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# r&c worlds *Express*

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## *Highlights*

- Fundamental global trends — urbanization, technological innovation, resource scarcity, and an ascendant global middle class — are bringing sweeping changes in their wake.
- Retail and consumer companies are well advised to prepare for these changes or get left behind in the wake of competitors and new entrants exploiting these trends.
- Scenario planning helps companies develop the agility to respond to unpredictable outcomes.
- With this corporate agility, retail and consumer companies are better equipped to navigate massive disruption.

## ***Transformation in the retail and consumer sectors: Six scenarios***

As global megatrends fundamentally disrupt business, retail and consumer companies are forced to reinvent themselves. This process of reinvention, which we are calling transformation, is far more complex than change management, which implies a single defined outcome.

Retail and consumer goods companies will need to transform their very DNA in order to meet the challenges of the massive disruptions ahead. This paper outlines a number of scenarios intended as food for thought and to stimulate thinking about what the future may hold. As a starting point for this scenario planning we used five key megatrends: demographic shifts, shifts in economic power, accelerating urbanization, climate change and resource scarcity and technological breakthroughs.

## 5 megatrends

Megatrends are among the most significant factors fueling the need for companies to rethink their value propositions. Understanding these trends – and how they collide – informs a conversation about what may happen down the road and how it may affect your business.

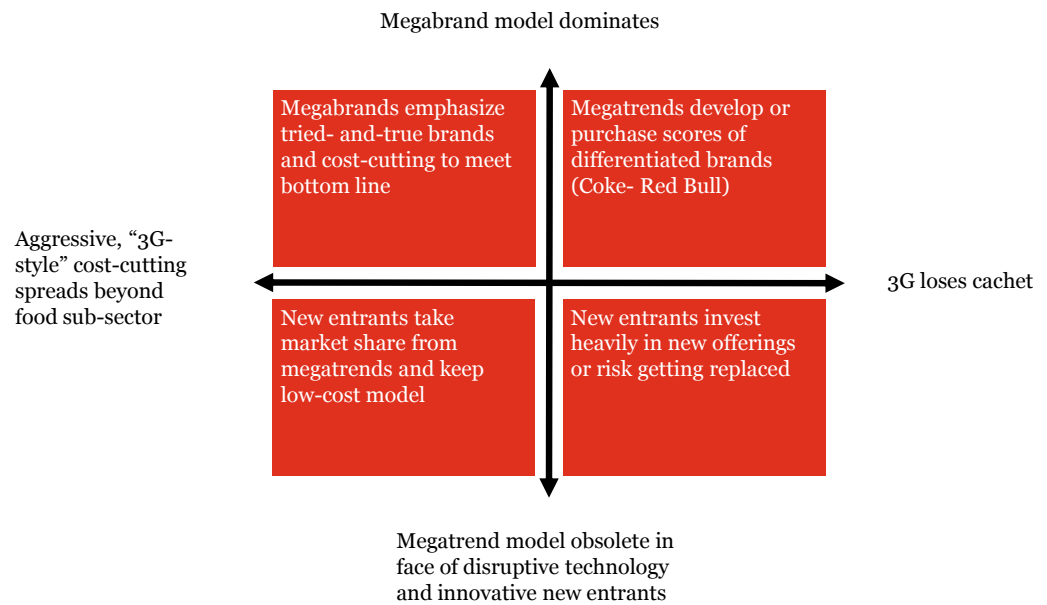
- **Demographic shifts** – Global middle-class spending will reach \$51 trillion by 2030.<sup>2</sup> Meanwhile, retail and consumer companies will have to strike a balance between products for aging populations in some countries and burgeoning youth populations in others. In advanced economies meanwhile, the over-65s outnumber those below the age of 15. Consumer behavior continues to change rapidly as younger consumers embrace technological options – and a new class of global citizens is ever more health-conscious and environmentally savvy.
- **Climate change and resource scarcity** – Climate already costs the world more than \$1.2 trillion annually, wiping 1.6% per year from global GDP. By 2030, that number will double to more than 3.2% of global GDP.<sup>3</sup> In an interdependent world, natural disasters affect production facilities and the global supply chain while raw material shortages ramp up production costs. Meanwhile, declining water availability and quality drives increased government regulation.
- **Shift in economic power** – By 2030, Africa’s population is expected to grow by 468 million and Asia’s by 502 million. The two continents are predicted to effect 88% of the net change in global population. And almost half of all retail sales will occur in emerging markets.<sup>4</sup> The top cities by percentage retail sales growth in the next 15 years are Shanghai, Lagos, Beijing, Jakarta, and Bogota.
- **Accelerating urbanization** – By 2050, urban dwellers will represent 66% of the world’s population, which already includes 28 megacities with populations of more than 10 million each.<sup>5</sup> Urban dwellers drive less and shop more often; they favor frequent shopping trips and small package sizes.<sup>6</sup> Fresh-format stores are gaining ground, driven by health-conscious Boomers and Millennials.<sup>7</sup>
- **Technological breakthroughs** – By 2020, connected devices will double globally to 50 billion.<sup>8</sup> Online shopping will continue to grow at the expense of store visits. Digital natives – who grew up steeped in technology and follow their favorite brands on social media – constitute more than half of all shoppers,<sup>9</sup> and customers of the future are more than just customers – they will morph into content creators, marketers, and brand ambassadors.

