Deloitte.

2019 Retail Outlook

Transition ahead

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With consumers holding the power and with retail experiencing a year of transition, what will retailers need to do to position themselves on the right side of the tipping point?

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The market: At an inflection point

As retail collides with adjacent consumer-focused sectors, it continues to undergo constant disruption. And amid the disruption, one thing remains consistent: Consumers are becoming more powerful, with expectations of "having it all."

What lies ahead? Yet another wave of changes that may challenge the ability of retailers to thrive in the new digital era. The next 12 to 18 months will likely see an industry in transition—an industry managing through uncertain times and placing bets on what will separate the winners from the losers. Those who can synchronize their investments to profitably empower the consumer will likely find themselves on the right side of the tipping point.

The year ahead is poised to be a major inflection point for the retail industry. 2018 left the industry with a lot to digest—a strong US economy, a record-breaking holiday season, mixed retail earnings, some high-profile bankruptcies, along with global trade and economic tensions. Bolstered by a strong labor market, growth in disposable personal income, and elevated consumer confidence, 2018 experienced strong retail sales—projected by the National Retail Federation to exceed 2017 sales by at least 4.5 percent.[1] For 2019, however, the economy may face some headwinds—making the year one of transition for retailers, who may need to make bold moves if they want to set themselves up for success in the future.

Navigating disruption in retail

The nonstop disruption taking place in the retail environment is challenging many of the norms of retailing, creating opportunities for new entrants, and making transformation an imperative for incumbents. Retailers should stay ahead of the changes driving the marketplace in 2019.

Consumer. Consumers realize they *can* have it all. Today's digital consumer is increasingly connected, has more access to information, and expects businesses to react to all their needs and wants instantly. Many shoppers have an increased desire for personalized services, and they are starting to think more about privacy in the wake of high-profile corporate and social data breaches.

Competition. The retail market is negotiating a change in the competitive structure of the industry. A myriad of newer, smaller, and tech-enabled competitors are stealing share while players from other sectors are developing their own retail platforms. The result? A marketplace in which more brands have exposure.

Climate. The 2018 economy of strong growth, high consumer confidence, and low unemployment may be showing some cracks in the foundation. The United States is facing a flattening yield curve, rising asset prices (and possible market corrections), and tightening monetary policy—all common indicators prior to a recession.[2] Combined with geopolitical uncertainty,[3] the changing business and economic climate means retailers should plan for a variety of scenarios.

Configuration. The value chain across retail is becoming increasingly compressed. Many companies are accelerating their merchandise cycles, moving supply chains closer to the consumer, and deploying advanced technologies that can better connect them with consumers.

Convergence. The lines demarcating industries and sectors have often blurred or disappeared. Retailers are increasingly bleeding into other consumer sectors, while those offering retail experiences are growing. It is becoming difficult to tell retail and technology companies apart. Media and advertising are no longer a one-way street.[4] And, like retail, health care is becoming more consumer-facing.

To stay competitive, many retailers have shifted their investment strategy over the last 10 to 20 years. They have moved from growth via new stores to growth via big investments in all areas of the business—for example, launching new digital sales models, acquiring other businesses, or transforming their fulfillment processes. As a result, the cost to increase market share continues to grow, and many retailers find themselves in a precarious position.

New challenges on the horizon

Look at return on assets (ROA)—a common view of profitability and efficiency of retailers—and you will see a striking pattern that began in 2012. During a growth period in the economy, retailers started seeing drastic reductions in their ROA. In fact, as of 2017, median ROA in retail is at a point lower than the dips that took place during the Great Recession in 2008 and 2009 (see figure 1).

But why has this change happened? Unfortunately, for many mainline retailers, the ROA decline represents a confluence of competitive factors that place significant pressure on the profit model. Retail is at an all-time high in total sales, but it often costs more to execute and deliver than it has in the past. Retailers often need to compete with:

