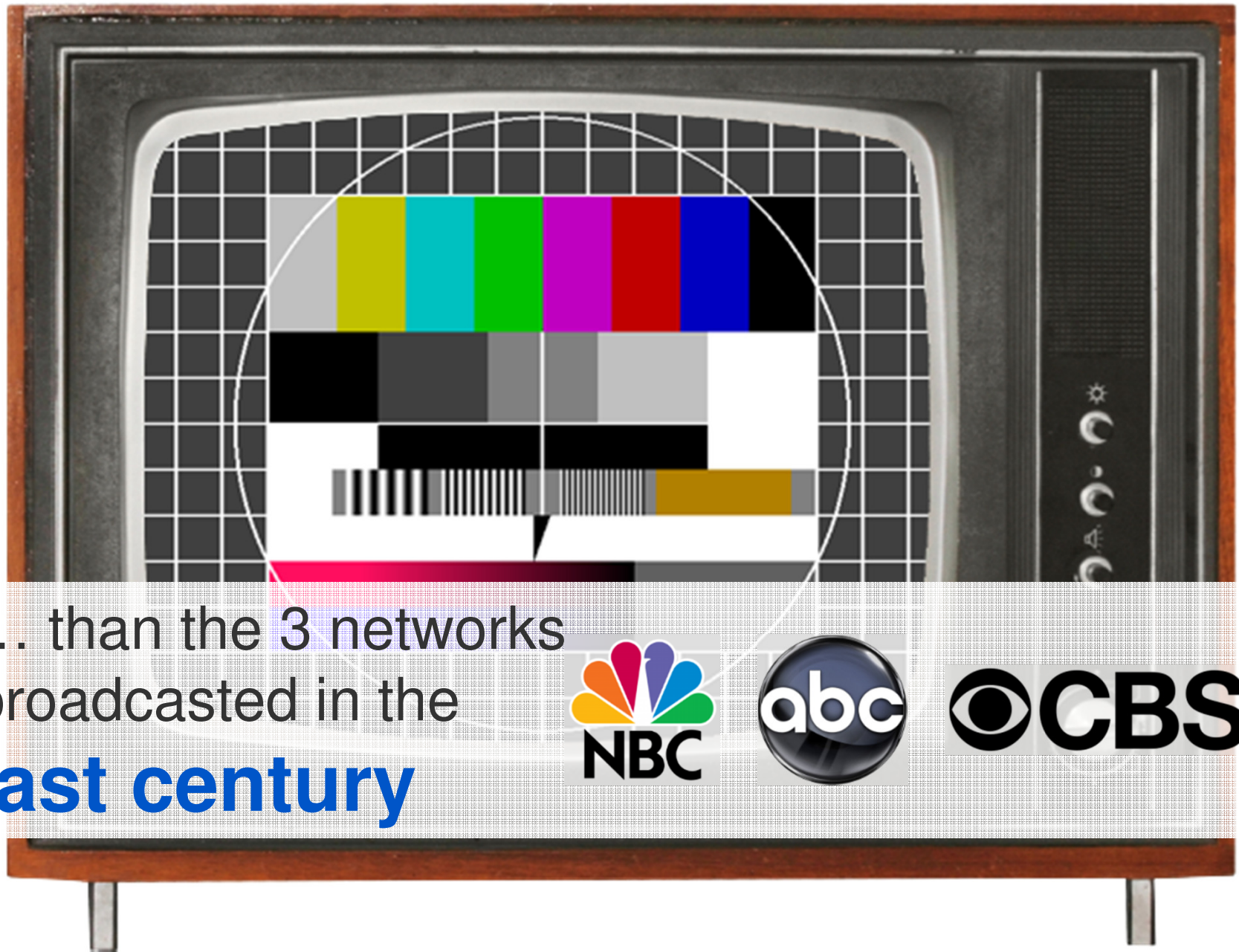
In-game advertisement reached
USD 2,400,000,000
in 2012



You Tube Upload Booth

YouTube uploads
more videos in
2 months...





