



The Revolution At Retail...Winning In A Rapidly Changing Business Environment



If you haven't noticed that the U.S. retail industry is in the midst of the biggest disruption in its history, you've likely been asleep for the last decade or had your head deeply ensconced in the sand.

News from major retailers confirms the complex situation:

- Target's sales dropped 5.8% in 2016; the company plans to invest \$7 billion in stores, lower its prices and forfeit \$1 billion in operating profit. Not surprisingly, Target stock took a major hit.
- At the same time, Kroger's 52-quarter streak of positive sales ended with a 0.7% comp sales decline, hit by food deflation and increased competition from discounters.
- Macy's announced plans to close 100 underperforming stores.
- The iconic Sears and Kmart brands? They're on life support.

Conversely, in the face of all this, Aldi and Lidl, the European category killers, will open over 700 stores in the U.S. over the next five years. In an effort to take on Amazon, Wal-Mart announced the opening of Store No. 8, a new "technology incubator" designed to nurture online startup businesses within the company. The move also allows Wal-Mart to identify potential acquisitions – such as the \$3.3 billion acquisition of Jet in September – as it positions itself for an extensive and extended battle against Amazon.

Dealing with this shift is becoming a critical challenge. Companies that follow the old-school "this is how we do things" mindset will struggle in the face of rapid, relentless change. Based on this environment, and coupled with increasing margin pressure, suppliers need to embrace new strategies to stay relevant.

Tsunami of Change

The hard, cold reality is that the industry is experiencing its most profound shift in history. Driven by rapidly changing shopper and consumer expectations, the resulting changes will impact both brands and the retail channels through which they are sold.

Make no mistake: We are in the midst of a tsunami of change that will create a whole new retail world that looks nothing like the one we live in today. Most critical to note: In this new world, the consumer and shopper intersect, with the expectation for tailor-made solutions delivered where and when they want them.

It's easy to believe that evolving technology and shifting shopper behavior are the sole drivers of this shift, but that would be a costly mistake.



White Paper

Identifying Solutions Delivering Results

While they are major contributors, tangential issues, like an aging population that buys fewer goods and services, as well as the much-analyzed Millennial Generation, are reframing many of the practices established by baby boomers – practices we have come to rely on as standard operating procedures.

Rising to the Challenge

To understand how the manufacturing community will be required to respond, it helps to “follow the money” and assess where retailers are focusing their attention and funding in an attempt to address the future business environment. It’s clear that retail winners of tomorrow will need to master what we are calling “the 5 Ds”:

- Data
- Differentiation
- Decentralization
- Digital/physical integration
- Delivery

These focus areas represent several major challenges for the manufacturing community. First, and most importantly, as retailers begin to realize deep insights into their shoppers, they’ll need differentiated programming that supports a unique shopping experience.

Moving forward, decentralization and targeted merchandising and marketing will be reflected on a regional basis. We’ll no longer be able to ship pallets and truckloads to DCs. Regional targeted store sets and programming will become more common. Manufacturers will have to remove “scale” from their lexicon as smaller, flexible, late-stage customized solutions become the norm. Customized pricing and shopper marketing will need to be developed that address how specific retailers are positioning categories to appeal to their shoppers.

These shifts will require major foundational organizational changes across the entire supply chain, from product sourcing to manufacturing and distribution. Unfortunately, much of this evolution has already begun. It seems like an old quote from Jack Welch frames the challenge very well: “When the rate of change outside exceeds the rate of change inside, the end is near.”

Are you making the required changes to compete in this new, evolving environment?