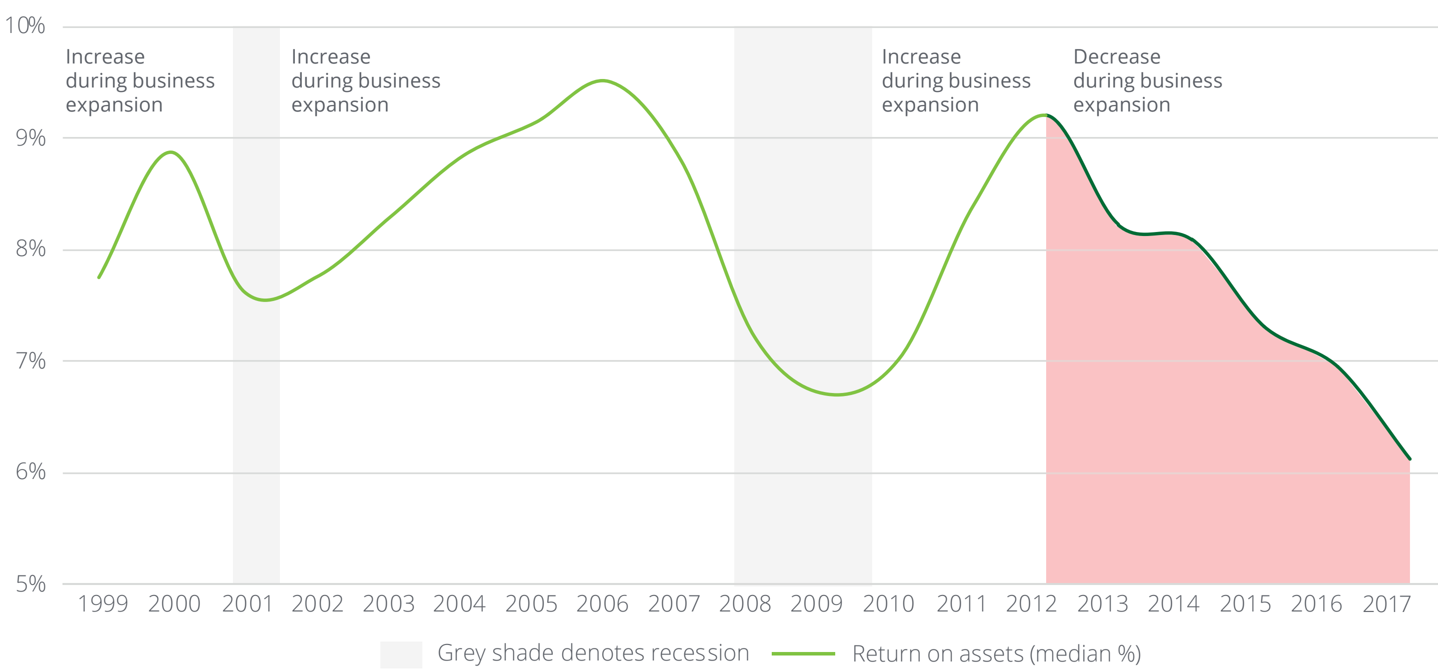
- Digitally native businesses offering advanced product features that are more expensive to develop
- Online-only retailers and marketplaces that offer advanced and more consumer-friendly fulfillment options
- Discount players and off-price companies with vastly different business models that allow for market-leading prices
- Business models that are not as profitable from retail operations alone but are supported by ancillary services, subscriptions, memberships, and external funding

ROA is declining because profitability is being compressed across the entire value chain, as many retailers try to figure out how to win battles on multiple fronts.

> "After all, you only find out who is swimming naked when the tide goes out."
>
> **—Warren Buffett**

Winning in this new environment will likely require understanding how these industrywide forces are going to play out. This environment might even force retailers to make some tough strategic decisions or risk their futures by sticking to old ones. Over the past decade, retailers that were able to focus their value propositions in a way that resonated most for consumers experienced higher levels of sales growth, probability, and store growth.[5] 2019 will likely require the same clear value propositions aligned to the disruptive, economic, and structural changes taking place in the market. In the upcoming 12 to 24 months, retailers should prioritize a series of investments that they should integrate into their execution.

Figure 1. Return on assets (median value of more than 100 US retailers)



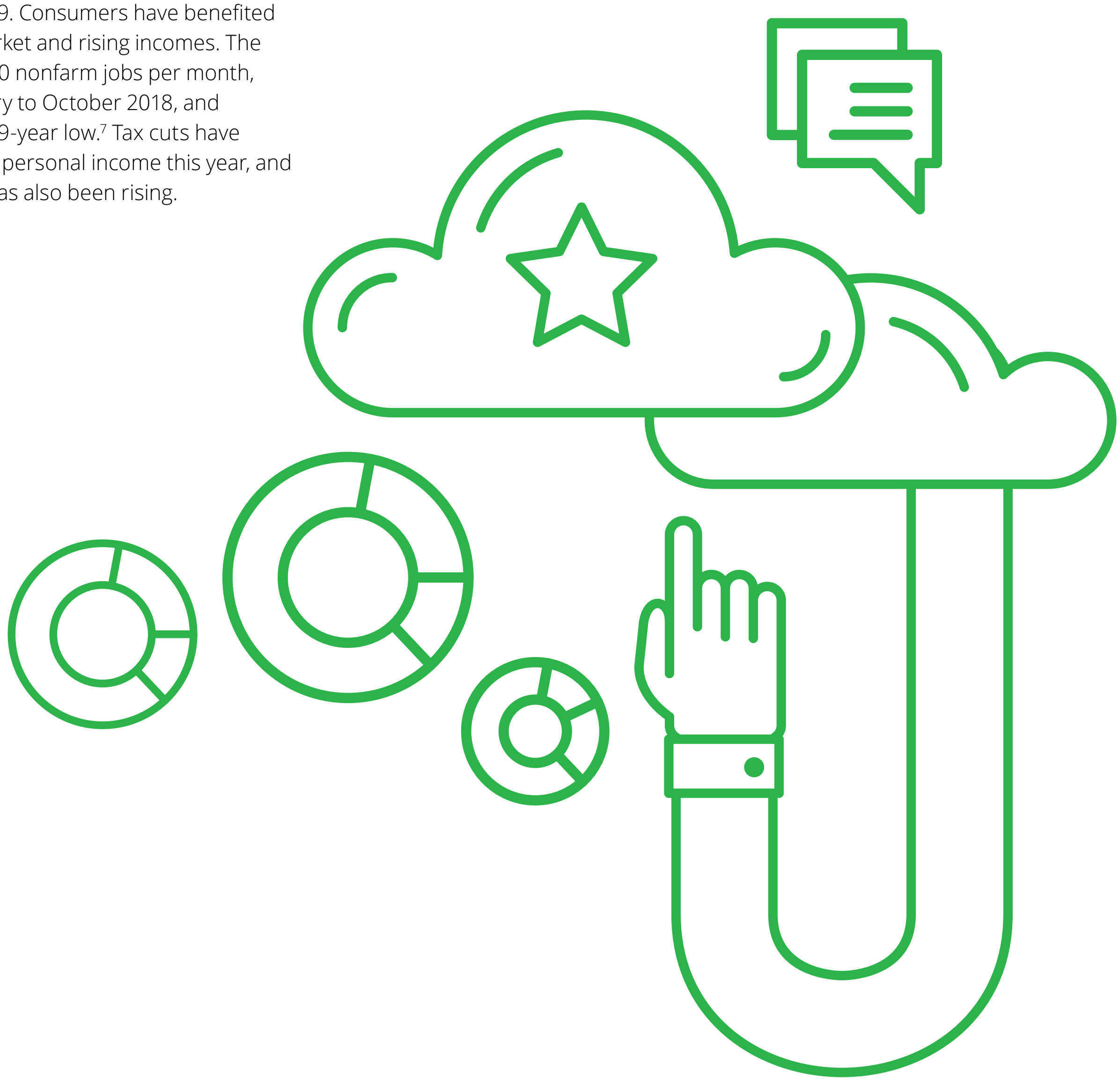
Capital IQ, Deloitte analysis of more than 100 US retailers using retailer fiscal year performance

