RetailEconomics

WOMBLE BOND DICKINSON

The Digital Tipping Point

2019 Retail Report

Contents

Forewords

Richard Lim, Retail Economics

It's no exaggeration to say that the retail industry is undergoing a period of unprecedented change. Despite concurrent waves of political and economic upheaval in our midst, our work with retailers suggests this is a mere distraction from the seismic structural shifts reshaping the retail landscape.

The obliteration of analogue consumerism over the previous decade has been fuelled by the rapid and ongoing transition towards online, the growing importance of experiences and heightened consumer expectations. Cumulatively, these powerful factors have unveiled a very disruptive digital age.

New and emerging technologies will empower further online growth as artificial intelligence and 5G dovetail to enhance retailers' capabilities for speedier and cheaper online fulfilment, including in-home delivery. Meanwhile, innovative new retail business models will emerge. Subscriptions, auto-replenishment and fewer (but more experiential) stores will drive online sales to heights where online will become the largest channel within the next 10 years.

Successful retailers have always had to reinvent themselves to stay relevant. However, the pace of change will inevitably prove too fast for many. While the impact of future technologies and consumer acceptance is highly uncertain, it definitely feels like the digital retail-revolution is only just getting started.

Gavin Matthews, Head of Retail at law firm Womble Bond Dickinson

Online retail is being driven on apace due to a heady combination of factors; early adopters in the retail market who can flex and adapt their business models quickly will stand the best chances of success. However, as retailers leverage new technologies to support rising demand for a seamless online consumer experience from an increasing number of digital natives, new risks also emerge.

Consumers are increasingly conscious of the need to protect personal data and their privacy in order to reduce the risk of fraud, identity theft and misuse of their data. Real damage can be done to a retailer's brand and reputation with any kind of data breach and the loss of trust that follows can have far reaching consequences for any business and its bottom line.

Retailers must prioritise data security or risk losing consumers who already believe that sharing data with companies is far more of a benefit to the company than themselves. Although many currently consider financial rewards or free and discounted products as a fair exchange for their personal data this attitude may harden if consumers do not think retailers are protecting their information adequately.

With the world of retail going through such unprecedented change and retailers more exposed than ever with the speed and power of social media, the stakes are high and getting it wrong is not an option.

Executive Summary

FACTORS POWERING ONLINE GROWTH

Online growth will account for **53%** **of retail sales** in the next 10 years

Gen Z and millennials will be half of the adult population in 10 years

Faster, cheaper and in-home deliveries

62% **of 16-24 year olds (Gen Z)** said that they shop online at least every **fortnight** (compared with just 29% aged over 65 years), averaging almost three online purchases per month.

Top 3 factors which would drive further online growth include:

47%	26%	26%
Cheaper deliveries	Easier returns	Faster delivery

all of which are key areas of investment for retailers.

Millennials spend the highest proportion online, currently averaging **£42.32** per online transaction and spending **£110.45** online each month.

21%

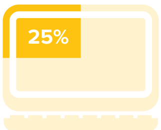
28% Gen Z

30% Millennials

Easier returns are more important for Gen Z (**28%**) and millennials (**30%**) than any other age group. [taken from results]

Fewer stores in the future boosts online convenience

Online accounts for a quarter of shopping occasions



10% of consumers say they will **shop less in physical stores** in next **12 months**

Five consecutive years of net **closures** of retail stores

RISKS TO ONLINE GROWTH

Consumers protecting their data

Over a quarter of respondents have taken some action to limit the amount of data shared with companies, reaching **almost a third for 16-24 year olds**.

Most believe businesses benefit the most

Two thirds of consumers think that businesses benefited more than consumers in the **exchange of personal data**.

Just **8%** of respondents thought that consumers benefited the most with **26%** saying that there was an equal exchange of value.

Consumers to demand more in exchange for data

Financial rewards, free and discounted products rank most highly for **consumer preferences** in terms of a data exchange.

Introduction

A new age of retail has emerged over the last decade. This age is characterised by a richly textured digital landscape, buzzing with new technologies, devices and online communities which has gradually overshadowed analogue consumerism.

Seismic shifts have fundamentally changed the way in which consumers research, purchase and consume products from retailers of all sizes, types and across all channels. An array of varied touch-points influence, enhance and intelligently 'nudge' shoppers through an ever-expanding number of paths to purchase, from increasingly personalised social media campaigns to stockless stores where merchandise is viewed through augmented reality apps.

Successful retailers have always had to reinvent themselves throughout history; the most successful listen to their customers, embrace change and invest wisely for the future. However, the race to digital transformation is occurring at such a pace, many retailers are struggling to keep up with disruptive frontrunners.

Those retailers enjoying success appear to be those adopting new technologies at pace in order to leverage new opportunities. Nevertheless, new risks are emerging too. Consumers are increasingly conscious, even defensive, over their data protection rights and seek an equitable exchange of value in favour of data relinquishment. With this backdrop, the impact of future technologies and consumer acceptance is highly uncertain.

Advancements in technology will power speedier and cheaper online fulfilment, which will increasingly be delivered in-home. Emerging subscription models, auto-replenishment and the shift towards fewer (but more experiential) stores will facilitate aggressive online migration.

The burning question for many retailers is whether they can pivot swiftly enough while swimming against unpredictable tides of digitisation. Retailers must embrace change, have a unique proposition and continue to innovate in order to survive.

With digital natives expected to form the majority of the adult population in the next ten years, we forecast that **online will account for more than 50% of all retail sales by 2028.**

This report unearths unique insights concerning the causative forces driving the digital customer journey and reveals stark differences across consumer segments. The digital retail revolution is only just getting started, but ultimately – a tipping point will emerge.

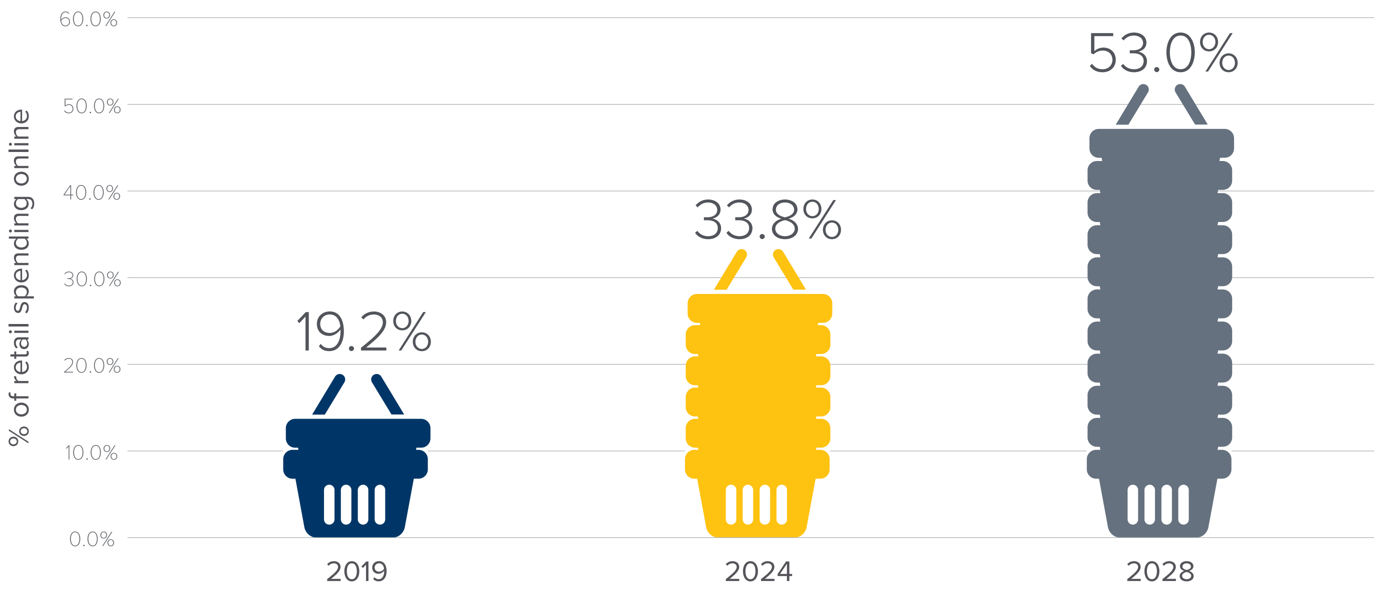
The tipping point: The majority of retail spending to be online within 10 years

Today's customer journey is truly unrecognisable from the analogue path observed just a decade ago. In the next 10 years, we expect to see the rate of change accelerate as innovative technology shifts the balance of power in favour of the consumer. Powered by technology, changes in the property market, improvements in connectivity, new business models and generational shifts, the physical and online channels will meld together, but online will drive the majority of retail sales within the next 10 years.