... than the 3 networks
broadcasted in the
last century



**10% of all
photos
taken by
humankind...
...were taken
in the
last 12
months**



87% of the world's population
has a mobile phone subscription





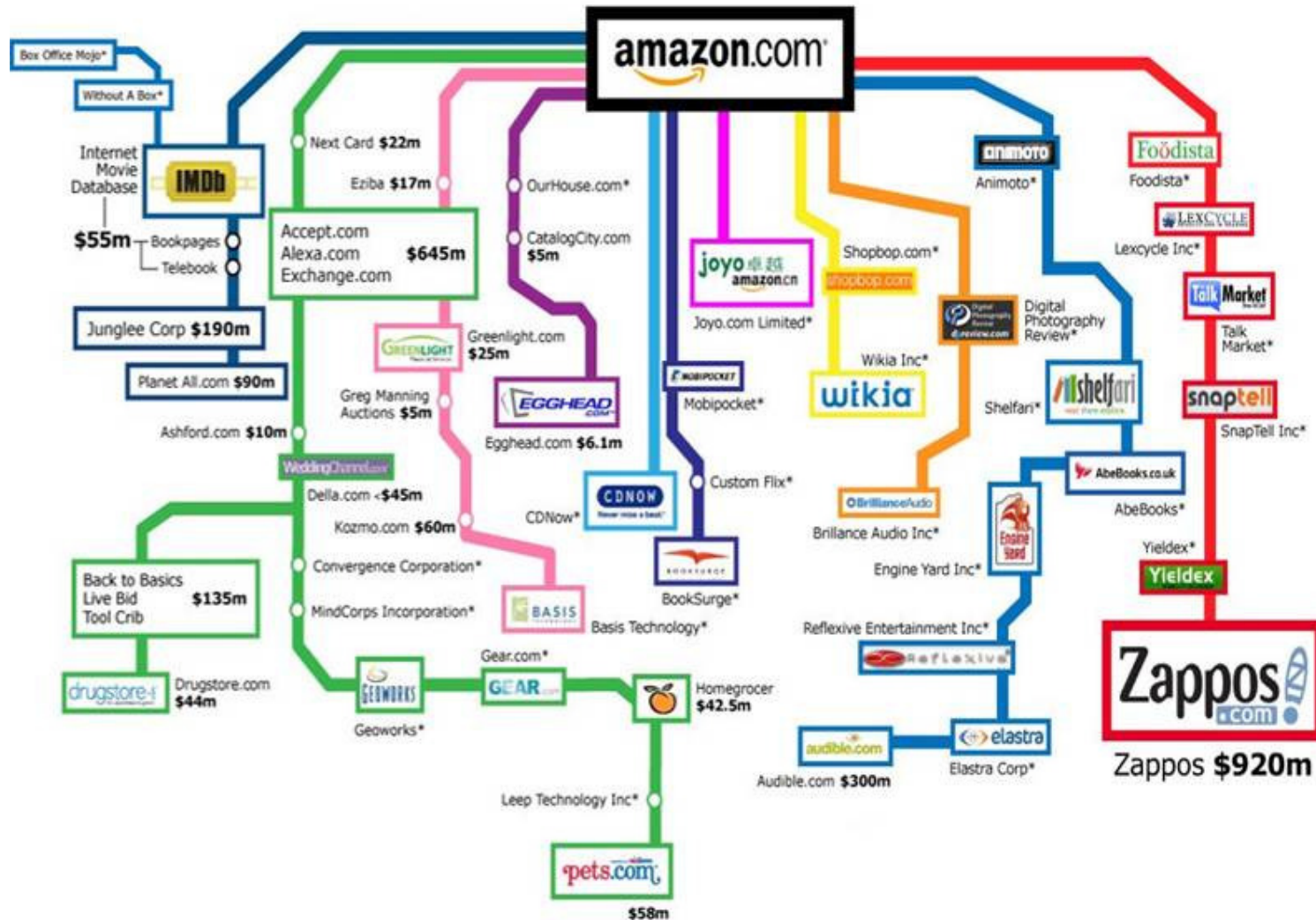
70% of mobile
phone owners in
Kenya use their
phone for
transactions –
not cash

**THE TIMES
THEY ARE
A-CHANGIN'**

and **some
retailers**
noticed it !



Amazon spends ~ **USD 1.5 billion p.a.** on IT operations and acquired technology start-ups for **> USD 2.5 billion**



Walmart  is **investing heavily** in the acquisition of technology start-ups to **drive mobile and online sales ...**

Kosmix 

Acquired in
April 2011

 **OneRiot**
Search for the pulse.

Acquired in
September 2011

 **grabble**®

Acquired in
November 2011

OneOps

Acquired in
May 2013

 **Inkiru**

Acquired in
June 2013

TORBIT

Acquired in
July 2013

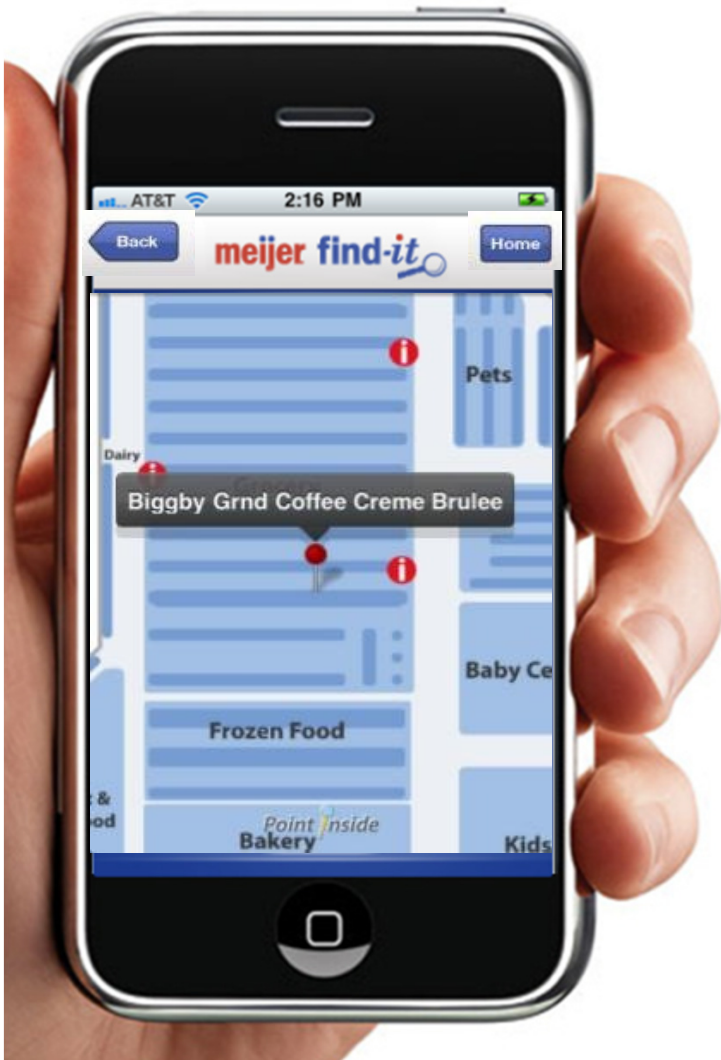
... and to **enhance
customer experience**

Scan bar code of
purchased items

Let the app generate
an online receipt for
future returns



Meijer improved its **customer service** by developing a mobile app...