Economic forecast: Healthy today, headwinds tomorrow

The economy appears to be on a healthy footing at the end of 2018. Deloitte's economists forecast GDP to grow by approximately 3 percent in 2018, but to slow to 1.9–2.6 percent in 2019 as interest rate hikes by the Federal Reserve (Fed) and the ending of fiscal stimulus measures next year weigh on economic activity. Also, higher tariffs are likely to shave off a bit less than half a percentage point from GDP growth in 2019.[6] Personal consumption expenditure and nonresidential fixed investment have experienced steady growth this year, although they may face challenges from uncertain US trade policy.

Consumer spending faces a mix of headwinds and tailwinds going into 2019. Consumers have benefited from a strong labor market and rising incomes. The economy added 212,500 nonfarm jobs per month, on average, from January to October 2018, and unemployment is at a 49-year low.[7] Tax cuts have propped up disposable personal income this year, and nominal wage growth has also been rising.

Consumers, however, may face some economics and policy headwinds. The cost of borrowing is likely to go up as the Fed increases rates, the impact of tax cuts on income will likely fizzle out in 2020, and tariff impacts are still uncertain but could add to price pressures. Additionally, gains in equities have been low in 2018 compared to 2017,[8] which will weigh on consumer wealth for certain portions of the population. Deloitte forecasts slowing retail sales next year as the economy slows. Retail sales will decelerate from a year-over-year growth rate of 5.5 percent in Q4 2018 to 3.4–4.1 percent in Q4 2019.[9]



Investing in growth

Opportunity abounds for retailers and entrants to capture share in the upcoming year. 2019 will likely require retailers to differentiate themselves in their investment strategy; the upcoming one to two years are unlikely to be a tide that lifts all boats. Historically, retailers with higher reinvestment rates are the ones that capitalize on growth.[10] Investing in overarching growth strategies may be paramount for the upcoming year, to help retailers prepare for uncertain times ahead. Moreover, retailers should look for opportunities to integrate their investments.

- **Determine why you matter.** How indispensable are you to your customers? Be crystal clear on whom you serve, how you serve them, and why the customer should care.
- **Win with convenience.** The top reason consumers shop online: convenience. Alternative fulfillment-driven offerings that are more expensive to execute can improve experience. Invest in consumer-facing convenience that moves the needle, and look for opportunities to make up margin elsewhere.
- **Understand the utility of data.** Generate value from the information you collect, and help the consumer understand what he or she gets in return. Leverage data to create more personalized experiences, give consumers a reason to purchase, drive replenishment, and increase retention. Regulation is likely to bring data privacy more to the forefront, and consumers may start to question what they are sharing and why.
- **Attack adjacencies.** Many companies, while growing on a comparable basis, are losing share to the market.[11] Retailers can look to adjacent sectors to increase value to their loyal customers. Moving beyond the core business can be challenging, but it may be necessary to continue to grow relationships with consumers.
- **Look outside your four walls.** Embrace partnerships and joint business planning to eliminate duplication and unlock profits that sit in the markup between companies and the consumer. Such an approach can make doing business easier, more affordable, and more effective. Technologies such as blockchain can provide this transparency and foster partnership in ways that can provide value today.

Focusing on these growth objectives can set retailers on the right path. With the industry experiencing a transition year, managing challenges to profitability, and preparing for uncertainty, retailers will likely need to invest in dynamic trends of 2019. Those who can synchronize their bets to create harmony across the organization may be best prepared for what is to come.

