Retail Predictions: Coming of age in the 2020s
Retail prediction: A granular understanding of economic change will be critical in 2019.

P art of the fun of predicting the future as part of your job, and doing it for a long time, is that you get to look at landmark years like 2020 from a variety of perspectives. The first time I did a 2020 retail prediction was in the 1990s, and as time has marched on, the view of that year has become less foggy and more “20/20” in nature. In this year’s predictions, we bring into clear relief what the world of 2020 will look like. To me, the trends we highlight reflect the profound consistency of retail change.

Many of the changes we detail in our 2019 predictions (the rise of omnichannel retail, the use of data to know shoppers better, retail expanding into services) have been visible for some time. These trends are not necessarily changing direction, or even getting faster. But since they have been unfolding for some time, they have moved from small- to medium-scale changes in how retailers and manufacturers need to operate. This notion of “adolescence” is one we will return to a lot in 2019. Changes that are adult-sized, but not fully formed, require a different type of management than emerging or mature trends. We do think that the biggest change in the retailer/supplier demand creation and conversion ecosystem will be that as these adolescents grow up, they will change how we plan for and define success. These changes are not as sexy as drones or robots, but they are far more fundamental and important to understanding the 2020s.

Winter Is Coming … Maybe?
The dynamic driving the 2010s cultural touchpoint “Game of Thrones” is one of an approaching winter, where darkness and demons rule. The consumer landscape isn’t that. But all these trends will unfold against a macroeconomic backdrop less certain than it was in 2018, an uncertainty that our economic forecasts reflect. We do not see a full-scale 2009-style downturn that makes everyone’s life economically worse, but rather a selective economic slowdown that will impact different economic slowdowns and consumer segments differently.

2018 was often described as retail’s resurgence, and one nice prediction for 2019 is that we have (hopefully) retired the silly term “retail-pocalypse” from the lexicon. That resurgence, buoyed by improving consumer spending sentiment and the consolidation of retail into fewer, stronger players, will run headlong into a much less certain macroeconomic environment. As we cycle out of spending increases funded by tax cuts and into wherever the U.S. political leadership takes us, the most helpful prediction we can offer for the economy in 2019 is that granular understanding of economic change will be critical. Stay tuned in Q1 as we give you a way to frame up that economic change in terms of consumer spending segments by looking at shopper financial statements:

<table>
<thead>
<tr>
<th>Income statement shoppers</th>
<th>They define their sense of well-being by the relationship between their wages and their major expenses. These shoppers manage the day to day without enormous stress provided the world stays within their budgeting assumptions, but they can struggle with severe financial problems.</th>
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<tr>
<td>Cash flow statement shoppers</td>
<td>These shoppers define their sense of well-being by how much money they have in their wallets. They live from pay event to pay event, managing revenue and total expense uncertainty in a way that causes significant fluctuation in their monthly shopping behavior.</td>
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<tr>
<td>Balance sheet shoppers</td>
<td>They define their sense of well-being by the value of their assets relative to their liabilities. These shoppers manage everyday shopping more for convenience or energy than for price. If they need to for economic reasons, they will defer or downgrade major discretionary purchases.</td>
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Same As It Ever Was: Our Retail Growth Forecasts

If the economy is a current pop culture reference, retail is a 1980s-era reference. Anyone my age or older remembers the Talking Heads’ “Once in a Lifetime” video (younger folks can Google it). The retailers that will grow faster than the market are, by and large, the same ones that have been doing so since the turn of the century — Costco, value discounters, the good regional supermarket operators, specialty beauty retail and select category specialists, Amazon, and Apple. The DIY retailers are also expected to grow (particularly Home Depot as Lowe’s goes through a period of investing in stores and capabilities); however, these expectations come with a small caveat for economic conditions since the U.S. DIY channel is highly sensitive to changes in GDP growth rates.

The formats holding market share are the large mass and club operators. In addition, after outperforming the market for more than a decade organically, we have Kroger slowing to a market-rate growth player, though opportunistic acquisition opportunities should keep it slightly ahead of the market overall.

The formats losing market share are many of the large-scale U.S. supermarket chains and department stores. Brick-and-mortar retail continues to lose market share to the online world, though by 2025, we won’t think about retail in terms of online versus offline anymore. For brick-and-mortar players, the distinction between those two platforms will not be as important.