...**Meijer's find.it** helps customers find products in the shop and draws attention to special offers

Technology is changing retail and its metabolic rates



**Welcome to
the digital revolution
in retail !**



The **third revolution** in retail's history is underway

1

Mercantile –
Medieval era

Banking system that made capital founding available



2

Modern –
From industrial revolution to 21st century

Mass production and consumer society



3

Digital era

Game changing technologies

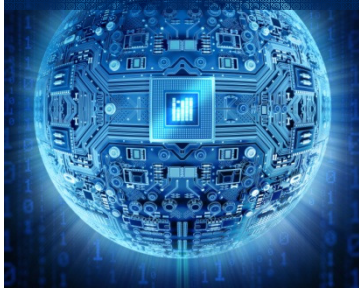


Retailers have been intermediary between suppliers and consumers

Which role will retailers play in the new environment?

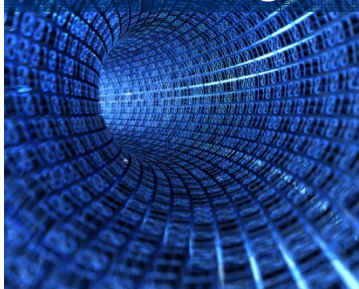
3 powerful undercurrents...

Computing power



- Transistors per chip have doubled every 2 years since 1970s
- iPhone has more computing power than Apollo11, but costs 30 million times less

Data storage



- Data storage capacity has become practically limitless
- Amazon sells storage for as little as \$0.01 per gigabyte per month

Networking



- Number of internet endpoints and data traffic have exploded
- By end 2013 number of connected devices will exceed number of people on earth
- 717,000,000 sites on the WWW in August 2013 (19,000 in April 1995)

... enabling a set of “game changing features”

Mobility



- **Smartphones and tablets**
- **Augmented reality** magnifying people's senses

Measurability



- **Volume, granularity and velocity of “big data” available**
- **Internet of things** (sensors and actuators connected to the net)

Agility



Cloud systems providing computing resources directly over the internet (faster implementation, higher flexibility less capital)

Consumers are **now empowered like never** in the past...

Price ultra-transparency



amazon Price check: scan the bar code and get **an immediate counteroffer for the product**

Granular product information



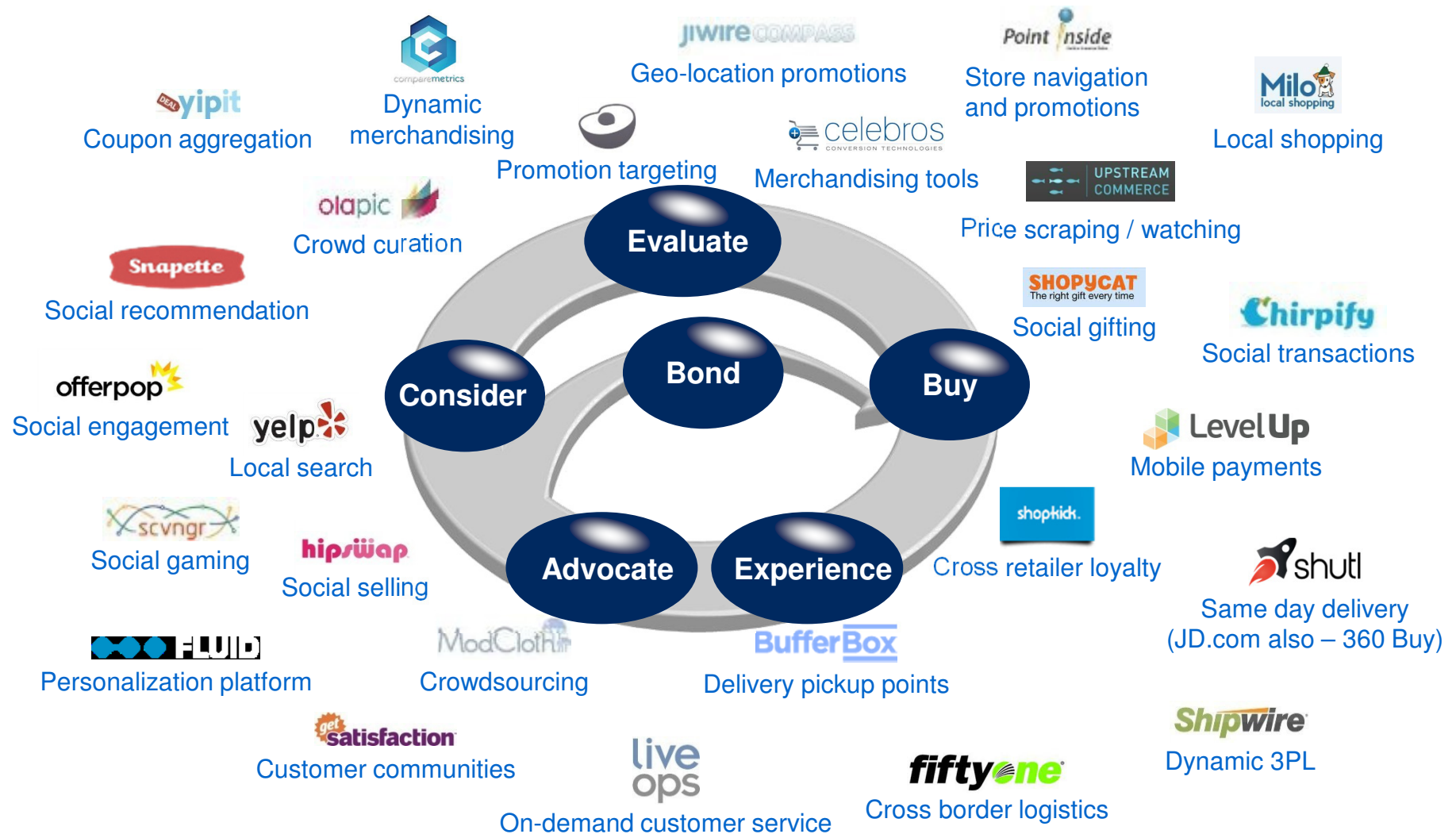
GROUPE Casino **NEC world** : Scan shelf-edge labels to **get details about products**