Synchronizing your bets for a year of transition

Transactional loyalty vs. emotional loyalty

The retail industry accounts for a majority (42 percent) of loyalty memberships in the United States,[12] yet many retailers face challenges capitalizing on these programs. As customers continue to flirt with multiple retailers, driving true loyalty likely will become more difficult. The average consumer reports being a member of more than six loyalty programs,[13] and 65 percent are engaged with fewer than half of them.[14]

If things are to change, retailers should look beyond tiered programs built around traditional loyalty benefits—points, dollars off, gifts, mailers—that at best elicit "transactional" loyalty. In an industry shifting toward experience-based business models, retailers should not keep their loyalty programs hinged to just "transactional" elements. Retailers should ask the following questions to identify the missing emotional elements: Are loyalty programs offering any *differentiated* experiences? Are these experiences memorable enough to reinforce or alter the shopping habits to foster loyalty?

Loyalty programs are hitting a tipping point. With a genuine approach to driving consumer loyalty, a retailer can optimize a loyalty program and make it even more valuable. Aligning the program with the values and the consumer conversation is imperative. Recently, loyalty programs have been expanding to focus on convenience (with home delivery or issue resolution) and experience (with exclusive events and limited-edition products). In 2019, companies should look to:

- **Tailor loyalty rewards individually.** Retailers work hard to provide curated assortments, but are they curating their rewards, too? We expect to see a disruption in personalization driven by artificial intelligence (AI) tools spilling over to rewards and loyalty programs—in the form of content, games, and experiences.
- **Provide exclusivity to stand out.** For aspirational shoppers, exclusivity is the new currency. Limited offerings such as VIP fashion-show access, desirable branded products as rewards, and the ability to "unlock" physical and digital experiences can help carve out a niche. More retailers may tap into the larger ecosystem to allow consumers to earn loyalty rewards in the form of stock equity, with platforms such as Bumped.com.[15]
- **Make rewards easy to redeem.** The crypto-ecosystem, mostly managed by third-party companies such as Sydney-based Incent,[16] provides shoppers an open marketplace to use or exchange their loyalty points without worrying about expiration dates. Why does it matter to retailers? The ease of redemption can influence shoppers to use their loyalty points at avenues beyond the store. While consumers may stray from the brand, retailers can still gain a deeper understanding of what consumers are doing.

Beyond loyalty programs

Outside of adapting and refreshing the loyalty program, driving consumer loyalty can require a focus on integrity and identity to create an emotional connection. Retailers should ask themselves challenging questions. In our target consumers' eyes, do we:

- **Offer genuine brand promise with follow-through—every day?** Don't trick your customers into buying a product. Consumers are frustrated with a bait and switch on quality, price, and perceived discount. You might succeed in making a sale but could lose trust.
- **Draw connections between people based on their values?** Consumers are spending their money in ways that align with their values and identity. Look for opportunities to unite consumers through a loyalty program by connecting on values.

- **Move the entire retail organization in unison?** All your business functions should deliver on the brand promise together. If your marketing speaks to in-store complimentary services, the operations function needs to be able to deliver. Loyalty is more than marketing and strategy. It relies on effective execution through digital, IT, supply chain, and store operations.
- **Craft a sense of community to sustain loyalty?** By fostering a sense of community, consumers and retailers can exemplify the brand. One example: what Monica + Andy has done with new mothers, bringing community to the baby-and-child category.[17]

Making sense of the startup and VC scene

Digital startups are no longer playing in the shadows. They are addressing chronic issues faced by the retail industry through innovative offerings, personalization, authentic engagement, differentiated fulfillment, and more.

In 2017, digitally native vertical brands grew nearly three times faster (44 percent) than the broader US e-commerce market (16 percent).[18] Compared to broader e-commerce, digitally native organizations are striving to craft brand value by positioning themselves as "maniacally" focused on consumer experience.[19] With a deluge of first-party data, digitally native brands are formulating their experience factor around ultimate convenience—of allowing the shopper to get what he or she wants in a tailored manner. Impressively, many of these companies are pricing right in line with the market, while not charging the customer for the value-adds that they profess as their secret sauce.

Fund flow

This growing allure of digitally native brands within the broader e-commerce market has steadily attracted venture capital (VC) firms to the space. Most of these VC firms and funds are not backed by individual retailers as investors.[20] A closer look, however, shows traditional retailers are making direct investments rather than taking the external VC route.[21] We expect this to change soon, with retailers developing symbiotic relationships with VC firms to tap in to their expertise in startup scouting and investment management.

Capital flowing to retail tech startups is allowing these companies to realistically compete with established players. They are given the chance to invest, refine, and grow before needing to be self-sustaining. We expect this proliferation of startups to continue, with startups taking advantage of a variety of funding sources to chip away at overlooked categories and underserved customers.

Their quest to refine the value proposition and grow the customer base is moving the digitally native brands to physical locations. In testing out "experience hubs," some are even attracting shopping centers and mall owners as potential venture capitalists.[22] Interestingly, startups and traditional players in the market tend to be evaluated differently, with startups often focused on consumer acquisition, engagement, and growth while larger players are typically more focused on traditional retail metrics such as same-store sales and sales per square foot. The bifurcation in valuation is something that should be addressed by the industry in the coming years.