## How we developed our scenario sets

While retailers and consumer companies are intrinsically related, we considered four sets of consumer-based scenarios and two sets of retailer-based scenarios.

To develop each set of scenarios, we started out with two axes, each with significantly different outcomes at opposing poles.

The scenarios in the four boxes are then deduced from the combination of factors. So, for example, if one thinks about a scenario that would include the left-hand size of the “X” axis and the top of the “Y” axis, that might look like the top, left-hand box – a scenario where megabrands stay strong based on their huge stables of iconic brands, but still employ 3G-style cost-cutting in certain areas of the business. The value as well as the limitations of this kind of scenario planning are that the possibilities for potential axes are limitless, as are the resulting scenarios.



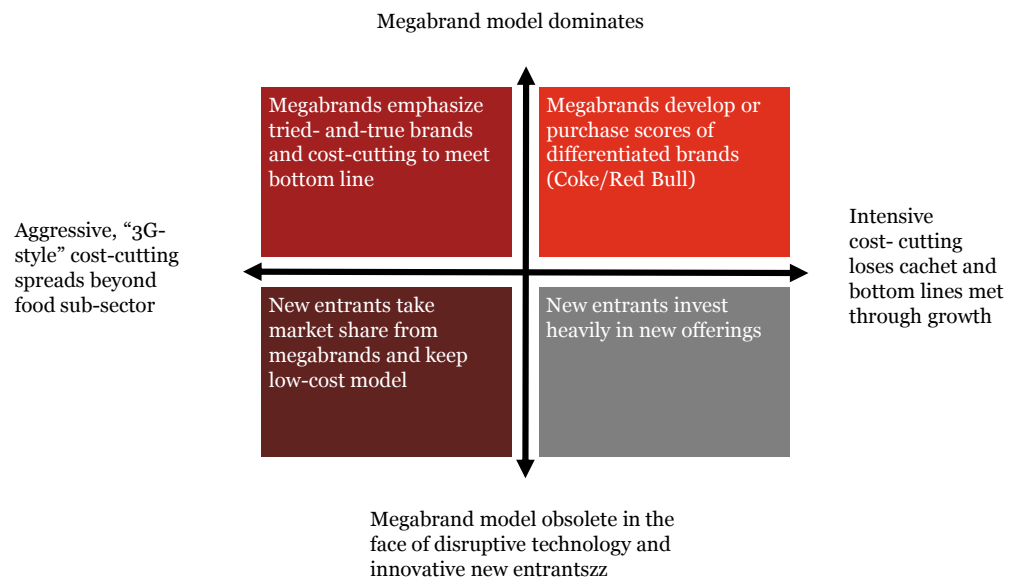
## ***Focusing on specific consumer scenarios and their implications***

The rest of this discussion centers on six of the most game-changing scenarios and their implications. These scenarios consider the business cycle, current state of technology, global economic strength and other factors.