This will create significant challenges for the retail industry. The role of the store will evolve from mere product distribution hubs to meaningful customer experience environments, offering discovery, entertainment and escapism. The consumer experience will be embroidered with digital touchpoints that distort the boundaries between what's physical and digital.

Nevertheless, online will become the main driving force behind retail sales. We forecast that online sales will overtake store-based sales within 8-10 years, with online accounting for 53% of total retail sales by 2028.

Figure 1: Online expected to account for 50% of retail spending within 10 years



Source: Retail Economics

Various push and pull factors operate throughout our extrapolated timeline, each wielding both predictable and unpredictable impacts upon our assumptions and overall estimate. Nonetheless, from the myriad of issues influencing our headline forecast, our research identifies **10 principal reasons** why this is so:

1. The customer journey evolution
2. The evolution of online spend
3. Importance of age for category penetration
4. Increased pace and spend of online
5. Increasing significance of Gen Z and millennials
6. Faster, cheaper, in-home deliveries
7. Fewer stores drives consumers online
8. Better connectivity and more powerful devices
9. New retail business models
10. The rise of AI

The main body of our research focusses on each reason in turn, presenting proprietary data where appropriate, supported by analysis to provide a holistic understanding of our headline forecast.

The digital revolution: Past, present and future

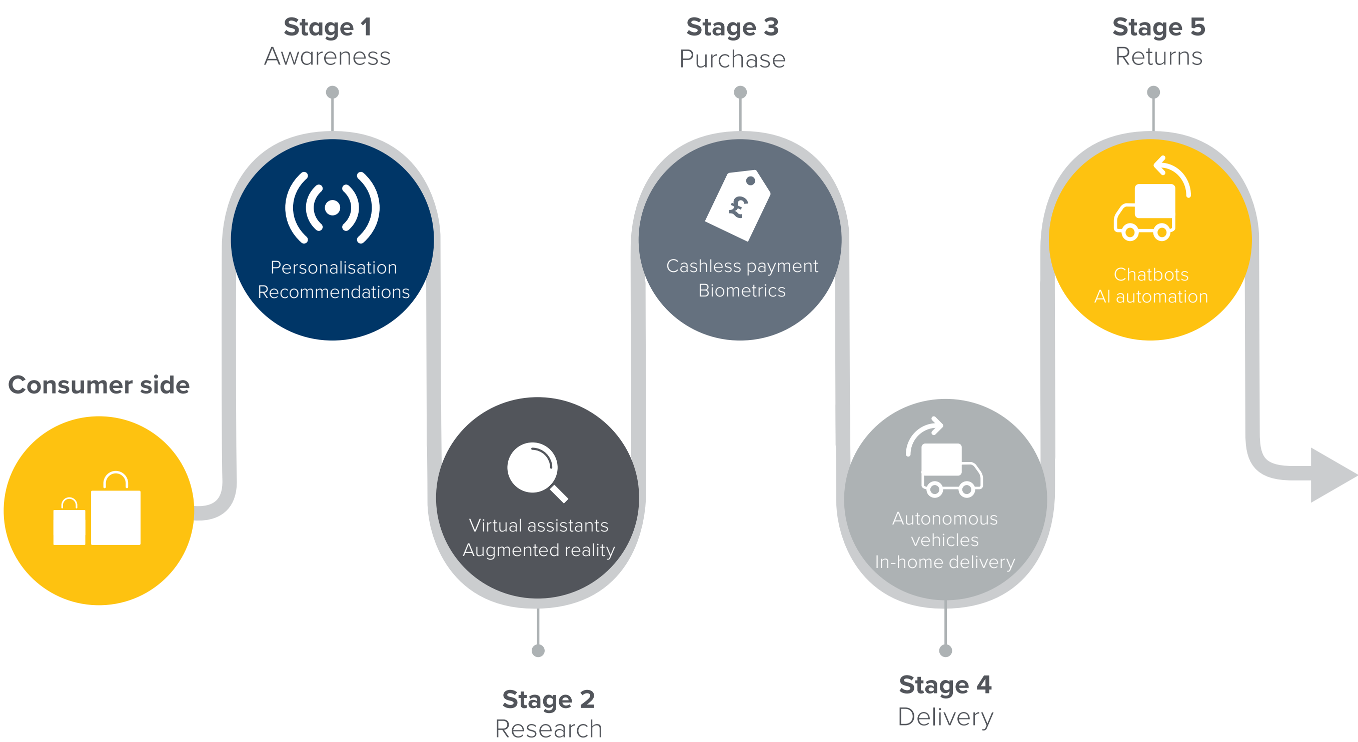
As part of a necessary framework to explain the projected future impact of online; from our 10 key reasons, the first four touch upon past and present factors providing historical context. This is followed by six subsequent reasons which focus more on future impacts.

Reason 1:
Customer journey evolution

The impact of digital technology has irreversibly changed the way we shop. The explosion of consumer choice is predicated on: the penetration of broadband, improved connectivity, more powerful devices, the emergence of new services and the vast investment in digital platforms.

It has clearly affected how shoppers research, communicate, consume content, seek information and purchase products throughout the customer journey. Meanwhile, both physical and digital experiences have become of utmost importance to consumers whose expectations are more demanding than ever.

Figure 2: The retail customer journey



Source: Retail Economics

The growing impact of the smartphone cannot be understated. Following the launch of the first iPhone in 2008, it took less than 10 years for the majority of time consumers spent online to occur on mobile devices (62%[1]). In March 2019, 55%[2] of visits to retailer websites were on smartphones, with categories such as health and beauty seeing this proportion exceed two in every three visits. Almost half of consumers suggested that smartphones are the most important device to connect to the internet, this figure rising to 72% for those aged between 16-34. These shifts have torn apart the analogue customer journey and replaced it with an almost endless array of digital and physical alternatives.

Our digitally-integrated lives mean that competition for shoppers' attention has become much more fiercely contested; giving rise to the attention economy. Retailers compete with a digital kaleidoscope of other 'distractions', thus intensely focus on reducing friction throughout the customer journey.

The emerging challenge is to connect with customers in the right way. This means in the right manner, with the right content, on the right device, at the right time – in the 'moments' that matter most. Moments of inspiration, moments of desire and moments of action. New technologies have helped to enable smoother and speedier transactions, but consumer preferences have become much more fragmented as the range of available options has exploded.

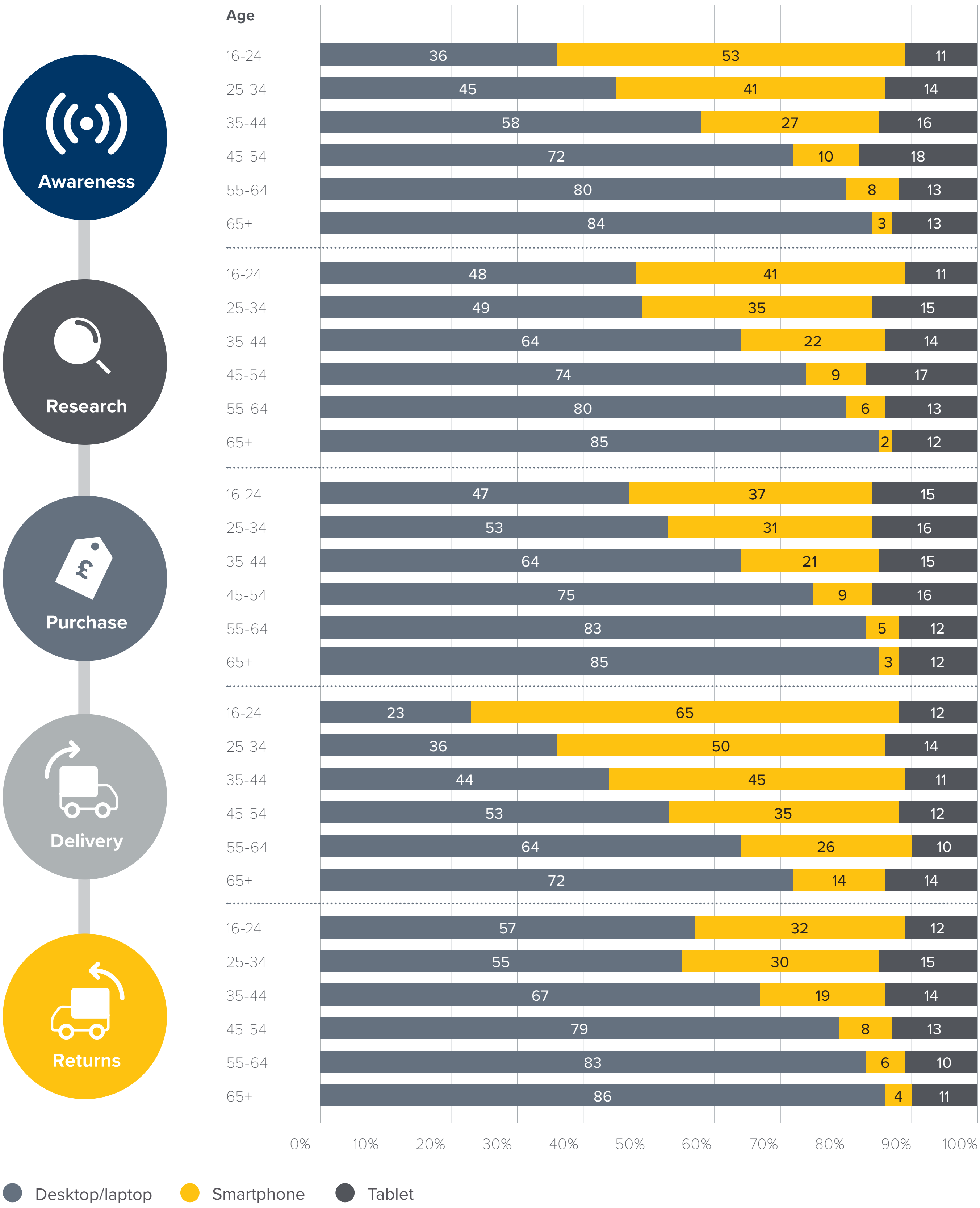
One reason for this fragmentation is that consumers are now exposed to more influences for inspiration (e.g. social media, celebrity endorsement, online communities, bloggers and influencers who spot new products and trends). For Gen Z and millennials, this occurs most frequently on smartphones.