Broader shopping opportunities and occasions



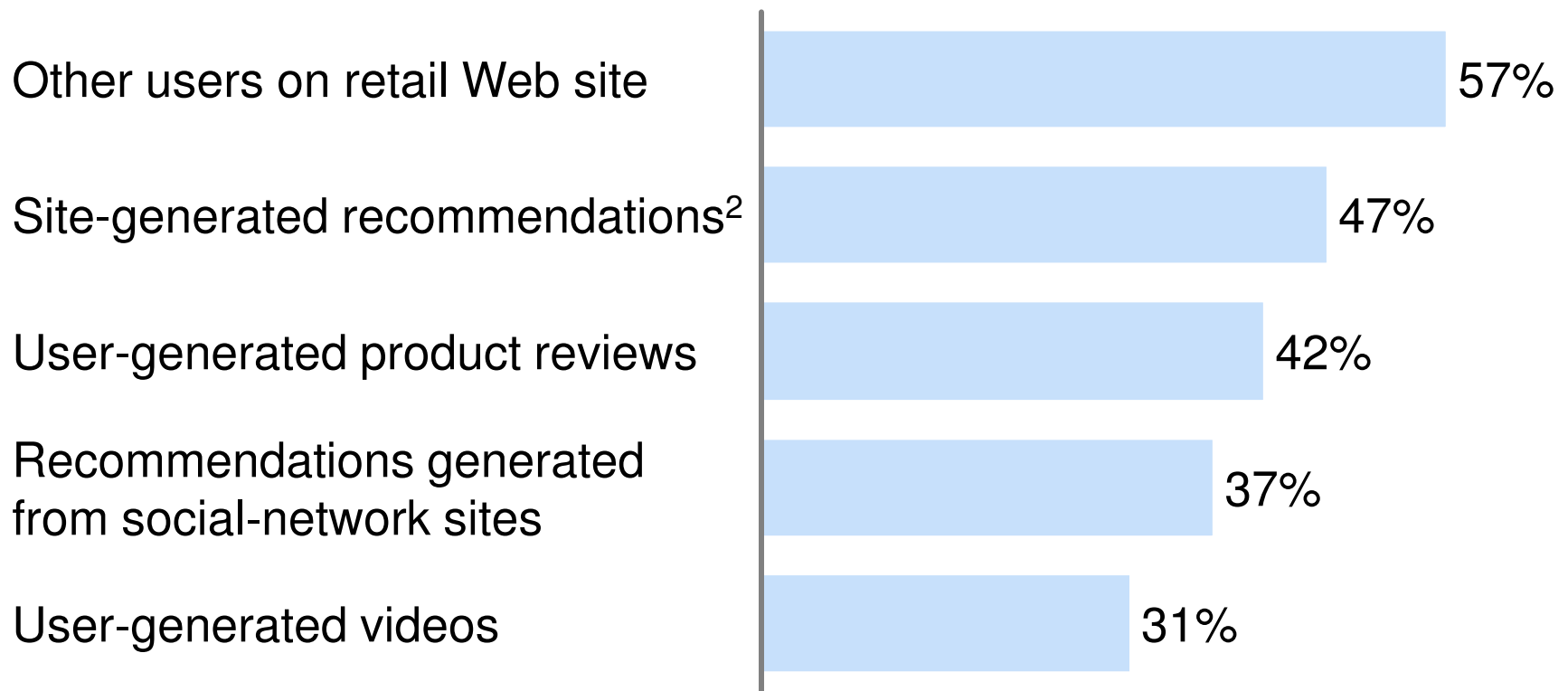
TESCO Korea: **new shopping occasions**

... and the way consumers **make and form** decisions has changed



On-line reviews **influence** brands and products' **consideration** and **evaluation**

Percent consumers who trust/somewhat trust reviews¹



¹ As a share of all respondents

² Based on what other users have purchased (recommendations presented as “users who bought this also bought that”)

In 2012, more than 15% of WW total sales of luxury goods were **directly generated** by digital and another 25% were influenced