### ***Consumer scenario 1: New entrants invest heavily in innovative offerings***

One potential scenario finds new entrants investing heavily in innovative offerings. A current example is Dollar Shave Club, which delivers inexpensive razors directly to customers' homes – a new value proposition that upended the industry's long-time approach to price and product delivery. Initially, Dollar Shave Club used a clever viral video and social media campaign, rather than traditional advertising, to promote their product – a smart way to get people to remember their product.

***Implications:*** First-wave new entrants will need to invest more heavily to stay ahead, especially in areas such as speed-to-market, mobile technology, social media, and locally sourced products. Look for consolidation via acquisitions of these new-wave entrants.



*Consumer scenario 2: Global CPG companies become nimbler, faster, and more innovative*

An especially interesting scenario out of the below set assumes that consumers will continue to focus on organic and locally-sourced products, and an improving economy will enable more shoppers to purchase these high-end products. In response, global players will use data analytics to double down on personalization and localization, allowing them to better target ever-more-differentiated shopper segments.



**Implications:** The quest for innovation favors new leadership styles: fail fast and cheap, adapt, be agile, focus on the outcome, and reject bloated bureaucracy. New products are shareable, sustainable, portable — an outgrowth of the sharing economy embraced by Millennials that erodes traditional ownership. In this environment, market capital is funneled toward differentiating capabilities rather than toward improving the status quo.

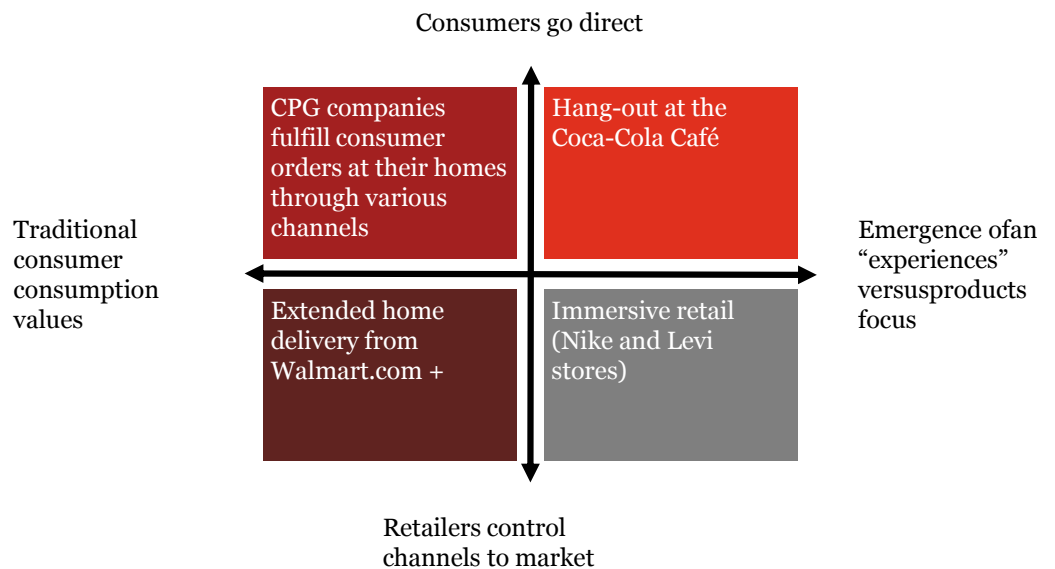
*Consumer scenario 3: Consumer companies invest in a retail presence*

An intriguing scenario has consumer goods companies opening retail stores. Even as retailers shrink store footage, the channel fragmentation occurring in our digital economy still requires attention-grabbing retail outlets that focus on customer experience. And many large CPG companies have the capital – another factor that could lead to investments in store formats.