"it took less than 10 years for the majority of time consumers spent online to occur on mobile devices (62%)."

[1] OFCOM

[2] Hitwise

Figure 3: The digital customer journey



Source: Retail Economics
Totals may not sum to 100 due to rounding

Our research revealed that the majority (53%) of younger shoppers (aged 16-24) think that smartphones are the most useful device when making them aware of new products and brands. This is in stark contrast to consumers aged 65 and over, of whom only 3% agreed with their younger counterparts. Such differences are partially driven by variance in smartphone ownership, but younger shoppers spend significantly more time on smartphones than any other age group. On average, 18-24 year old females spent 3hrs 40 minutes per day on their smartphones, more than twice the duration of men aged over 55 (01:42mins) .

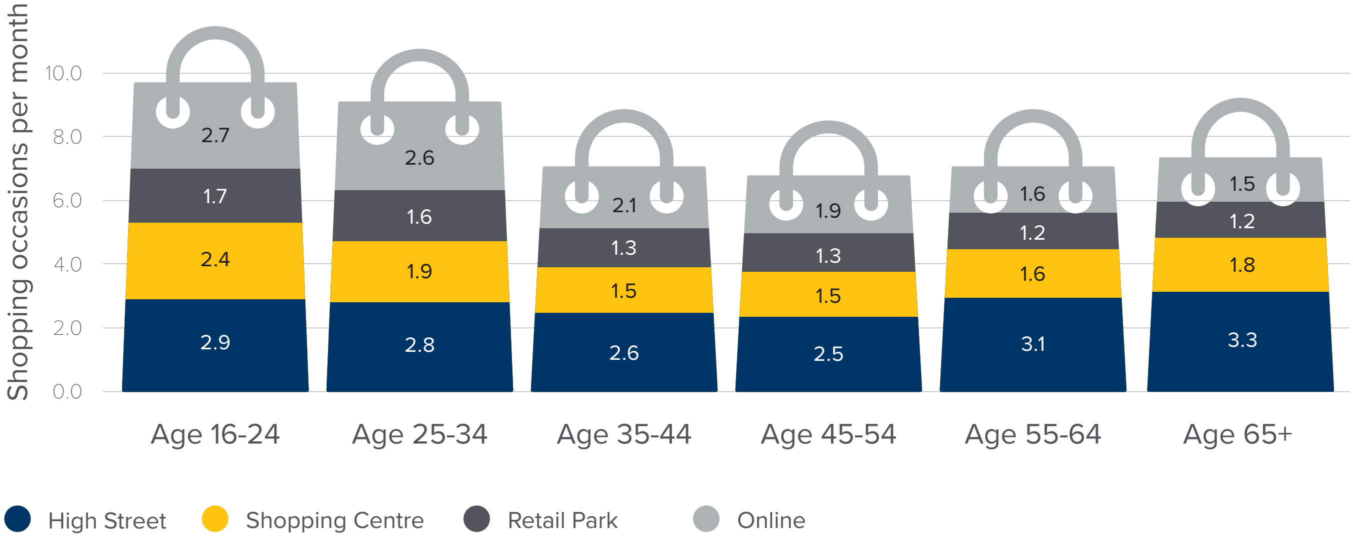
This state of near constant connectivity has occurred at an exceptional pace, with significant consequences to physical destinations throughout the UK; arguably leading to lower levels of footfall across high streets, retail parks and particularly shopping centres.

Primary locations in large city centres and key regions continue to deliver sustainable levels of footfall, but many secondary locations that are burdened with excess capacity and dwindling levels of footfall are expected to remain.

Indeed, our research shows that online now accounts for around one in four shopping occasions and although high streets showed the greatest penetration across all age groups, their prominence as the main shopping channel is dwindling.

Over one in ten consumers suggested that they will shop less frequently in physical shops in the next 12 months, outweighing those who suggested they will shop more frequently. Consumers pinpointed high streets as the main physical channel that they are intending to shy away from in the future, but the results were not clear-cut. Gen Zs (aged under 25) suggested that they are likely to do more shopping in physical locations in the coming 12 months, with the importance of physical retailing being a consistent theme throughout our research for this age group.

Figure 4: Shopping occasions per month, by channel and age



Source: Retail Economics

Reason 2: The evolution of online spend

The trajectory and evolutionary characteristics of online, particularly in consumer behaviour, has driven profound shifts in spending, punctuated by differences in consumer age group. These behavioural shifts have resulted in online retail spend increasing more than four-fold in the last ten years to over £70 billion, from just £13.8 billion in 2008. As online accessibility and retailers' propositions have improved, consumers have embraced this channel, spending more online and shopping more frequently.

Our research reveals that online now accounts for almost one in every five pounds (19.2%) spent in retail, rising to 22.1% for consumers aged between 25-34. Interestingly, Gen Zs suggested that they spent a lower proportion of their expenditure online than the average household, but shopped online more frequently. This potentially indicates a more complex customer journey and reduced separation of on and offline worlds.

Figure 5: Online retail has risen four-fold in the last 10 years to £70 billion

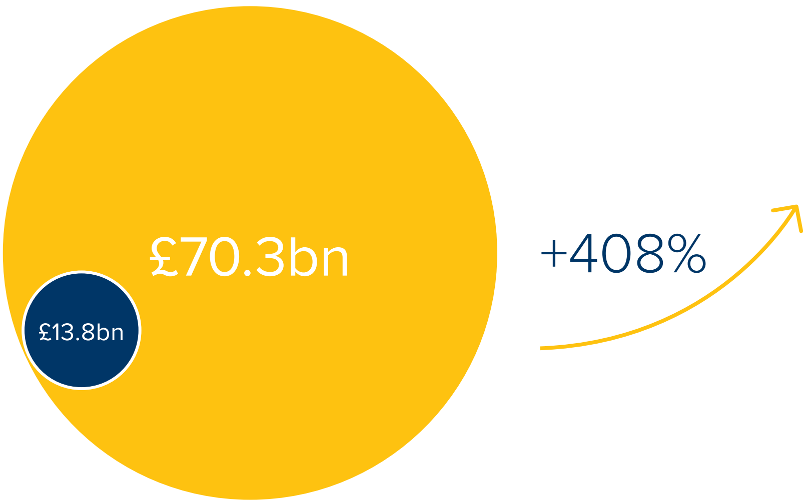
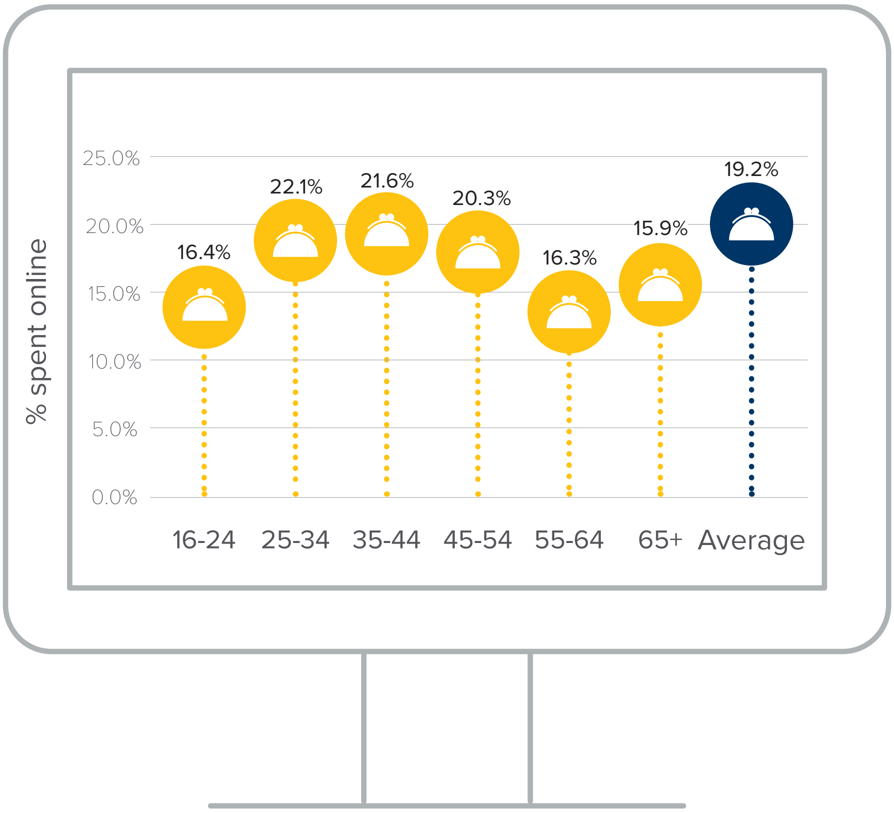