To help offset the early gains made by these startups, traditional retailers will have to push ahead, blurring the lines between business development and corporate strategy. To acquire the next big idea, they might have to seek out guidance from specialists (e.g., Deloitte's Innovation Tech Terminal) or through a scouting approach. Retailers should invest to put themselves in a better place by 2020. In the next 12 to 18 months, traditional retailers should:

- **Bet on what you believe.** Retailers should explore coordination with advisory firms and venture capitalists to "seek out and lock down" startups offering innovative solutions.
- **Blend with what you like.** Rather than spending their limited budget on hiring talent and buying unproven assets, retailers should partner with the early-stage startups to "test fast, fail fast" without affecting their existing business operations, with exclusive access and the need to pay only for successful ideas.
- **Buy what you cannot make.** When in-house development efforts or partnerships for new capabilities become time-consuming, bolt-on acquisitions are another option—keeping the acquired entity's goodwill intact by not fully absorbing it.
- **Borrow what inspires you.** Drawing inspiration from the emerging retailers, incumbent retailers should become "leaner, meaner, and more agile"—experimenting with limited inventory, curated collections, smaller formats, blended food-shopping outlets, and experiential gamification.

Fulfilling the brand promise with emerging technology

Gone are the days when IT strategy was limited to architecture, modernization, and ERP systems. Investment options, technologies, and vendors number in the thousands, making it challenging to navigate and home in on the next big thing. This environment makes it even more important to look at issues through a practical lens: (1) look at the main challenges to solve, (2) look at what drives adoption, and (3) look at how you can make things work in real life. Retailers should integrate their investments so that they act as a living organism, capable of reinforcing and engaging.

Challenges to solve

By skipping to the end solution, enterprise leaders can end up focusing on innovation for innovation's sake. As a result, they can wind up dissatisfied with results, missing the mark entirely. Retailers should start with the job to be done and understand the true values expected from the solutions.[23] With this foundation, retailers can determine what internal and external technologies they need to fulfill their brand promise.

- **Ultra-personalization.** Retailers should leapfrog their current approach to personalization, offering more than mass customization, which involves bucketing your consumers into a limited number of segments. The next phase becomes an exercise in data aggregation and activation, reducing each segment to a single individual. Retailers should refine each consumer profile based on data from all types of sources—social media, transactions, and reviews—to achieve ultra-personalization.[24, 25] This vision is aspirational for many, but it can quickly become the new norm. Automation and machine learning are providing the much-needed scale to enable ultra-personalization, as current approaches are too manual and not adaptable enough.

- **Interconnectedness.** Digital interconnectedness is here, driven by sensing device networks, high-speed (LTE/5G) communication, and computing algorithms. This news is a breath of fresh air, providing the foundation for the likes of self-replenishing supply chains and frictionless stores. Some newer grocery stores in China, for example, provide a blueprint for how integrating digital and physical operations, inventory visibility, and loyalty information can create a frictionless consumer experience.
- **Hyper-efficiency and transparency.** There is no question that consumers are expecting more and want it "yesterday." They are demanding that retailers move faster, go further, and make shopping easier. For retailers, that demand should be a mantra for both internal and external activities.

Driving adoption

During the 2018 holiday season, only one in five shoppers was planning to use innovative technology offerings such as seamless checkout, voice-assisted shopping, or AR/VR.[26] Rather than a cause for concern, this news should be a call to action for retailers, forcing them to figure out how to make technologies add value to the experience.

- **Convenience.** As new technologies take friction out of the shopping journey, consumers are quick to adapt and reset expectations. In the last five years, mobile has grown because it made the processes easier.[27] Retailers can do the same with other technologies, focusing on tearing down barriers.
- **Privacy.** Retailers should respect the extent to which consumers want to protect their identity. For instance, facial-recognition software holds immense potential and is being rolled out successfully around the globe—for example, in Bestseller A/S cashier-free, smart fashion stores in China.[28] Retailers should play a proactive role in explaining the value and the safeguards.
- **Content.** Whether online or offline, content is king—but only if it is real time and relevant. Simply having a cool technology is little more than a marketing ploy if it doesn't connect the consumer to useful information.

Making it work

Ultimately, retailers should figure out how to scale these solutions and embed them into their way of doing business. To leverage the true power of next-generation technologies, retailers should make some significant changes. They should be able to consistently mine the data they collect, transform their operations to deliver on the brand promise, and adapt to the future of work. At the corporate, back-office, and storefront levels, required skill sets are changing as the workforce becomes more knowledge-centric than ever. Retailers should ensure harmony between teams and technologies. We are in an age of living and breathing organizations—businesses that will have to constantly regenerate as work evolves. Companies should be on the lookout for changes—so they can deconstruct and reconstruct the work that should be done on a regular basis.[29]