The Energy Crisis: Reframing Value Around Energy and Stress

The 1970s oil shortages give us another lens through which to view shopper behavior. Shoppers’ main concerns about their shopping trips are shifting from time and money to a third element: energy. Many analysts have spent an enormous amount of energy on the idea that retail needs to become more experiential. A 2019 prediction is that a great retail experience will be as much about not disappointing, confusing, or interrupting shoppers as it is about delighting them. Operational discipline, intelligent assortments, more responsive supply chains, and modern and more real-time execution management will all be part of giving shoppers the friction-free shopping experience in store that they get from the best online retailers.
Automated shopping tools like the Internet of Things and voice will play a role here, but the simplest way to reduce shopper stress may be automating core replenishment shopping on a wide scale. In 2019, auto-reorder shopping lists will be a major battleground for grocery retailers in particular. Understanding and influencing shopping list creation will be an investment that pays significant dividends now and in the future.

The 50s: Life in Primerica
The number 50 comes up a lot with Amazon in 2019:

- About 50% of American households (49.7%) ended 2018 as Prime members. The rate of Prime membership growth has slowed significantly and reflects a critical point: The pace of change isn’t accelerating as much as the size of change is increasing.
- Amazon is about 50% of U.S. eCommerce.
- Amazon will represent about 50% of U.S. eCommerce growth to 2023.
- About 50% of all U.S. retail growth will come from online.

“Primerica” is how we often refer to the new shopping nation of Prime members who are, in aggregate, the largest consumer purchasing economy in the world. Understanding Prime members as a shopper segment will become as integral as understanding Millennials or Boomers. Understanding how Prime members adopt new categories into the Amazon ecosystem and how they use the other outlets they shop will be particularly critical.

Under PRESSure: The Shift in Store
I recently saw “Bohemian Rhapsody,” the Queen biopic named for one of the band’s most thrilling and experimental songs. Almost all our retail/channel predictions forecast significant experimentation and change in retail stores. The simple acronym PRESS is a useful frame for a number of these predicted changes, and highlights the relationship between five key attributes of a brick-and-mortar retailer’s physical footprint:

1. **Product:** Roughly speaking, this is the space dedicated to product sales, the shelves and the 3 feet in front of those shelves that allow them to be shopped. If you think about an average supermarket, probably 85% of the non-backroom space is product space today. For almost every retailer, that percentage will decline as more volume migrates to the digital world. Product space will be replaced by the “RESS” elements in this framework.

2. **Redistribution:** A major focus area in 2019 will be the “redistribution” experience — what happens in store when shoppers pick up their eCommerce orders.

3. **Experience:** As discussed earlier, retailers will dedicate more store space to meaningful experiences that close sales and ensure frictionless execution.

4. **Service:** As shoppers value experiences more than products, retail space will reflect this shift, with retailers experimenting with leasing and partnerships to increase their services.

5. **Space:** A great way to let shoppers recharge and find energy is to give them decluttered space.
The New Vocabulary of Success: Four Words Foundational to Winning in the 2020s

With our predictions mapped through the ages, I want to wrap up with four key words that will be conversation changers in 2019 and beyond. These words will supplement and may replace the “4 P’s” conversation that has governed the category management conversation between retailers and suppliers for the last 50 years:

• **Conversion:** A key part of mall-based retail in recent years is the rise of direct-to-consumer (D2C) brands developing stores as another shopper touchpoint. This trend will continue, because these brands understand the role stores play in their consumer conversion funnel. D2C will force retailers that run their stores as business units to make store and marketing investments that optimize the digital marketing world’s success metrics related to conversion, measures like customer acquisition cost and customer lifetime value. This focus on conversion versus transactional profit will democratize the flagship store experience in that more brands will have an economic model that supports higher-touch, higher-conversion retail models.

• **Context:** In many cases, personalization has been a frustrating journey for retailers and brands beyond simple things like more targeted item/price promotion. The challenge is that personalization is not scalable and that the effort involved rarely pays out. The challenge for the 2020s is to apply granular knowledge to scalable problems, so finding commonality will be key. Increasingly, we won’t use personalization to sell to who shoppers are, but to their context — where, when, and why they are.

• **Niches:** Knowing people does not mean having to know what makes every individual unique. It can simply mean knowing what is genuinely important to them and reaching consumers in those spaces (where there may be many consumers). This can be as simple as selling energy drinks at an extreme sports competition, but the real benefit of personalization will be not how efficiently we know shoppers, but how effectively and comprehensively shoppers know us.

• **Baskets:** As consumers execute more transactions outside the store, the primary lever retailers will use to think about profitability will transition from category management to basket management, meaning segments of shoppers and their baskets will replace store shelves as the building blocks of profitability. As they sort out how to serve a shopper whose priorities and spending power are changing, all the retailers we cover will find their own economics and competitive ecosystem pressuring their strategies. How they and their supplier partners win the war for conversion, context, niches, and baskets will be the critical drivers of their success in this “adolescent” world of changes — changes that are sizable enough that they need to be managed well, but not fully mature.

Enjoy the detailed retail predictions, and have a great 2019!

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