Figure 6: Proportion of retail spend online by age



Totals may not sum to 100 due to rounding

[3]OFCOM

Reason 3: Importance of age for category penetration

Age demographic plays a pivotal role when analysing online category penetration; our research highlights significant differences arising within the consumer groups. Notably, shopper behaviour differs significantly depending on life stage, life events, socio-economic background and region. In certain categories (e.g. clothing), younger consumers displayed a higher propensity to shop online than their older counterparts with the proportion bought online exceeding one in every three purchases for those aged between 25 and 34. This compared with less than one in four for consumers aged over 55. That said, the proportion of books purchased online by 45-54 year olds was almost double that of Gen Zs.

Figure 7: % of sales online by age group

	Age 16-24	Age 25-34	Age 35-44	Age 45-54	Age 55-64	Age 65+	All
Books	22.7	36.6	40.2	41.4	31.1	30.1	33.9
Clothing	32.7	35.7	33.3	31.9	24.9	23.1	30.1
Electricals	24.4	30.9	33.0	35.1	27.2	25.2	29.3
Footwear	17.9	25.6	25.3	26.4	18.5	16.8	21.7
Health & Beauty	16.5	24.7	21.0	18.1	14.3	14.1	18.1
Food	14.8	20.1	19.1	16.9	14.2	14.3	16.6
Toys	10.9	21.3	21.0	16.3	12.3	12.6	15.8
DIY & Gardening	8.4	15.4	16.4	18.3	15.7	14.5	14.9
Furniture & Home	8.7	16.2	18.3	17.6	11.7	10.6	13.9

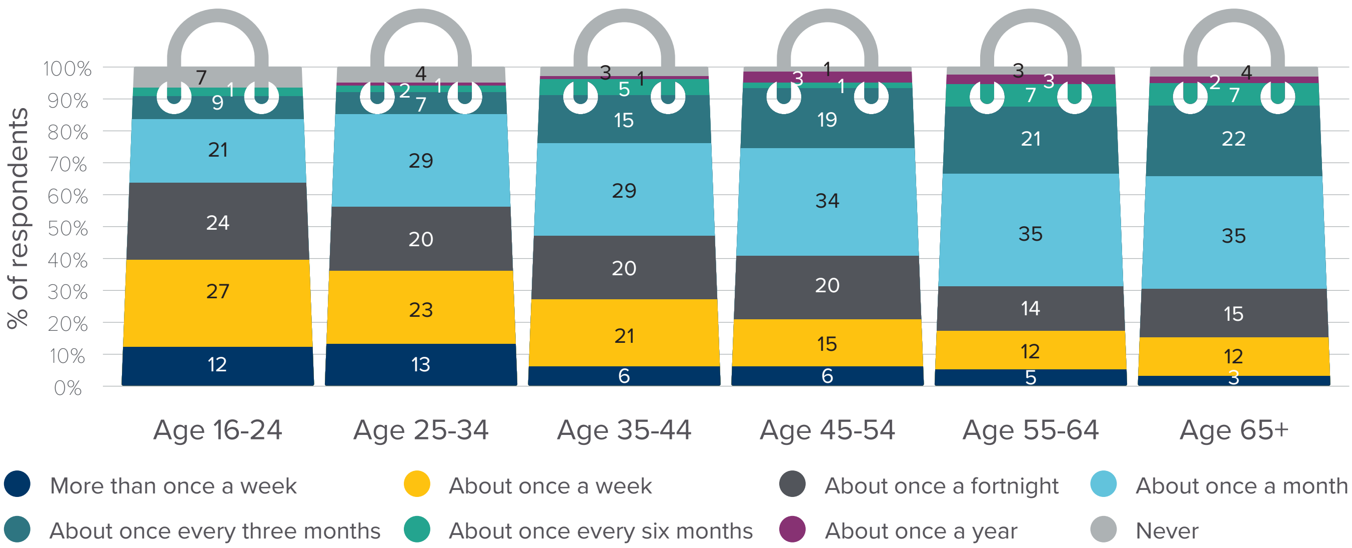
Source: Retail Economics

There were also significant differences that arose by gender. For example, females were twice as likely to purchase health and beauty products online (51%) compared with males (25%). The opposite trend was true for the purchase of electricals, with over two thirds of men suggesting they bought electrical products online compared with just under half of females.

Reason 4: Increased pace and spend of online

The frequency of online purchases favours younger shoppers. Our research showed that 62% of younger consumers said that they shop online at least every fortnight compared with just 29% for those aged 65 and over. Unsurprisingly, there was a clear correlation between younger consumers purchasing more frequently, which diminished across older age groups. These trends raise some challenging questions about the cost of fulfilment and the cost per acquisition of customers. After all, younger consumers shop more frequently online but don't spend as much per transaction; they're also likely to return a higher proportion of what they purchased. It is not uncommon for a shopper to purchase four pairs of jeans with the intention of only keeping one. This type of consumer behaviour exerts enormous pressure on profit margins.

Figure 8: Frequency of online shopping by age



Source: Retail Economics

Figure 9: Key online metrics by age

	Average number of online purchases per month	Average spent online per month (£)	Online penetration rate (%)	Average online transaction value (£)
16-24	2.7	£64.59	16.4%	£24.23
25-34	2.6	£110.45	22.1%	£42.32
35-44	2.1	£123.17	21.6%	£59.57
45-54	1.9	£136.51	20.3%	£73.24
55-64	1.6	£114.04	16.3%	£72.31
65+	1.5	£84.86	15.9%	£58.49

Source: Retail Economics

Totals may not sum to 100 due to rounding

ASOS recently announced a change in their returns policy, attempting to crack down on 'serial returners'. We suspect others will follow. Typical industry return rates for apparel lie between 30-40% with social media appearing to fuel this culture. Industry stories are plentiful, regaling times where consumers purchase dazzling clothes for that awe inspiring profile picture update, only to return items having rinsed the personal value before getting their money back.