The digital consumer: Leadership lessons from China

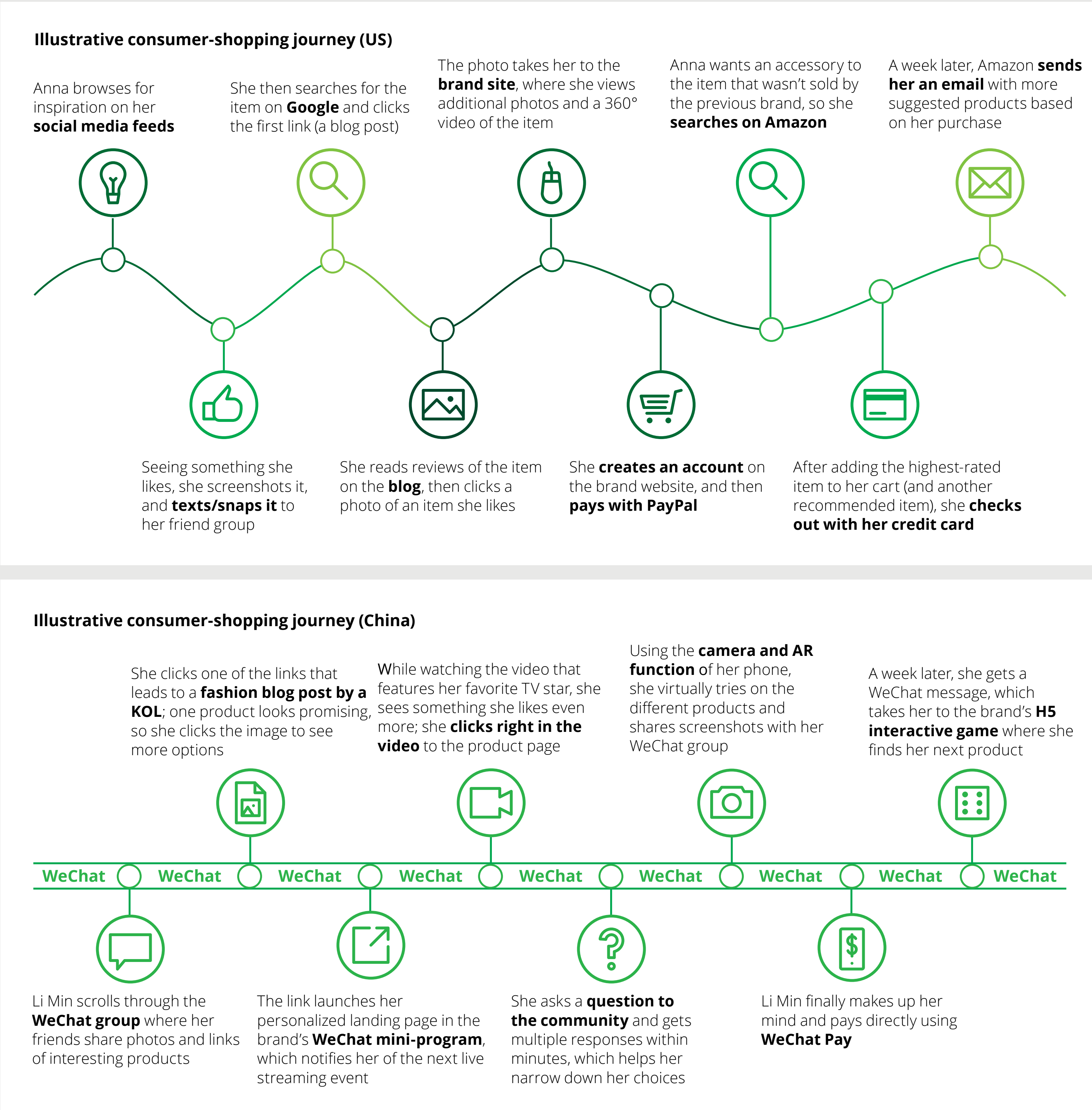
To build a competitive advantage, retailers should consider looking at global cross-industry trends and build capabilities that can shape consumer experience. In China, consumers and the retail market have skipped a generation of technology. With less established public infrastructure as recent as 5 to 10 years ago, Chinese companies such as Alibaba, JD.com, and Tencent have invested on their own, helping Chinese retail consumers leapfrog their peers in the United States. The current generation of Millennials has grown up digitally native, and many are willing to bypass traditional consumerism for a more connected approach.

Much has been written about China's growing economy—and more than one dimension of growth is helping to drive innovation:

- **Internet scope:** China has 700 million Internet users—about the same as the number of Internet users in Europe.[30]
- **E-commerce growth:** By 2019, China's e-commerce sales are estimated to be 55 percent of the global e-commerce market.[31]
- **Demographics:** China's Millennial population (415 million) is larger than the combined population of the United States and Canada; 57 percent have bachelor's degrees; and more than 90 percent own smartphones.[32]
- **Mobile payment adoption:** In 2017, China's total mobile payment transaction volume reached $13 trillion, compared to $50 billion in the United States.[33]

Chinese consumers' use of WeChat and similar programs means that almost the entire shopping journey becomes integrated within a single platform. That level of integration serves as a foil to the United States, where consumers often must jump between endless social media, search, and retailer apps for inspiration and research (see figure 2).

Figure 2. Comparison of illustrative, consumer tech-driven journey in United States and China



Next-generation technologies in the United States are yesterday's technologies in China. Retailers should be looking at the leaders in China to better understand the art of the possible in emergent areas such as online-to-offline, last-mile delivery, supply chain as a service, social commerce, and the implications of advanced public and private infrastructure. For retailers and brands looking to expand, the advances in China can set the expectation for what is mandatory to compete in this market. It also serves as a global trend poised to enter all markets and define consumer expectations. Many innovative companies in China have found ways to remove friction across the shopping journey, which all retailers should strive to do.