Percent of market, 2012

Pure online sales

Offline sales **directly generated**¹ by online experience

Offline sales **influenced**² by online experience

4%

12%

16%

25%

1 Researched online, product decision changed online and purchased offline

2 Researched online, product decision confirmed online and purchased offline

As a consequence, some of the **key paradigms** in retail are shifting

1

The physical store is not anymore the only (primary?) interface with customers

2

The role of different players along the value chain is blurring

3

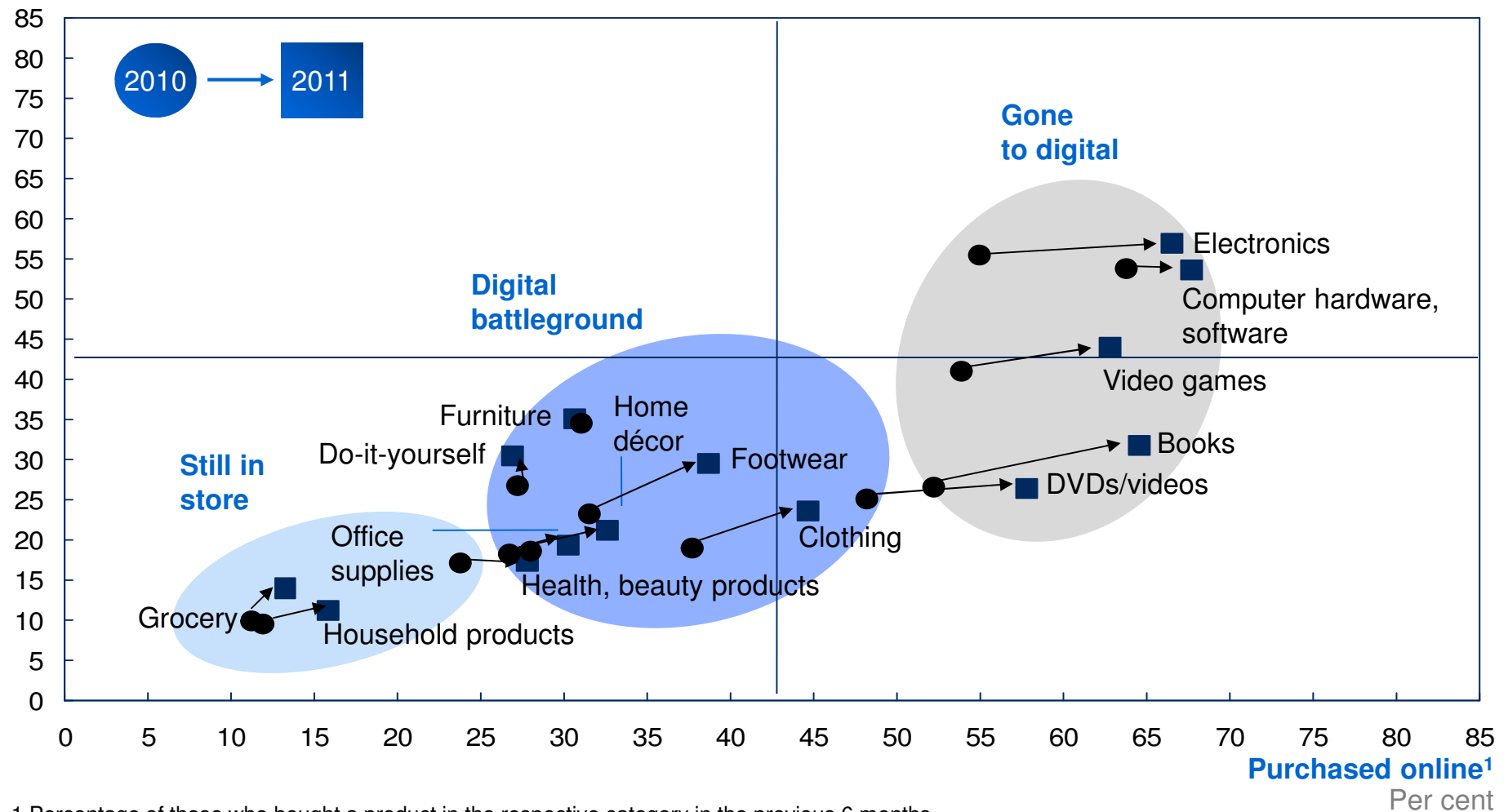
Information productivity is becoming as important as capital and labor productivity