Millennials and high-income shoppers – especially keen on experience, differentiation and personalization – respond positively to interactive video displays, retail tables with touch-screen technology, personalized fitting-room lighting at the touch of a button, and digital memory mirrors to allow 360-degree viewing in the fitting room. Ultimately, most shoppers still want the sensory experience before making a purchase.<sup>11</sup>

**Implications:** Manufacturers and consumer companies such as Nike and Levi Strauss launch immersive, technology-enabled flagship stores displaying minimal inventory, environments that invite consumers to luxuriate in the engaging, social, interactive experience.

In essence, to meet shoppers’ expectations and counter online competition, these stores become an alternative to restaurants, coffee shops, and movie theaters. Millennials and high-income shoppers flock to these immersive environments. Manufacturers develop their own point-of-sale customer data, relying far less on retail partners.



*Consumer scenario 4: Global brands go “all-in” on social issues consumers care about*



Only seven of the top 20 brand leaders from 1999 remain on that list today, according to PwC’s *Bonfire of the Brands*, a 15-year survey of 200,000 consumers worldwide and their attitudes toward 6,700 global brands. Clearly, 15 years from now, today’s global brands want to remain as leading players.

That’s why the scenario featuring brands going “all in” on various social issues is so intriguing to us. Today large CPG companies are already very active on this front. For example, Kellogg, Kraft, Bumble Bee, General Mills, and Bass Pro Shops take firm stands on social issues by offering healthier options, collaborating with NGOs, moving toward supporting a carbon tax, and going water-neutral.<sup>12</sup> Costco and Starbucks lead the way in

paying workers above minimum wage, a trend that consumers now say heavily influences their purchase decisions.<sup>13</sup> More boards of directors engage with activist shareholders on voting measures and CEO pay-for-performance issues.

**Implications:** Stronger alliances with public health organizations — combined with research on the science of nutrition — take center stage. Healthier, reformulated product options include far more no- or low-calorie choices. More options abound in product and packaging sizes. Companies invest heavily in lobbying and government relations resources to help articulate their point of view on any number of high-profile public policy issues.

*Retail scenario 1: Big retailers shrink domestic store footprint; invest heavily in digital*

The 2015 holiday season in the U.S. just underscored the fact that retail foot traffic is on the decline in the US. In fact, retail store visits fell from 35 billion in 2009 to 17 billion in 2013.<sup>15</sup> Meanwhile, according to the National Association of Realtors, the US still has more retail square footage than any other country – at 47 square feet of retail space per capita. This scenario posits that as sales per square foot continue to decline, retailers will instead try to jumpstart productivity in profit per square foot with a dramatic rethink of how much retail square footage they actually need.<sup>16</sup>

Liberated from the need to develop and maintain large-store networks, global retailers will greatly increase digital penetration in emerging markets, where the global middle class now resides.

**Implications:** Given the massive reduction in store visits by consumers, retailers are recalibrating an optimal balance between their physical and digital presence. In many cases, stores are becoming more like showrooms that entice customers with one-of-a-kind experiences – rather than being traditional point of purchase spaces.<sup>17</sup>





*Retail scenario 2: Retailers and manufacturers collaborate for maximum customer insight*

Today CPG companies compete with retailers more than ever as they attempt to forge their own direct-to-consumer channels. On the other hand, an interesting scenario proposes a new level of cooperation.