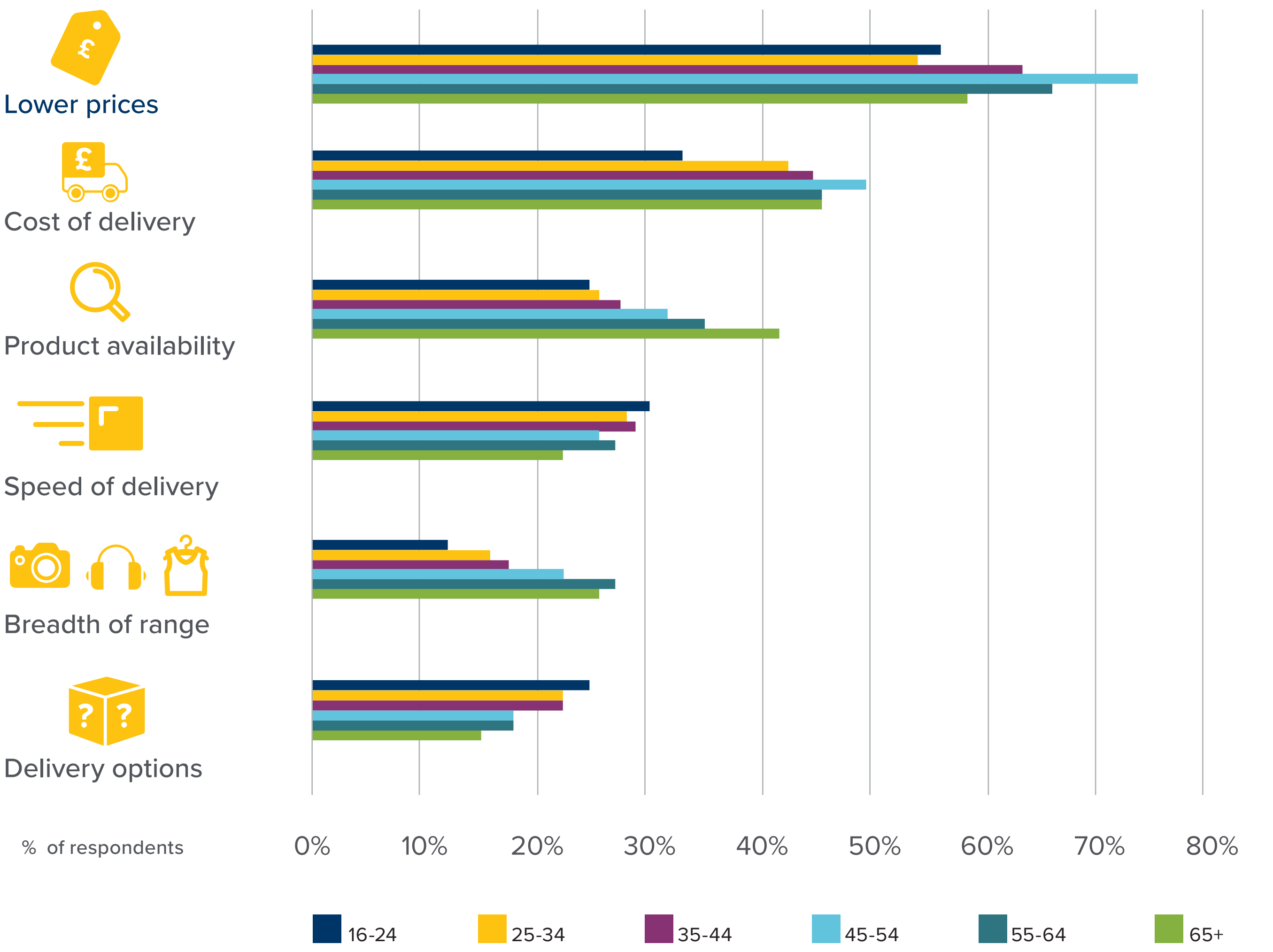
This might partially explain that, despite the frequency of online purchases being highest among younger age groups, average transaction values were lower as they are over-indexed for apparel purchases. This notion being driven by motivations of ordering little and often.

Nevertheless, the overall channel shift towards online presents a particular challenge to bricks and mortar business models as it has facilitated an era of transparency in price, service and quality that is driving a more competitive market. After all, the most important factor for consumers when thinking about shopping online are lower prices, cost of delivery and product availability, all of which have improved vastly in recent years.

Consumers now have access to wider ranges and evolving and improving delivery options as companies invest in logistics capabilities and nurture customers into their ecosystems. Cheaper, faster and more reliable deliveries have accelerated the frequency and quantum of online shopping which is supporting the acceleration of this channel.

Interestingly, 'speed of delivery' and 'delivery options' were ranked more highly for younger consumers, with these factors being much more important for their lifestyles.

Figure 10: What are the three most important factors when you shop online



Reason 5: Increasing significance of Gen Z and millennials

Intuitively, as we observe another decade pass, our current eight-year-olds will transition into adulthood, becoming commercially more significant. As digital natives, this generation will have expectations that shamelessly exceed their predecessors. Instant gratification, seamless 'everything' and 'do it for me' attitudes will be serviced by AI-fuelled solutions that today we can only get a glimpse of at Silicon Valley tech shows.

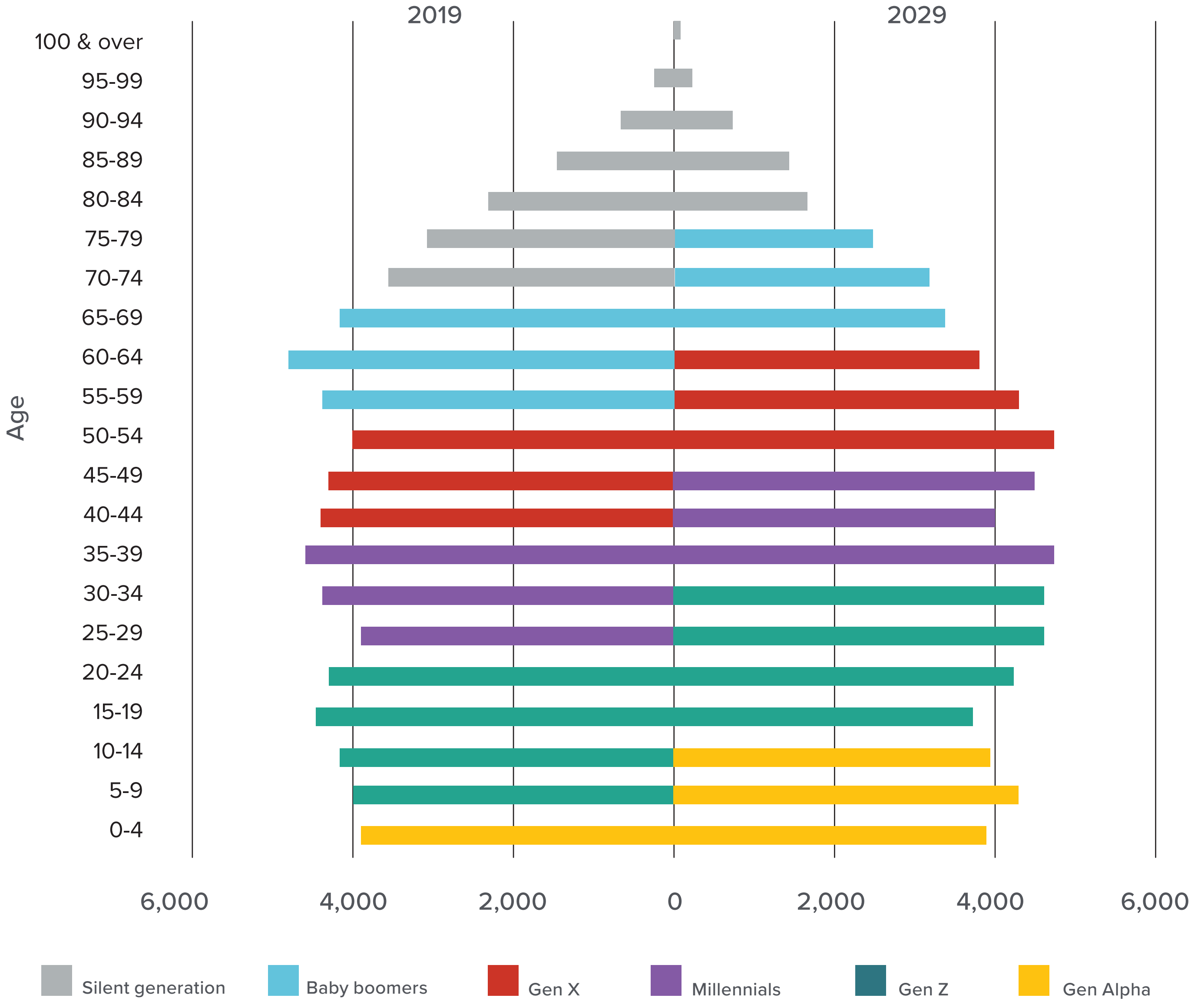
Even now, Gen Zs and millennials demand near instant gratification and the expectations placed on retailers are higher than ever. By 2029, these generations will account for over half of the adult population, compared to 39% in 2019 [Fig. 11]. More importantly, for future planners in retail, Gen Zs and millennials will provide the bulk of spending in 2028.

Having been born into digital environments, their online spending behaviour and use of technology is completely ingrained. Over the course of the next 10 years, they will account for a much greater proportion of spending as millennials attain more senior positions and Gen Zs continue to enter the workforce and ascend the pay ladder.

Also worth noting is that Gen Zs are increasingly becoming acclimatised to non-human interaction across the customer journey. With subsequent generations likely being even more self-instructional and tech integrated (wearables and implantables), their preference for online shopping could well become the tipping point for the industry as a whole.