1 The store importance for research and purchase is diminishing substantially



Researched online¹

Per cent

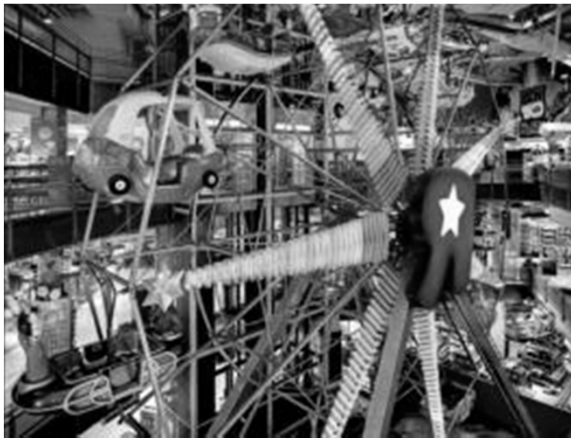


1 Percentage of those who bought a product in the respective category in the previous 6 months.

SOURCE: iConsumer 2011

1 However, physical stores will continue to play important roles

Experiencing brands and products



Convenience and proximity



Entertainment and social interaction



Finding a solution



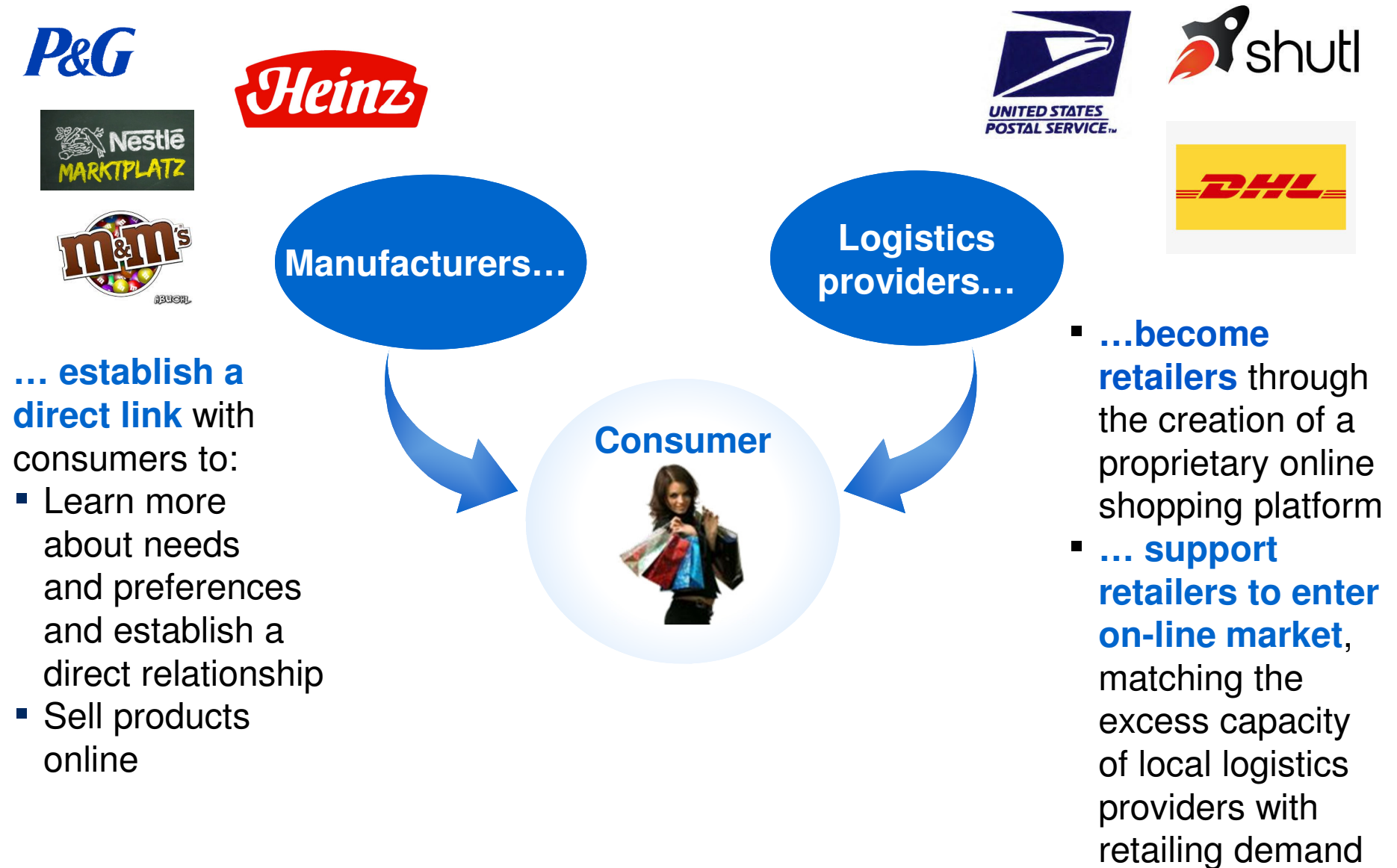
Buying more cheaply