Privacy by design: A proactive approach

Traditional notions of privacy are often being dismantled in the new digital environment. Privacy today means safeguarding against unwarranted access to social media, online browsing history, customer service chats, and biometric data. Technology advancements have transformed every digital and physical touchpoint into personal data. An intentional approach to data privacy matters more now than ever and applies across the board to consumers, employees, and contractors. Why?

1. **Data is ubiquitous.** Retailers' use of advanced technologies necessitates significant data aggregation and purchase.
2. **Regulation floodgates are open.** Regulators are reacting to a digital world. The General Data Protection Regulation 2016 (GDPR) set the stage in Europe, and the California Consumer Privacy Act (CCPA) is following quickly in the United States, where it is set to become law in 2020. These laws carry significant punitive damages and opportunity for class-action lawsuits. They seek to tackle transparency issues related to data governance, shedding light on what is being collected and how it is being used, and empowering consumers with the "right to be forgotten."
3. **Consumers are compromised.** Public conversation will continue to evolve. Just in the last year, privacy issues have had a significant impact on social networking, banks, search engines, retailers, and other consumer-facing companies.[34]

The retailer dilemma: No data, no story

For retailers, consumer data is a must-have. For years, the industry struggled with how to create and use data. Now companies are on the hook for what data they have and what it says about individuals. Retailers should be awake at night thinking about protecting consumers and driving regulatory compliance. It can take six weeks to remediate each affected system, and it is not uncommon for retailers to have more than 100 systems in scope.[35] With personal data so broadly defined, companies should be proactive in understanding how they should act on and respond to data subject rights (DSR) requests. All consumer companies will face challenges in preparing for CCPA and other regulations. Here is a look at some potential scenarios:

- **Data oblivion:** A lack of knowledge of what data exists and where it is located.
- **Far-flung compliance:** Complex demands from having a global consumer base, meaning you must comply with regulations in multiple geographies—even in places where you do not have an office.
- **Retrieval incapacity:** An inability to remove specific shopper data once you get deletion requests.

Compliance can be a catalyst for reinventing personalization and having honest conversations with consumers. Integrity matters in creating loyalty, especially when it comes to dealing with personal identity.

Start acting strategically

Building a robust compliance plan takes time and should be done strategically, as it can provide a backbone for marketing, merchandising, supply chain management, and growth activities. With regulation after regulation hitting the market, and more likely to come,[36] it is high time retailers had their privacy compliance road maps in place. Essentials activities can include:

- Assessing and appraising what personal data (consumer, employee, and contractor) you are holding and how you are using it
- Tracing and tracking the data pipelines and systems in your backyard
- Structuring and isolating the data so you can act when needed

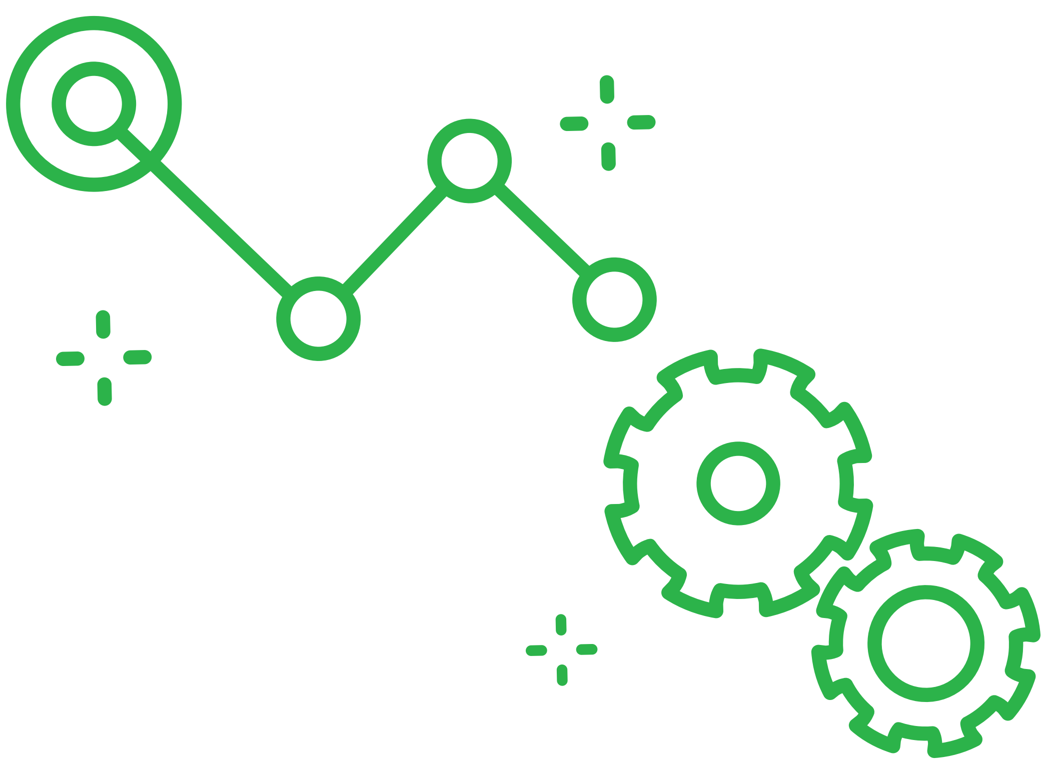
Most importantly, though, data privacy is a reason to connect across the organization. Retailers' IT, security, marketing, HR, supply chain, merchandising, and innovation arms *should* be unified in how you engage the consumer. Without an intentional approach, retailers might need to make trade-offs in customer experience to meet privacy needs.