Figure 11: Gen Z and millennials will account for over half the adult population by 2029

Source: ONS, Retail Economics analysis



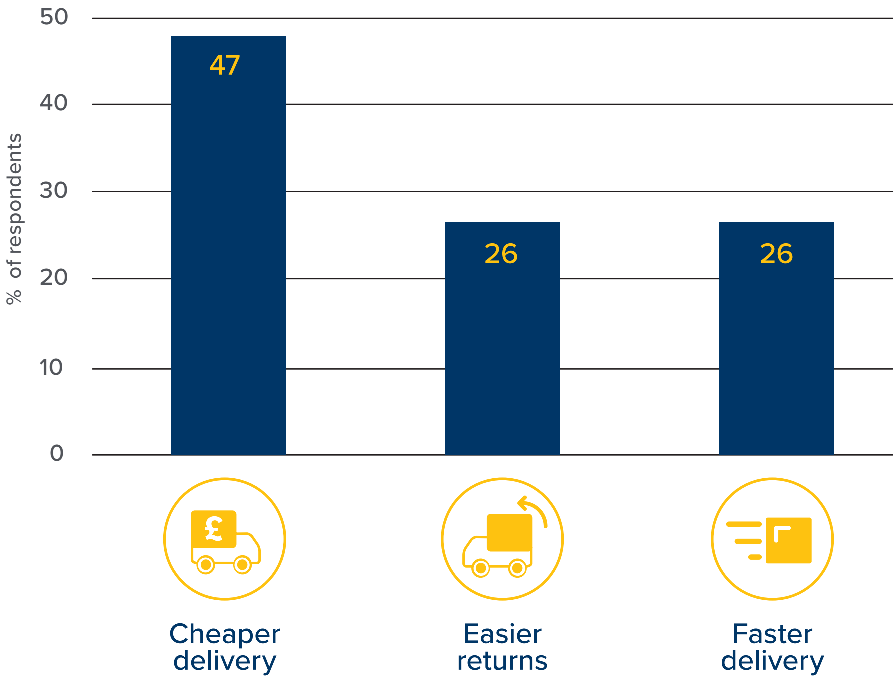
Reason 6:
Faster, cheaper in-home deliveries

It comes as no surprise that increased online penetration rates are heavily reliant on fulfilment success. Our research shows that delivery issues feature in second and fourth place overall when asking consumers about their most important factors for shopping online.

Sales psychologists know only too well of the dopamine delay that the online channel struggles with, being subservient to bricks and mortar stores in this regard. Nevertheless, technology giants such as Amazon, Deliveroo, Uber and Netflix are altering paradigms of what's possible in the frictionless delivery of goods and services. Through the Amazon Prime offer, shoppers expect that deliveries should be next day, or even same day, and for free. Furthermore, should they wish, they now expect to be able to stream the latest box set, order a taxi, or receive a meal almost instantaneously and to make their choices through streamlined and easy-to-use interfaces, the same interfaces shared by retailers.

Advancements in technology will unlock yet another wave of online growth (e.g. drone deliveries, autonomous delivery vehicles, Internet of Things (IoT), AI, blockchain and predictive analytics), shortening the online path to purchase for consumers. Retailers' application of these new technologies already facilitate in-home deliveries, conversational commerce (e.g. Alexa, Google Home), frictionless payments and auto-replenishment, and will ultimately drive down the cost and boost the convenience of the online channel.

Figure 12: Top three factors to accelerate further online shopping



Source: Retail Economics

Our research illustrates that consumers point to the cost of delivery (47%), ease of returns (26%) and faster deliveries (26%) as the three main areas that inhibit further online spending. These areas already experience rapid improvement through technology.

Considering a decade ago, it would be almost inconceivable that a UK supermarket chain would let themselves into customers' homes and put away groceries in their fridge – while they were out! However, this isn't science fiction. This is happening today with a partnership between Waitrose and Yale (security company) using AI with video, mobile apps and smart locking systems to enable delivery drivers to make deliveries while people are out.

Amazon Key (operating in the US) also gives delivery drivers monitored access to customers' homes to safely deliver online orders when customers are out. Around one in six consumers are comfortable with this type of in-home delivery option which rises to around one in five for consumers aged between 18-34. These findings suggest that, in this given context, confidence in human behaviour when paired with AI may well have a promising future.

"Advancements in technology will unlock yet another wave of online growth."

Reason 7: Fewer stores drives consumers online

Falling numbers of physical outlets, exemplified by a flurry of CVAs (e.g. House of Fraser, New Look, Mothercare, Arcadia), means consumers are increasingly turning towards online - not only for specialist items, but increasingly for the more mundane, low-emotional purchases. To this end, the march to the tipping point hastens.

As technology-driven changes alter the way shoppers and retailers use property, this has fundamentally led to over capacity of physical retail space in the UK market. The role of the store will undoubtedly change.

As stores evolve, we expect to see further polarisation in the retail property market. Experiential flagship destinations that offer a mix of leisure, food, beverage, entertainment and retail, continue to attract sustainable levels of footfall. However, many secondary markets with excess capacity and declining levels of footfall will remain weak, leading to a broad dispersion in market performance. This polarisation could accelerate given the vicious cycle of higher vacancy rates leading to less footfall, and subsequently, dwindling tenant interest.

Indeed, over the last five years there has been a consistent net decline in the number of retail units across Great Britain as structural challenges, fiercer competition and rising costs have led to further store closures. The Retail Economics Retail Cost Base Index showed operating costs facing retailers rose by 3.5% in 2018, outpacing sales growth for many retailers, eroding profitability and forcing further store closures.

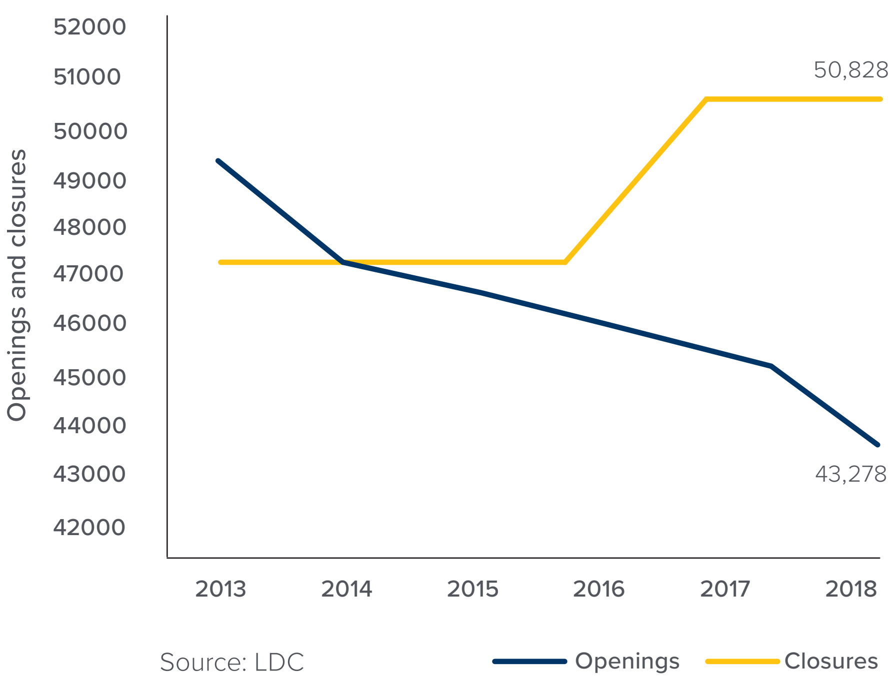
In 2018, there was a net closure of 7,550 retail units across Great Britain and retail vacancy levels rose to its highest rate (12.7%) since 2015 . The total number of vacant units that were demolished, split, merged or converted for another use in 2018 was 3,577 up from 2,706 in 2017 and 2,646 in 2016. Shopping centres saw the biggest net decline over the period. Given this challenging outlook, some estimates suggest there is as much as 30% too much physical space in the retail industry.

Furthermore, demand for retail space is now at its lowest since 2007, and the volume of retail transactions fell 45% between 2018 and 2017, and 60% on 2016 levels. This lack of investor interest has led to significant drops in capital values and rents in the lower half of the market have fallen.

One of the critical issues for landlords is the volatile and unequal performance of retailers and the perceived risk calculations of investors. Of course, some retailers are better positioned to cope with the behavioural shifts facing them, but many are struggling to position themselves to absorb significant additional costs and engineer a shift to a more technology-focused business model. In part, this has fuelled negative sentiment in the retail property market and the business model operated by property owners is being placed under increasing pressure as their asset values are being written down. With retail property assets worth significantly less than their valuations of just two to three years ago, it is inhibiting the sizeable capex outlay required to reposition some locations, accompanied by an increase in the cost of capital, based on a higher risk profile and the end of ultra-low interest rates. Both clearly have probable negative consequences for retailers and property owners.