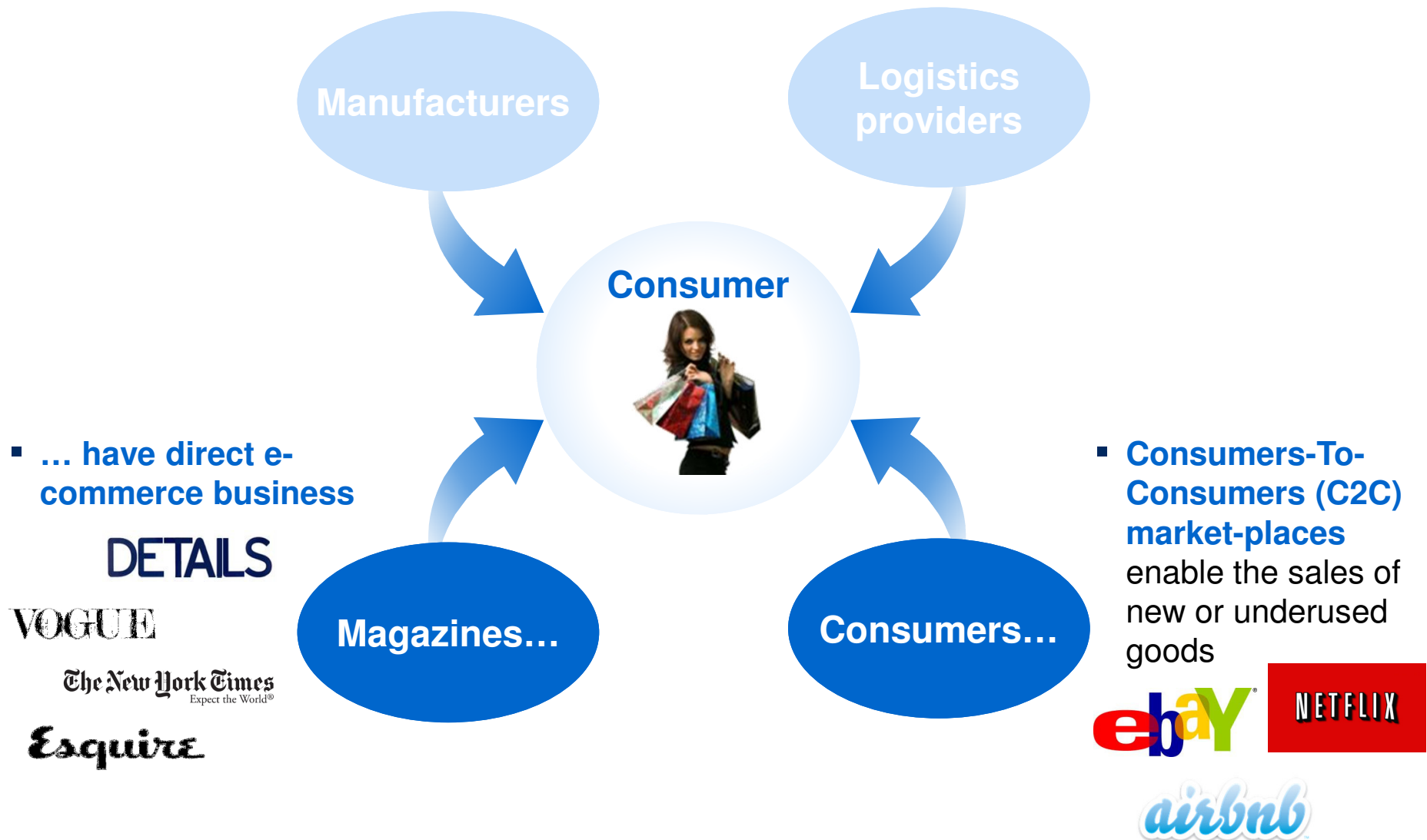
Instant gratification



2 Blurring boundaries of retail: new players



2 Blurring boundaries of retail: new players



3 Information productivity: new advanced approaches and tools to run the business

EXAMPLES

- Granular and individual customer data
- Cheap storage capacity
- Processing power

**“Next product to buy”
based on personalization
of offers**

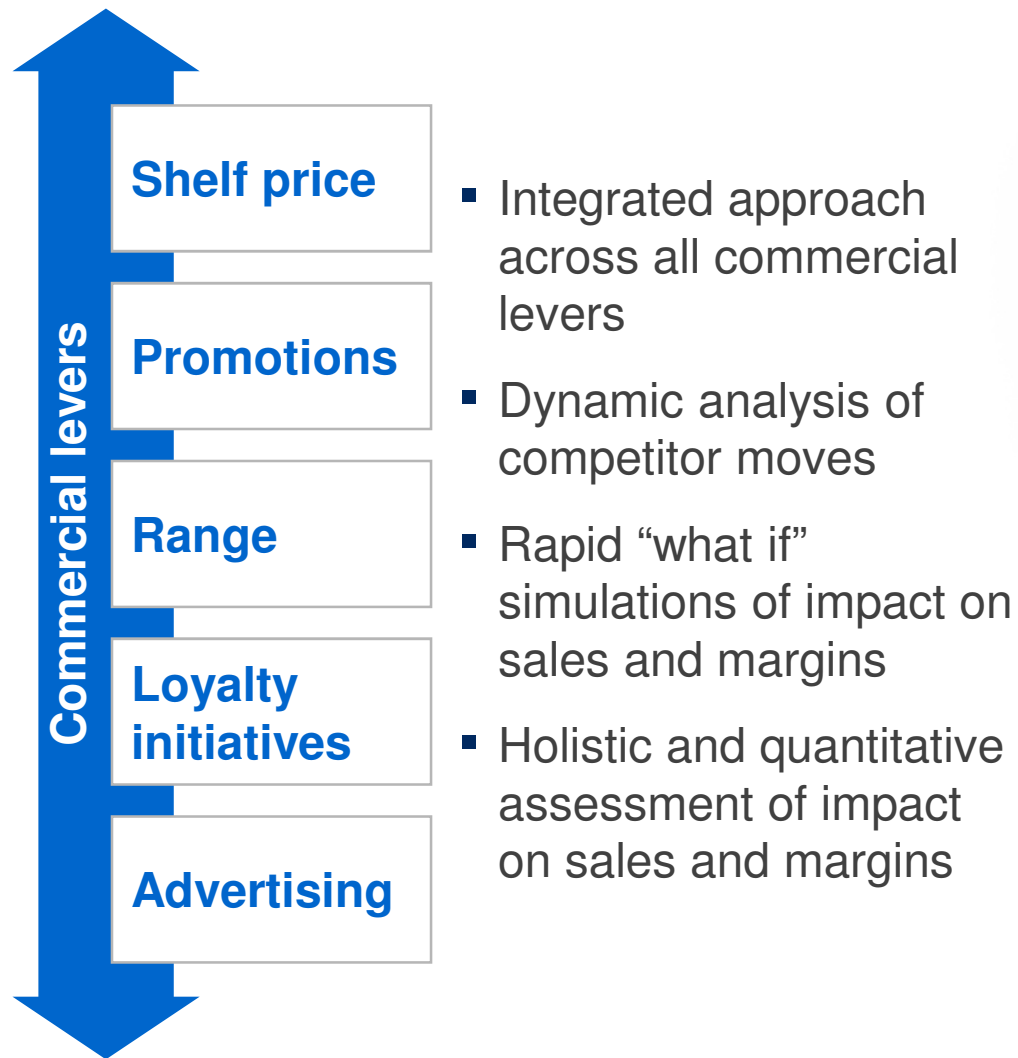
**Predictive modeling
and simulation of the
optimal trade off across
commercial levers**