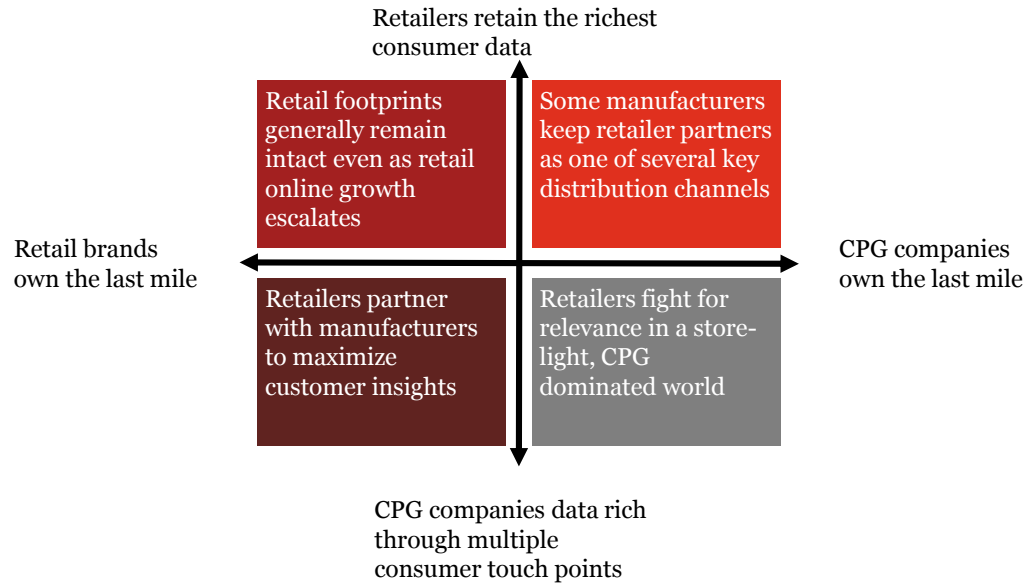
Here, the promise of more effective trade promotions, greater consumer insights and supply chain efficiencies spurs manufacturers and retailers to share customer data more than ever.

In addition, particularly in slow-growth areas like food staples, the quest for

growth drives new alliances between retail and consumer companies.

**Implications:** Smaller players, more adept at mining consumer data, wrest market share from larger players who aren't as nimble in response to consumer behavioral changes.

Meanwhile, as the traditional manufacturer-retailer partnership grows stronger — with both parties sharing consumer information to bolster supply chain efficiencies — direct-to-consumer and in-home manufacturing models lose steam.



<sup>1</sup> US National Intelligence Council, *Global Trends 2030*, 2013.

<sup>2</sup> MorganStanley SmithBarney, *Asian Affluence: The Emerging 21<sup>st</sup> Century Middle Class*, June 2011.

<sup>3</sup> Fiona Harvey, "Climate Change is Already Damaging Global Economy, Report Finds," *The Guardian*, September 25, 2012.

<sup>4</sup> PwC, *Cities of Opportunity: Through a Retail and Consumer Lens*, December 2012.

<sup>5</sup> UN Department of Economic and Social Affairs, *World Urbanization Prospects 2014 Revision*, 2014.

<sup>6</sup> PwC, *Retail and Consumer Insights*, January 2015.

<sup>7</sup> Jones Lang LaSalle, *Retail Shop Topic*, September 2014.

<sup>8</sup> DHL Trend Research and Cisco Consulting Services, *Internet of Things in Logistics*, 2015.

<sup>9</sup> PwC, *Total Retail*, 2015.

<sup>10</sup> Aaron Pressman, "Dollar Shave Club, Warby Parker Ranked Top Disruptors," *Yahoo! Finance*, November 11, 2015.

<sup>11</sup> PwC, *Total Retail*, February 2015.

<sup>12</sup> GMA, *Environmental Success Stories in the CPG Industry*, February 2012.

<sup>13</sup> PwC, *Total Retail 2015*, February 2015.

<sup>14</sup> PwC, *Consumer Intelligence Series: Bonfire of the Brands*, November 2015.

<sup>15</sup> PwC, *Total Retail 2015: Retailers and the Age of Disruption*, February 2015.

<sup>16</sup> PwC, *Retailing 2020: Winning in a Polarized World*, 2012.

<sup>17</sup> Brigid Sweeney, "Restoration Hardware's Gold Coast Showroom Has to be Seen to be Believed," *Crain's Chicago Business*, October 2, 2015.

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