The industry is undergoing a painful readjustment period. The acceleration of further store closures will eventually lead to a more 'inconvenient' experience for some groups of consumers across many parts of the UK. Inevitably, this frustration will be a catalyst for further online shopping with consumers turning to online as an alternative to in-store purchases.

Figure 13: Openings and closures of stores across Great Britain



Source: LDC

[4]Local Data Company

[5]KPMG

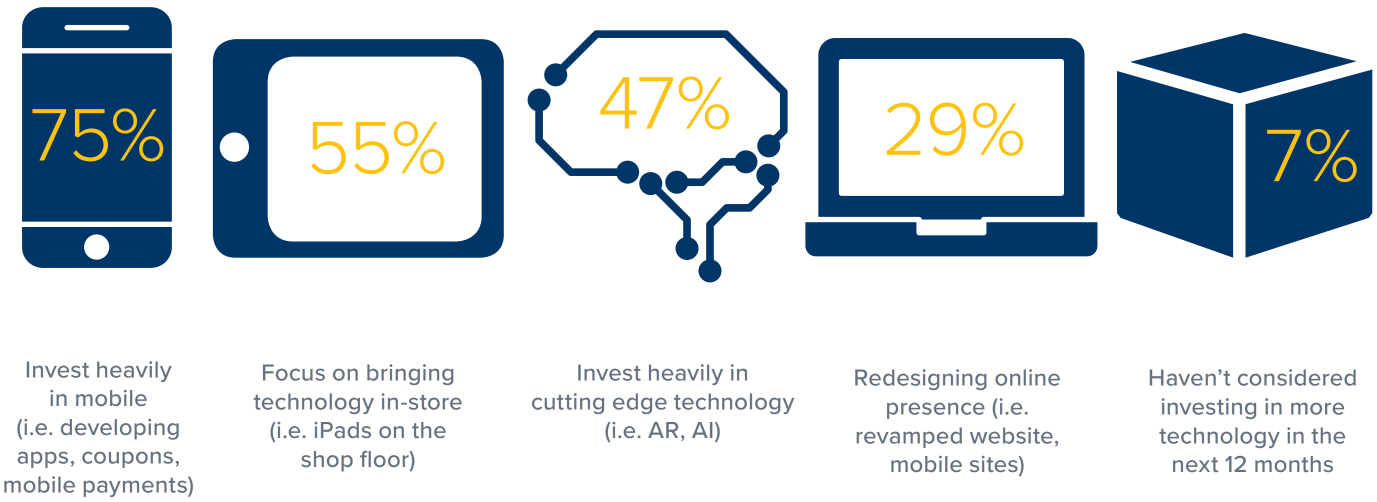
Reason 8: Better connectivity and more powerful devices

The ever-connected shopper of the future will be able to consume content instantly, anywhere and at any time of the day. Armed with detailed product reviews, with some featuring their favourite celebrities, consumers will be best placed to demand more from retailers and brands. As better connectivity (5G), wearable technology and more powerful smartphones converge, consumers will increasingly migrate towards online as their channel of choice as the customer journey becomes even more frictionless.

As investment plans for senior retail executives lean heavily on the development of mobile applications, it is highly anticipated that this trend will continue. The quantity of data consumed on mobile is an accurate indicator of usage frequency; hence the average smartphone consumes around 5.6GB per month, but this is expected to rise to 21GB by 2024 as 5G connectivity (20 times faster than 4G) alters what's possible to serve consumers on the move.

Notably, consumers are already comfortable with purchasing on their smartphones while on the move; 51% of commuters said they use their smartphones to purchase retail products while travelling to work. Research found that a quarter of commuters said that they would purchase more on their journeys as smartphone connectivity improves and devices become more powerful. Commuter commerce already contributes £2.6 billion each year (2018) to online retailing which is expected to rise to £4.6 billion by 2023[6].

Figure 14: What are the tech investment plans for senior retail executives in France and the UK for the next 12 months?



Source: eMarketer

[6]Retail Economics/KBH Transport Media

Reason 9: New retail business models

A new retail era has required new business models – which have been forthcoming. Subscription services and secondary markets have been quick to react, filling new spaces within the market that demand intelligent solutions. As such, over the past few years we have witnessed various structural overhauls within certain subsectors. Technology has afforded the entrepreneurial spirit a lifeforce uplift. The music and entertainment sector is a standout example, evidenced by streaming services such as Netflix, Spotify, Amazon Music and others. Such models, with enhanced features and capabilities in the future, will no doubt proliferate to other sectors. With advanced AI teetering on the horizon, it will be the imagination itself that limits the ingenuity, creativity and slickness of adaptive business models in 2028.

For now, traditional retail business models will be pushed to their very limits, as newly emerging models gather pace, boosted by rapid consumer adoption:

rental markets, curated subscription models, the service economy, auto-replenishment and smart re-ordering have the potential to fundamentally alter the retail norms of today which will be powered by online interfaces, propelling online spend to new heights.

Consumers do not consciously experience brands in discrete channels. Conversely, retailers will be focusing on how to merge these transformative models with existing business models to better serve their customers. Naturally, the composition of board rooms will adapt to reflect the changing nature of the retail sector.

"With advanced AI teetering on the horizon, it will be the imagination itself that limits the ingenuity, creativity and slickness of adaptive business models in 2028."

1. The sharing economy (rental and secondary markets)

2. Mass personalisation at scale (curated subscriptions)

3. Retail subscriptions (auto-replenishment or smart reordering)

4. Services economy ("Do it for me")

[7]Accenture

Reason 10: The rise of AI

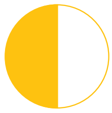
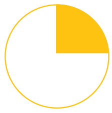
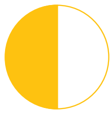
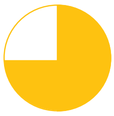
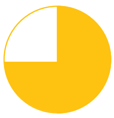
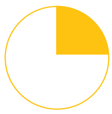
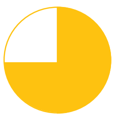
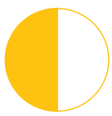
In many respects, AI and machine learning has been the 'silver bullet' that astute online retailers have been waiting for. Its application will touch each and every part of the retail value chain, with the potential of transforming the customer journey through an array of disruptive technologies. This will likely include the emergence of:

- Auto replenishment models
- Automated delivery vehicles
- AI-driven marketing, payments, delivery, customer service, data and insight mining
- Personalisation at scale
- Predictive sales
- Chatbots
- AR/VR – virtual stores

With AI-related industries estimated to add an additional £630 billion to the UK economy by 2035, it's no surprise that data is now being touted as the 'new gold'. It is everywhere and all pervading. AI possesses the potency to snub reticent customer attitudes and ignite passionate, meaningful consumer-brand-retailer relationships where both parties feel empowered. Intelligent data mining, innovative transformation strategies and trustworthiness will be prerequisites for sustained business in an increasingly transparent trading environment characterised by shifting power dynamics.

Dissolving multi-channel marketing paradigms will be replaced by a single, cross-platform, omnichannel experience. Blurring the lines between instore, online and on-the-go will, in some cases, mean stepping into a physical store that feels like a tangible extension of its online counterpart. Whether AI is being used to identify a more efficient delivery route or accurately predict a customer's pregnancy status, the dreamy realms of science fiction are becoming reality. Many of the technological foundation stones have already been laid and developments are unfolding at an unprecedented pace.

Figure 15: Key enablers for full readiness

Technology	Readiness today	Time to full readiness	Key enablers for full readiness
Internet of things		2-5 years	• Advanced capabilities to synthesize data, identify insights and act on them on an ongoing basis across the organisation • Global standards for data collection • Advances in data security to ensure protection of consumer information
Autonomous vehicles/drones		Autonomous vehicles: 6-10 years Drones: 6-10 years	• Technology needs to mature (e.g. autonomous vehicles need advanced features to accomodate all road types in all weather conditions; drones need improved battery life, the abillity to carry heavier items) • Regulatory frameworks for use
Artificial intelligence/ machine learning		2-5 years	• Advanced capability to synthesize data, identify insights and act on them on an ongoing basis across the organisation • Advances in data security to ensure protection of consumer information
Robotics		2-5 years	• Advanced features needed (e.g. dexterity and battery life) • Development of smarter bots
Digital traceability		2-5 years	• Advanced capability around predictive and preventive analytics • Common digital language for supply-chain traceability within industry
3D printing		6-10 years	• Advanced features needed to improve speed, multi-material capabilities etc.
Augmented reality/ virtual reality		2-5 years	• Component parts (e.g. chips) must be affordable to sell AR/VR devices at scale • VR headsets need to become wireless while retaining processing power
Blockchain		6-10 years	• Ability to perform high-volume transactions in a secure way • Regulatory frameworks for payment application