**Supplier web portals
with predictive data on
future orders**

**Real-time coupon
configuration at checkout**

3 Information productivity: predictive modeling and simulations to support decisions on commercial policies

EUROPEAN GROCERY RETAILER EXAMPLE



About **0.5 pp**
additional gross
margin

1.5-2 % sales
increase

In a world of shifting paradigms, **handful of retail archetypes** will be successful

New business archetypes

1



Lowest cost

2



Convenience-location

3



Convenience pre-selection

4



Platform operator

5



Exclusivity

6



Experience

7



Ecosystem

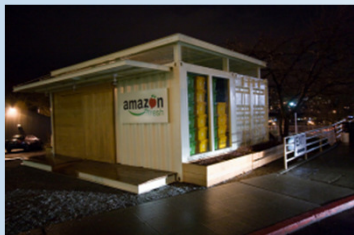
Lowest cost archetype: the next generation hard discounter?

Imagine if....



... your customers could
pre-order online ...

... giving to retailers the time
to **perfectly optimize
the supply chain**



And then pick-up the products
**in the stores or in
small “dark” stores**
with complete self-service
activities

Best price in the market !

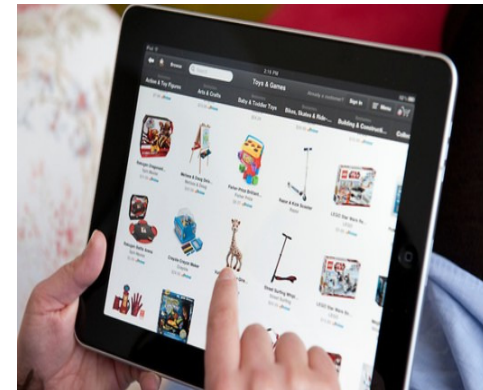


- ↓ Supply chain further optimized
- ↓ Store operations further optimized and personnel costs at the minimum
- ↓ Virtually no obsolescence costs
- ↓ Sourcing further optimized
- ↓ No “last mile” costs for delivery to home

Preselection archetype

Imagine if....

... **big data** allowed you to ...



... **truly understand** in advance your customers preferences ...

... so that in-store assortment is **tailored and optimized** ...



... and **in-store service is made personal** through the access to real-time data

Are retailers ready to **cope with the change**? How many of you...

...discuss technology in your Ex-Com or Board meetings?

... can claim to have a some “digital fluency”?

... changed recruitment, training and development processes to build a digitally fluent organization?

... has hardwired insights from big data and analysis on core business processes

... have create new, dedicated units (e.g., in-store prices, digital channel management, insights from big data)

... have developed partnerships/JVs to bring necessary expertise?

... is organized to engage consumers and customers through the digital channels?

... can claim they have a generation of digital talents in the organization?

... have the CIO or the CTO as member of the Ex-Com or of the Board of Directors?



Most retailers are **NOT** prepared

- 1** Most store based retailers will need to undergo a **deep transformation** of their business and operating models as well as a **shift in their mental model**...
- 2** ... **customer-centricity, agility and** some pervasive **digital fluency** will be **a must** to compete in the new fast changing environment. Retailers will need to **change their metabolic rates** and “think and act” much more as tech company.
- 3** **Leapfrogging can be a major opportunity**, given the rate of innovation provided by technology

Example of **customer-centric architecture**

EUROPEAN GROCERY
RETAILER



Example of **leapfrogging**

“

I was not interested in catching-up, we were a long way behind. **We needed a radical evolution**

”

Dalton Philips, CEO – Morrison's



Centralized and end-to-end integrated planning and scheduling system linking seamlessly stores, warehouses, Morrison's factories and suppliers...



... **real-time stocks tracking** along the entire supply chain



Partnership with Ocado to start the on-line business for best-in-class e-commerce systems and operations:

- Multi-devices services
- 1-hour delivery slot
- Drive tracking functionalities

**A technology-driven
revolution in
retail is underway...**



A sepia-toned photograph of a person jumping over a wooden dock. The person is in mid-air, with their legs spread wide and feet pointing towards the camera. The dock is made of wooden planks that recede into the distance. In the background, there are mountains and a body of water under a cloudy sky. The text "Transformations take time..." is overlaid in red in the upper left corner.

**Transformations
take time....**

**... so the time
to act is NOW!**

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