Supply chain as a differentiator—and a profit driver

The adage that you can't sell what's not on the floor is no longer accurate. Many companies are funneling money into supply chain design, transformation, and improvements.[37] The supply chain is quickly becoming a way to offer the consumer a differentiated service. Making the supply chain faster, more predictable, and cheaper is a difficult triad to manage simultaneously.

The profitability question

It is a significant challenge to remain profitable offering endless fulfillment options with distributed inventory that is simultaneously available for sale on the shelf. New consumer-focused offerings typically require duplicative labor and time-consuming shipping/delivery processes, which are much more challenging to manage. For the supply chain to remain a differentiator, the industry should reassess where profit is derived. Retailers should reset expectations for profit, require savings from forward-looking supply chain investments, and identify other ways to offset increases in expenses.



Supply chain through the consumer lens

There is no shortage of investment opportunities in this area. While current capabilities dictate what is possible in the near term, the following pacesetting ideas also can help address the profitability challenge:

- **Automation beyond warehouses.** Supply chain automation is not new, but it has not been as successfully delivered to stores. Increasing store fulfillment and shrinking physical footprints can foster opportunities to automate the backrooms. Many retailers are exploring store redesign so that underperforming stores can be easily transformed to mini "dark stores" through automation, to save costs.[38] Retailers can store vertically, pick and pack efficiently, and then ship quickly and cost-effectively.
- **Autonomous delivery fleets.** Seamless movement of freight is critical to the success of any supply chain. But increasing distribution costs and rising labor shortages (i.e., trucker and delivery executive shortages) can put tremendous pressure on retail supply chains. The scenario will likely push retailers to increase investments in more reliable and autonomous solutions, such as self-driving vehicles.
- **Reverse logistics.** With e-commerce growing at a 15 percent compound annual growth rate, and retail foot traffic slowing, returns will grow. It becomes critical, therefore, to have a reverse logistics strategy—versus a reverse logistics process—to offset any impact on long-term profitability. Allocating returns to the optimal channel can boost operational profitability and improve customer experience.
- **Smart packaging.** Going beyond the intrinsic supply chain elements, retailers should investigate smart or active packaging—to bring in additional efficiency improvements that can help bolster the bottom line. Smart packaging solutions such as RFID-powered product labels and computer-vision-friendly packaging design will be crucial to retailers seeking to enable frictionless, connected stores.
- **Inventory orchestration.** Retailers should be more like conductors, with a unified vision of all inventory across an orchestra of stakeholders—manufacturers, vendors, third-party logistics companies (3PLs), distribution/fulfillment centers, and stores—for order execution in the most profitable manner. Retailers should understand all demand streams and consolidate into a single approach to enable the best use of inventory, powered by a digital core that can help them understand inventory movement from a bird's-eye view.
- **On-demand supply chain.** While 3PLs offer flexibility, retailers may consider investing in truly on-demand support. This approach can allow for special or regional promotions and seasonal demand spikes. By flexing the supply chain as close to the customer as possible, retailers can speed fulfillment and remove some over-capacity and under-capacity concerns.

As retailers buckle down and prepare for potentially challenging times ahead, supply chain improvements can be a significant growth driver. Rather than just investing in these trends in reaction to competitors (like in a game of checkers), retailers also should think about accumulating long-term competitive advantages through wider supply chain strategies (more like a game of *Go*). Without a supply chain that can deliver on the brand promise, even the leading and most innovative companies may find themselves quickly replaced. With median industry ROA at a 20-year low, retailers should place additional weight on supply chain investments. Investing for growth is a must. At the same time, profitability should remain top of mind as margin compression can quickly hit dangerous levels.

Ending up on the right side of the retail tipping point

2019 is likely to bring increased disruption, competition, and economic uncertainty. The industry should view the upcoming year as a time of transition for moving to the right side of the tipping point. Retailers should make a series of investments, knowing that the industry is in a precarious place.

Know who you are and what value you bring. Supplement that knowledge by looking outside your organization to leverage the entire ecosystem across industries and borders.

Create loyalty by investing with integrity and with consumer identity in mind. Align your loyalty programs with your brand promise—to make an emotional connection, not just a transactional one.

Make sense of where the funds are flowing in the industry. Blur the lines of internal strategy, business development, and venture funds to gain access to funding, inspiration, and innovation.

Beware of the shiny new object. Take a functional lens and understand the challenges you must solve, what drives adoption, and how to make your vision work in real life.

View privacy by design in partnership with the rest of the organization. The confluence of data ubiquity, consumer preferences, and regulation makes this more than a security issue. It makes it a strategic one.

A consumer-focused supply chain is an imperative for matching the many demand channels. A supply chain that can profitably deliver on the brand promise can be a key differentiator.

2019 will require synchronization of investments and synchronization of data. In the year ahead, are you ready for the clouds on the horizon? Where will you place your bets, and how will you ensure that they are integrated to maximize benefits for your organization?

Addressing these questions effectively will help separate tomorrow's winners from tomorrow's losers—and ultimately shape the future of retail.

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