Source:Accenture/World Economic Forum

[8]Accenture/World Economic Forum

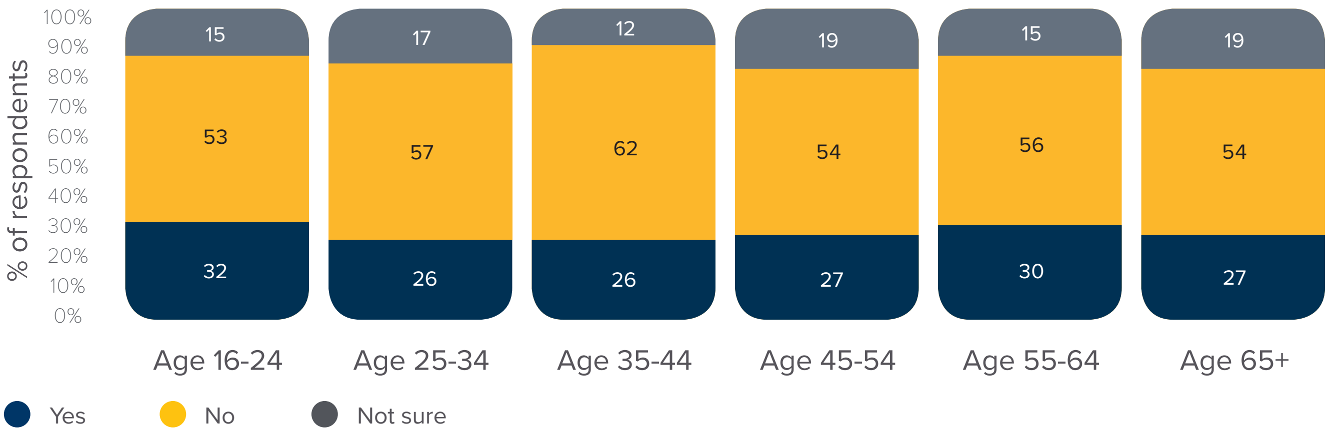
Risks to a digital future

Retailers are eagerly adopting new technologies to leverage new opportunities. However, new risks are emerging. Consumers are increasingly conscious of the need to protect personal data and their privacy in order to reduce the risk of fraud, identity theft and misuse of their data. They also expect companies to be transparent about the data they hold on them, what they use it for and how it is protected.

Data breaches are not uncommon. High profile cases have drawn attention to the ethical use and protection of data with many companies on the receiving end of negative headlines and a consumer backlash. Gaining and maintaining consumer trust is critical for retailers who house millions of digital profiles. Trust is an intangible asset, but if lost, results in very concrete impacts.

In recent times, social media companies have been under intense scrutiny as users question the use of their data. Our research shows that many have reacted, editing privacy setting on their accounts and/or mobile phones. In fact, we found that over a quarter of respondents have taken some action to limit the amount of data shared with companies, reaching almost a third for 16-24 year olds.

Figure 16: Have you taken action over the last 12 months to limit the amount of data you share with companies such as adjusting settings on your mobile phone or privacy settings on social media sites?



Source: Retail Economics

Consumers also felt that the perceived benefit from the exchange of their personal data was not equitable. Two thirds of consumers think that businesses benefited more than consumers. Just 8% of respondents thought that consumers benefited the most with 26% saying that there was an equal exchange of value.

It's likely that the GDPR regulations prompted a reconsideration of consumer attitudes towards data sharing with businesses. The concept of value exchange (i.e. consumers sharing personal data to receive personalised services, recommendations and offers) is being challenged.

This is a worrying development for businesses that have sought to differentiate their proposition based on the acuteness of personalisation they can offer. Perhaps unsurprisingly, financial rewards, free and discounted products rank most highly for consumer preferences in terms of a data exchange. Personalised services were ranked unfavourably with more consumers agreeing that it was unlikely that they would exchange personal data for this.

Our forecasts for future online growth are predicated on key assumptions around the impact of AI and consumers' willingness to adopt new technologies. The biggest risk we foresee regarding future online growth are consumer attitudes towards sharing personal data and the perception of retailers' responsible use and protection of that data.

Figure 17: In your opinion, who currently benefits the most from personal data exchange?

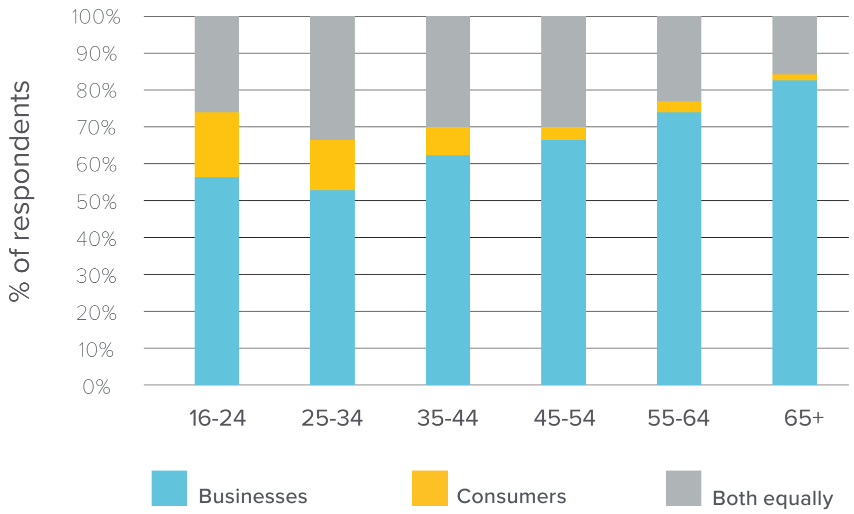
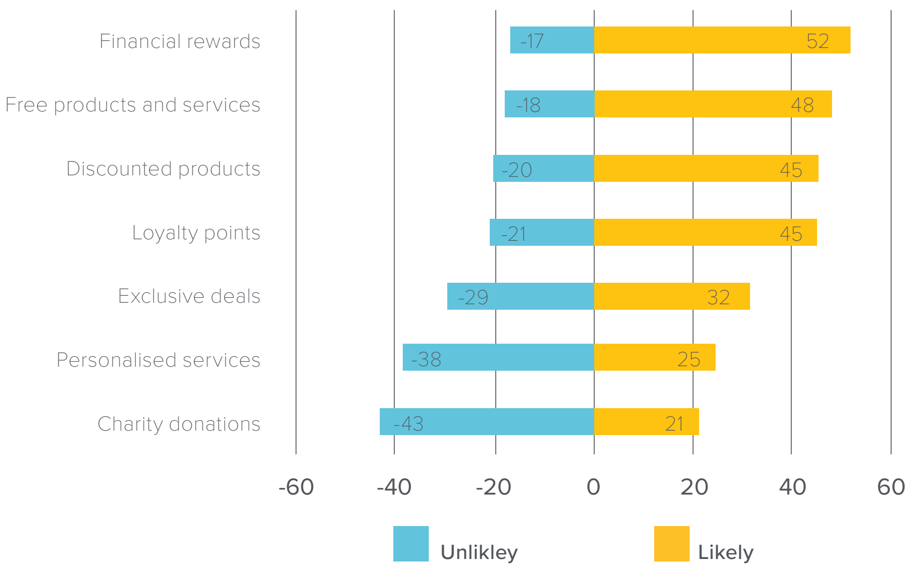


Figure 18: How likely would you be to share your personal information in exchange for each of the following incentives?



Conclusion

Retailers must carefully consider how they will operate in a scenario where potentially half of their sales will be driven by the online channel in the next 10 years.

Digital transformation is not only disrupting the consumers' path to purchase, but also how businesses operate and manage risk. The priority will be to focus on strategic transformation to pivot business models, so they are not straggling in a digitally-driven age. The ongoing channel shift to online presents a particular challenge to bricks and mortar business models as the performance of physical assets become increasingly polarised.

In many cases, retailers are burdened with too many stores, unsuitable space and inflexible lease structures. This will continue to inhibit the sizeable capex outlay required to repurpose some locations and invest in the IT infrastructure and logistics capabilities needed to keep pace with pure online competitors.

Despite the unprecedented disruption, retailers who embrace change, invest in digital, leverage data science and have a stand-out proposition will likely thrive. While the connected customer journey has become increasingly difficult to follow, measure and understand, sophisticated data analytics (using AI) have unlocked previously unseen insights that have yielded a competitive edge.

Nevertheless, the industry will remain locked in a period of disruption with opportunities emerging amongst the chaos. Structural challenges facing retailers will continue to accelerate and those that embrace, adapt and innovate to the emerging environment will emerge the winners in this incredibly disruptive period.

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